ADUR & WORTHING
COUNCILS

15 March 2019

Joint Governance Committee
6.30pm on 26 March 2019
Gordon Room, Town Hall, Worthing

Adur District Council: Councillors George Barton (Chairman), Kevin Boram (Vice-Chairman), David Balfe, Andrew McGregor, Paul Mansfield, Barry Mear, Peter Metcalfe and Debs Stainforth

Worthing Borough Council: Councillors Lionel Harman (Chairman), Nigel Morgan (Vice-Chairman), Mike Barrett, Louise Murphy, Jane Sim, Bryan Turner, Steve Waight and Steve Wills

Agenda

Part A		**Page No.**
1.	**Substitute Members**	-
	Any substitute members should declare their substitution.	
2.	**Declarations of Interest**	-
	Members and officers must declare any disclosable pecuniary interests in relation to any business on the agenda. Declarations should also be made at any stage such an interest becomes apparent during the meeting.	
	If in doubt contact the Legal or Democratic Services representative for this meeting.	

11. Financial Regulations **117**

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

12. Local Government Ombudsman Complaints and Annual Monitoring Letters **161**

To consider a report by the Director for Digital & Resources, copy attached as item 12.

Part B Exempt Reports - Not for Publication

None.

Recording of this meeting

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

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For Legal 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

Adur District Council

Certification of claims and returns annual report 2017-18

March 2019

Building a better working world

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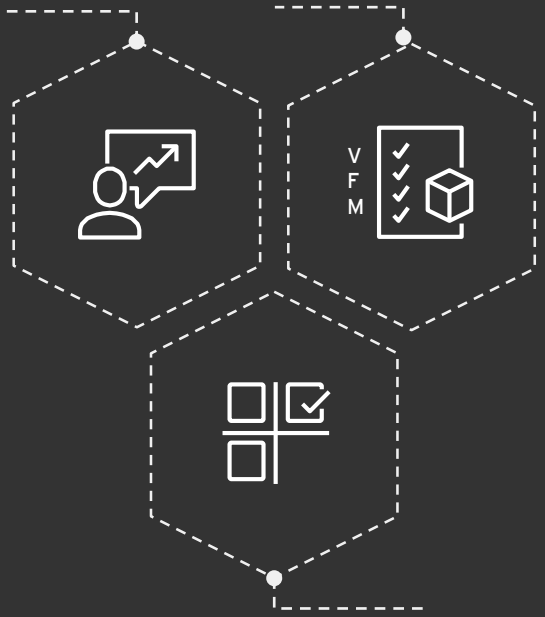

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (www.PSAA.co.uk).
The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.
The "Terms of Appointment (updated February 2017)" issued by the 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 in legislation, and covers matters of practice and procedure which are of a recurring nature.
This report is made solely to the Joint Governance Committee and management of Adur District Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Joint Governance Committee, and management of Adur District Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Joint Governance Committee, and management of Adur District Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Housing benefits subsidy claim

Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£18,809,230
Amended/Not amended	Amended – subsidy increase by £351
Qualification letter	Yes
Fee – 2017-18	£14,506
Fee – 2016-17	£12,230

Recommendations from 2016-17	Findings in 2017-18
None	

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

The certification guidance requires reporting accountants 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 certification of previous years claims. We found errors and carried out extended testing in several areas.

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

Rent Rebates (Non HRA)

Testing of the initial sample identified 3 errors, one regarding misclassifying an HRA claim as a Non-HRA claim and one misclassifying eligible expenditure to an incorrect cell on the claim form. Neither of these errors had an impact on entitlement or subsidy and no additional testing was undertaken.

The third error related to the change in guidance regarding management charges. In some cases, the resulting overpayment had been misclassified as an eligible overpayment, whereas this should have been classified as an LA Error and Administrative Delay overpayment. The population of Non-HRA Rent Rebate Eligible Overpayment cases was less than 100 items and therefore the full population was tested. These claims were tested for classification of the specific management charge overpayments and a further 6 cases were identified as errors.

In response to prior year errors, an additional population of items was tested in order to identify errors in the assessment of claimant income. The population of Non-HRA Rent Rebate cases containing income was less than 100 items and therefore the full population was tested, one error was identified from this testing.

As we tested the full population for the two issues above, the claim form was amended for the total error of £351.

Housing benefits subsidy claim

Rent Rebates (HRA)

Our initial sample did not identify any errors.

However, in the prior year errors were identified in the assessment of claimant income and 40+ testing was completed to assess calculation of claimant income assessments. This identified 1 case where benefit was overpaid as a result of incorrect earnings calculation. We calculated an extrapolated error of £46, which was reported in our Qualification Letter. A further 5 cases were identified where the incorrect calculation of income had resulted in an underpayment to the claimant or where there was no impact on entitlement.

Rent Allowances

Testing of the initial sample identified one case where incorrect calculation of earnings resulted in an underpayment of benefit. As errors in the calculation of income can also result in overpayments an additional sample of 40 cases were tested. The 40+ sample for incorrect income calculations identified four cases where benefit had been overpaid from an incorrect assessment of income. In total this resulted in extrapolations of £22,892 relating to income errors, which was reported in our Qualification Letter. A further 3 cases were identified where the incorrect calculation of income had resulted in an underpayment to the claimant or where there was no impact on entitlement.

Within the initial sample one case was identified where benefit had been underpaid due to misclassifying 4 weekly rent as monthly. The nature of this error can only ever lead to an underpayment of benefit. As there is no eligibility to subsidy for benefit which has not been paid, the underpayment identified does not affect subsidy and has not, therefore, been classified as an error for subsidy purposes and no additional testing has been performed.

In prior years, we identified cases where benefit had been overpaid due to the Authority incorrectly calculating non-dependent income. We undertook 40+ testing of claims containing a non-dependent, which identified 2 cases where benefit had been overpaid as a result of the non-dependent income being incorrectly calculated. This resulted in an extrapolation of £8,705. One further cases was identified where there was no impact on subsidy.

In prior years, we also identified rent allowance cases where overpayments had been incorrectly classified as eligible. Whilst no errors were identified in our initial sample of Rent Allowance claims in 2017/18, using our knowledge of the subsidy claim, we selected 40 claims for testing from the population of rent allowance eligible overpayments. Testing of the additional sample did not identify any errors.

02 2017-18 certification fees

2017-18 certification fees

The PSAA determine an indicative fee each year for the certification of the housing benefits subsidy claim. For 2017-18, these indicative fees were published by the Public Sector Audit Appointments Ltd (PSAA) and are available on their website (www.psaa.co.uk).

Claim or return	2017-18	2017-18	2016-17
	Actual fee £	Indicative fee £	Actual fee £
Housing benefits subsidy claim	14,506	14,506	12,230

03 Looking forward

Looking forward

2018/19 and beyond

From 2018/19, the Council is responsible for appointing their own reporting accountant to undertake the work on their claims in accordance with the instructions determined by the relevant grant paying body.

As your appointed auditor for the financial statements audit, we are pleased that for 2018/19 to 2022/23 the Council has appointed us to act as reporting accountants in relation to Housing Benefits Certification.

We welcome this opportunity to continue undertaking this work for the Council providing a seamless quality service, drawing on our team of experienced and knowledgeable public sector professionals in these areas, whilst realising the synergies and efficiencies that are achieved by undertaking both the audit and grant work.

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Worthing Borough Council

Certification of claims and returns annual report 2017-18

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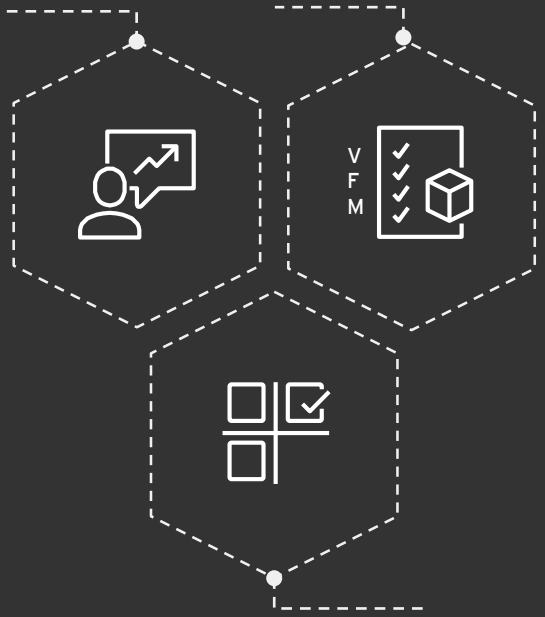

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01 Housing benefits subsidy claim

Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£35,043,753
Amended/Not amended	Amended – subsidy increased by £1,594.
Qualification letter	Yes
Fee – 2017-18	£12,858
Fee – 2016-17	£10,716

Recommendations from 2016-17	Findings in 2017-18
None	

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

The certification guidance requires reporting accountants 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 certification of previous years claims. We found errors and carried out extended testing in several areas.

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

Rent rebates (Non HRA)

Testing of the initial sample identified 3 errors, one relating to benefit being underpaid as a result of using an incorrect LHA rate; one relating to the use of rent for an incorrect property size and the third error related to the change in guidance regarding management charges. Where benefit had been underpaid due to the error in the calculation of the LHA rate used, this type of error does not impact on subsidy and no further work was undertaken.

As a result of the error in using an incorrect property size to generate the eligible rent for a claim, additional testing was performed. The population of cases was less than 100 items and therefore the full population was tested, two further cases containing the same error were identified from this testing.

The third error related to the change in guidance regarding management charges. In some cases, the resulting overpayment had been misclassified as an eligible overpayment, whereas this should have been classified as an LA Error and Administrative Delay overpayment. The population of Non-HRA Rent Rebate Eligible Overpayment cases was less than 100 items and therefore the full population was tested. These claims were tested for classification of the specific management charge overpayments and a further 29 cases were identified as errors.

As we tested the full population for the two issues above, the claim form was amended for the total error of £1,594.

Housing benefits subsidy claim

Rent Allowances

Testing of the initial sample identified no errors.

In prior years, errors were identified in the calculation of partners income. Additional testing of 40 claims was undertaken, which identified 6 cases where benefit had been overpaid, resulting in an extrapolated error of £26,490. There were a further 7 cases identified where benefit had been underpaid as a result of an error in calculation.

Modified Schemes

Testing of the initial sample identified one case where subsidy had been under-claimed by £0.36 as a result of benefit being misclassified in the modified scheme cell.

The nature of the error was such that it could only ever lead to an under-claim of subsidy and no further testing has therefore been undertaken. As there is no eligibility to subsidy in this instance, it was not classified as an error for subsidy purposes.

02 2017-18 certification fees

2017-18 certification fees

The PSAA determine an indicative fee each year for the certification of the housing benefits subsidy claim. For 2017-18, these indicative fees were published by the Public Sector Audit Appointments Ltd (PSAA) and are available on their website (www.psaa.co.uk).

Claim or return	2017-18	2017-18	2016-17
	Actual fee £	Indicative fee £	Actual fee £
Housing benefits subsidy claim	12,858*	8.184	10,716

* The actual fee for 2017-18 included an additional fee of £4,674 due to the greater amount of extended testing required, and the complexity of that testing, compared to the base year of 2015-16 from which the 2017-18 indicative fee was set, where no additional testing was performed. This additional fee has been agreed with officers and is currently with the PSAA for approval.

03 Looking forward

Looking forward

2018/19 and beyond

From 2018/19, the Council is responsible for appointing their own reporting accountant to undertake the work on their claims in accordance with the instructions determined by the relevant grant paying body.

As your appointed auditor for the financial statements audit, we are pleased that for 2018/19 to 2022/23 the Council has appointed us to act as reporting accountants in relation to Housing Benefits Certification.

We welcome this opportunity to continue undertaking this work for the Council providing a seamless quality service, drawing on our team of experienced and knowledgeable public sector professionals in these areas, whilst realising the synergies and efficiencies that are achieved by undertaking both the audit and grant work.

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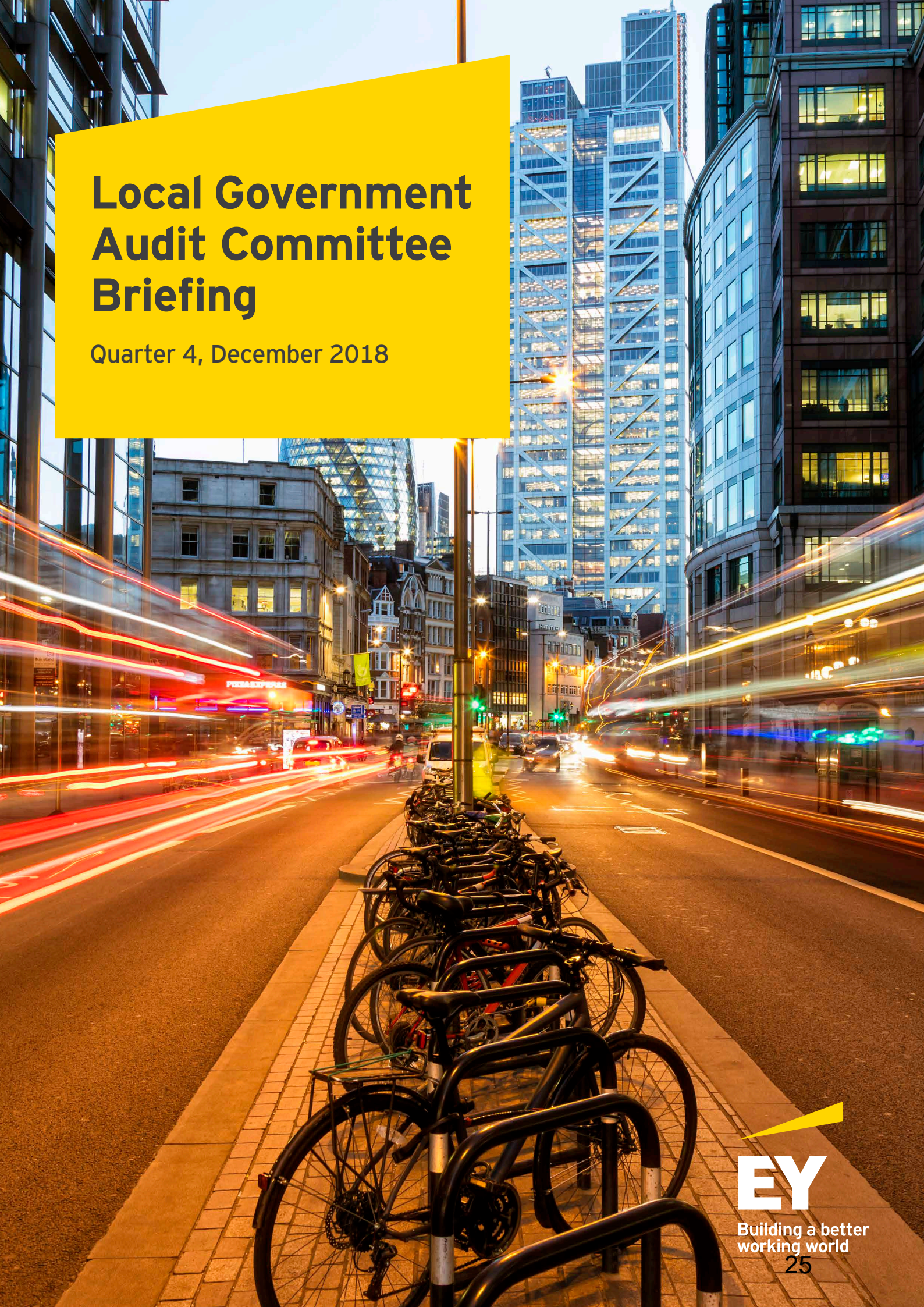
Local Government Audit Committee Briefing

Quarter 4, December 2018



EY

Building a better working world

Contents at a glance

This sector briefing is one of the ways that we support you and your organisation in an environment that is constantly changing and evolving.

It covers issues which may have an impact on your organisation, the Local Government sector, and the audits that we undertake.

The briefings are produced by our public sector audit specialists within EY's national Government and Public Sector (GPS) team, using our public sector knowledge, and EY's wider expertise across UK and international business.

The briefings bring together not only technical issues relevant to the Local Government sector but wider matters of potential interest to you and your organisation.

Links to where you can find out more on any of the articles featured can be found at the end of the briefing.

We hope that you find the briefing informative and should this raise any issues that you would like to discuss further, please contact your local audit team.

Government and economic news

EY Club Item

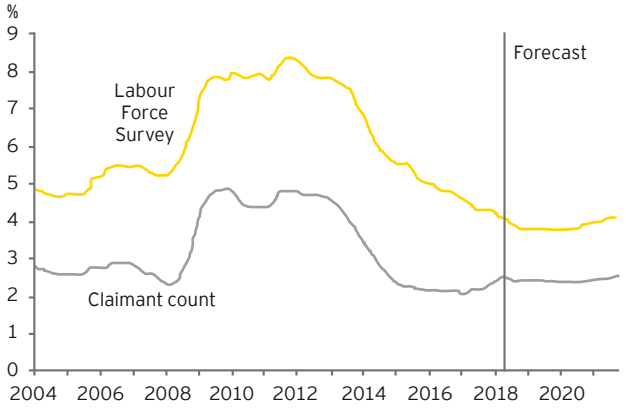
The latest EY ITEM Club forecast casts a cloudier outlook for the UK economy which will have implications for Local Authorities. This partly reflects increased uncertainties about Brexit, due to the elevated risk of the UK leaving the EU without a deal. It also reflects a more challenging global outlook, and continued pressures on consumer purchasing power.

The forecast has slightly downgraded the UK's economic prospects for 2018 and 2019, with GDP growth for 2018 trimmed from 1.4% to 1.3% – the slowest rate of expansion since 2009. While performance improved in Q2 and Q3, the outlook has since become less certain.

One positive note for UK economy is the robust growth in labour demand. The unemployment rate remained at 4.0% for the three months to July, the lowest level since February 1975. Over the same period, the number of vacancies in the UK rose to 833,000, highlighting the tightness in the labour market.

As shown in Figure 1, it appears that the spare capacity in the labour market created during the crisis has been largely absorbed. The Bank of England's (BoE) recent report about the labour market suggests that very limited slack remains – a BoE's regional Agents survey found that 40% of companies are finding it harder to recruit and retain staff compared to last year.

Figure 1
UK: Unemployment rate



Source: EY ITEM Club

The recruitment challenges facing employers are well known by local authorities. An expanding and ageing population will only add to the demand pressures, while the supply of workers may be at risk due to the impact of Brexit on migration of EEA workers.

Theory suggests that, with unemployment falling and vacancies rising, there is little scope for further labour market tightening without generating excess wage pressures. However, earnings growth has remained subdued in recent periods, and indeed relapsed in Q2 2018. Some firms appear keen to limit their costs in an uncertain environment, while fragile consumer confidence is likely deterring workers from pushing hard for pay rises.

These consumer pressures are manifesting in many areas of the economy, and notably in the housing market. Caution over engaging in major transactions has seen mortgage approvals at approximately 18.1% below their long-term (1993–2018) average. Given the earnings squeeze, and the faltering demand for private housing, the important role of social housing is likely to persist. There were 1.2 million households on a waiting list for social housing in England on 1 April 2017, exhibiting the significant excess demand. As a result, the announcement by the Government to scrap the HRA borrowing cap is welcome, and should go some way to meeting demand in the market.

As Brexit beckons, what is the impact that local authorities can expect across the UK?

With increasing focus on a potential extension to the Brexit transitionary period and the likelihood of a 'no-deal' scenario failing to diminish, local authorities are beginning to prepare for an array of potential impacts from the UK's departure from the EU. We look below at some of the key focus areas for local government in assessing the impact of Brexit.

The impact on social care provision:

The social care workforce is particularly susceptible to the impact of Brexit. Since the referendum in 2016, there has already been a decrease in the number of EU nationals taking jobs in the UK social care sector, and this is likely to be squeezed further with the end of freedom of movement. This has the potential to lead to labour cost inflation, increasing the financial pressure facing local authorities.

The effects described above will be exacerbated further due to challenges in the healthcare system. The NHS is similarly likely to suffer to workforce challenges and hence, funding challenges. This has the potential to increase the pressure on hospitals to discharge early, increasing the burden on the social care system's capacity. The government's winter crisis cash pledge to the system, is unlikely to mitigate such challenges.

The impact on supply chains and logistics:

Some coastal local authorities may face years of road traffic issues if border checks are applied following Brexit; authorities in the South East likely to be most significantly affected, due to the potential of border checks being applied at Dover.

Furthermore, investigations have been made by authorities such as Pembrokeshire Council into the ready availability of food and medicine in the event of road blockages and closures. Additionally, local authorities are struggling to make plans around international trade, as they await information on charges and how long waiting times at ports are likely to be. This is particularly important in the case of livestock and fresh foods being transported.

Changes to customs unions and physical borders may reduce the availability and increase the price of key goods required by local authorities, including adult social care supplies.

Consumer demand:

Brexit will impact the wider economy, and hence local authorities will need to be attuned to the impact on their local economies.

Brexit uncertainty is already beginning to influence the high street and local authorities need to consider the prospect of increasing voids. Furthermore, local economies that are heavily dependent on certain sectors that are vulnerable to the impact of Brexit, such as financial services and agriculture, may bear a greater brunt of the economic shock that Brexit may cause.

Local authorities may also be impacted more directly, especially those authorities that have embarked enthusiastically on commercial property investments, thereby creating direct exposure to certain sectors, especially the retail sector. In respect of this, CIPFA have issued a warning to councils outlining concerns over their commercial activity, suggesting that some have been guilty of putting public funds at 'unnecessary or unquantified risk'. Councils need to evaluate the proposed impact that they were hoping such investments may have on their financial position, along with other trading activity, in light of the potential economic impact of Brexit.

Impact on property and agricultural land prices.

Predictions that property prices in general are likely to fall following Brexit are well documented. Bank of England Governor Mark Carney has stated that UK house prices may fall by up to a third in the event of a 'no-deal' Brexit.

A reduction in property prices may not be perceived to be a bad outcome for all. Furthermore, the government's HRA borrowing cap announcement has the potential to allow councils to increase the supply of housing, further supporting a challenged housing market. However, such a reduction in property values is likely to create a shock that may create financial hardship for many as well as impacting the performance of certain sectors.

Budget 2018

On 29 October 2018 the Chancellor delivered the 2018 Autumn Budget to Parliament. Among the headline policy announcements, such as a new 2% tax on revenue for large digital companies, changes to the income tax threshold bands, and increase in funding to help departments prepare for Brexit, there were a number of announcements that will have a direct impact on local authorities. These key announcements include:

- Immediate abolition of the Housing Revenue Account (HRA) cap which restricts local authority borrowing for house building.
- £675mn Investment in the Future High Street Fund created to support local areas prepare long term strategies for their high streets and town centres, including investment in physical infrastructure. As part of this announcement, small retail businesses will see a 33% decrease in business rates and public lavatories will receive 100% business rate relief after April 2019.
- Increased staff costs for local authorities; as the national living wage is set to increase by 5% from £7.83 to £8.21 an hour.
- Allocation of additional £420mn to local authorities in 2018/19 to tackle potholes and repair damaged roads.
- Local authorities in England will receive a further £650mn in social care funding.

CIPFA's response to the budget was that while the additional short term support for the provision of services is welcomed, there are greater long term challenges that need to be addressed to embed sustainable funding. The July 2018 OBR's (OBR) projection, upon which the budget was based, forecasts that within 50 years the UK will not be able to afford anything more than debt interest, health, social care and pension payments. CIPFA is clear that there is not sufficient funding to sustain expectations of public services at the current levels of taxation.

The Local Government Association (LGA) analysis has estimated that local services face a funding gap of £7.8bn by 2024/25; the funding gap as of 2019/20 is estimated to be £3.9bn. The services where there are the greatest funding pressures include social care, homelessness and public health. However, the growing demand for these services has detrimentally impacted on other services that help maintain local communities including libraries, roads and welfare support.

An unexpected announcement made by Government during the budget was that it will no longer use Private Finance Initiative (PFI) schemes, or its successor PF2, because PFI schemes have been identified by the Office for Budget Responsibility (OBR) as a source of significant fiscal risk to the Government. It is unclear if this decision by central Government will impact on local authorities in future years.

CIPFA Investment Guidance

The media spotlight and public scrutiny surrounding local government finances has increased significantly over the past year due to increased pressures to deliver services from reduced funding. To help authorities better manage their finances CIPFA is updating its guidance on Treasury Management. The new key principle of guidance will be that 'Local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed'.

During 2017/18 the rate at which English councils acquired land and buildings increased by 43% to a total of £4bn; whereas total borrowing increased from £4bn to £10bn (127 %). As such there is a growing concern that too many local authorities are investing heavily in commercial property at a rate that is disproportionate to their available resources. This exposes public funds to unquantified risks. This stands against the primary objective of a local authority's treasury management strategy to safeguard public money.

Accounting, auditing and governance

IFRS 9: Statutory Override update

The 2018/19 financial year will be the first year where the accounting standard IFRS 9 will be implemented by local government. IFRS 9 impacts on an authority's financial assets: the investments it holds; the amounts it has lent to others; and other monetary based assets it may have. It changes how these financial assets are classified and how movements in their value are accounted for. It also changes how these assets are impaired; based on the risk that the assets may not be recovered in full, or at all.

Following a consultation by the Ministry for Housing Communities and Local Government on the impact of IFRS 9, an initial statutory override has been granted for five years, despite 90% stakeholders opposing a time-limited period. This statutory override means that councils will still be required to account for fair value movements in financial instruments (in accordance with proper practices as set out in the code on local authority accounting); however these movements will not be charged to the revenue account.

The result of which is that statutory override will remove the potential burden that council tax payers or local authorities may have faced if fair value movements were unfavourable.

Public Sector Pension Scheme Valuation

The Government undertakes a valuation of public service pension schemes every four years, this year sees the first full assessment of these since the introduction of reformed schemes in 2015.

The Chief Secretary to the Treasury has stated that early indications would suggest that employers' contribution will need to increase as a result of a proposed decrease in the discount rate. The discount rate, known as the SCAPE rate, is based on the OBR projection of the short-term pay growth in terms of GDP. OBR has reduced this rate from 3.0% to 2.8% in 2016 and a further reduction has been proposed as of April 2019 to 2.4%. This discount rate is used to calculate the current costs of future payments and as the discount rate decreases, the pension liability increases. Given that employee rates are effectively fixed under scheme regulations, employer contributions will need to increase to meet the increased liability. Further details are to be announced later in the year in addition to further discussion taken forward as part of the spending review.

Local Public Audit – Expectations gap

For the public to gain trust and confidence in public spending, a framework of accountability, transparency, governance and ethics needs to be built. The ultimate responsibility lies with the government departments that delegate spending to local public bodies. These public bodies must then be able to demonstrate that the money has been spent efficiently and effectively.

One way the public can gain trust in public spending, is by relying on the external audit process to provide assurance on the financial statements and report by exception on the arrangements the

public body has in place to secure economy, efficiency and effectiveness. However, the role of audit, is often misunderstood creating the audit expectation gap which is the difference between what an auditor actually does, as required by legislation and auditing standards, and what stakeholders think that the auditors' obligations might be and what they might do.

The Institute of Chartered Accountants in England and Wales (ICAEW) produced a report to raise awareness on the expectation gap and suggest some possible solutions. The report also discusses how issues faced by local public bodies such as financial difficulties, increasing demand from an ageing population, complex structures and weaknesses of accountability impacts the audit process and widens the expectation gap.

Some common concerns were noted in the report by interviews with Chief Financial Officers in different sectors and regulatory bodies:

1. Local authorities and health bodies are facing a difficult time with increasing pressure to deliver more services, become innovative and commercial with reduced financial support. This pressure could bring in concerns about behaviours that may not be in the best long-term interests of the public.
2. Reports produced by auditors are not being fully utilised by management and audit committees to build on successes and make improvements within the body where recommendations have been made.
3. Auditors are concerned that qualifications and issues identified in their opinions are not taken seriously enough by those charged with governance.
4. The reduction in audit fees has led to a perception by local bodies that they are receiving reduced scope of work compared to the previous regime (Audit Commission). The concerns are not in relation to compliance with auditing standards, but rather the lack of value added activities that was previously provided.
5. Chief Financial Officers expect more challenge and review of their forward-looking plans which underpin the financial resilience of the authority.
6. Other stakeholders are not getting sufficient assurance over the effectiveness of service delivery and performance in auditors' work.
7. Increased regulation and scrutiny against the reduced number of auditor firms in the local government market.
8. Local public auditors' power being limited by the removal of indemnity insurance and increased difficulty to recover costs.

The ICAEW has offered a number of potential solutions in the report to close this expectation gap including:

1. Chief Financial Officers could consider involving external support to assist them in their financial resilience work, such as challenging their budget assumptions and other key decision making factors, instead of relying on external auditors to provide other value added activities, as these may have some independence restrictions.
2. More broadly, consideration could be given to widen the scope of the audit to include for example a greater future-looking focus.

Regulation news

PSAA: Report on results of 2017/18 audits

PSAA (Public Sector Accounts Appointments) has reported its annual summary on the timeliness and quality of financial reporting in relation to audits for the 2017/18 financial year. A total of 431 (87 %) local government and fire authorities published their audited accounts by the deadline of 3 July 2018. 2017/18 was the first year that the accounts and audit deadline was brought forward from the 30 September to the 31 July. PSAA's Chief Officer stated that whilst these results were encouraging and reflect considerable efforts of both local government finance staff and auditors, there is still more work to be done in order for 100% of authorities to meet the new deadline.

The number of qualified 'Value for Money' conclusions is currently at 7% (compared to 8% for 2016/17); however there 30 conclusions still to be issued for 2017/18. The most common reasons for issuing a qualified Value for Money conclusion were corporate governance issues, financial stability concerns and contract management issues.

Other

EY 2018 Transparency Report

Our profession has come under scrutiny from policymakers and other stakeholders over the year, and the need for transparency has never been greater. Increasingly, the public is expecting more and more from the audit than its current remit requires. This difference is known as the 'audit expectation gap' which has been discussed above. We believe the time is right for all concerned in the corporate control ecosystem to seize the moment and consider deeply what society expects from businesses and the assurance it needs over their activity.

It's in our interests and the public's for EY UK to be as open and transparent as possible. The Transparency Report goes some way towards helping us achieve this, while also providing an opportunity to share a more balanced perspective on what we do and how we perform as a business. For example, it refers to our role in building trust and confidence in the capital markets and wider economies, by maintaining and developing positive relationships with our stakeholders. It explains what we do to make a difference to people's lives by helping to improve social mobility in the UK. It also shows how our people are supported in their role as auditors by making reference to our tools, technologies and training programmes. Details on internal and external surveys and inspections are included as well, to show how we are performing against our own expectations and — most importantly — those of our regulators.

We refer to this report in our audit planning reports to audit committees, and we summarise the key headlines below.

2018 Highlights

Audit quality

External review

82% of EY's FTSE 350 audits and 67% of all inspected audits required no more than limited improvements

(FY17: 92% and 88% respectively)

as at 29 October 2018

No FRC fines for audit work completed in the last five years and no sanctions against EY UK partners in respect of that period

Internal review

108 engagements reviewed in FY18, covering

47% of our Responsible Individuals, of which 81% had no improvements or minor improvements only

Delivery

Of our people in Audit

96% consider delivering quality audits a priority

and

97% understand their role as an auditor in providing independent assurance, supporting strong capital markets and protecting the public interest

The result of the FRC's most recent review of out audits showed that 82% of our FTSE 350 audits were graded as requiring no more than limited improvement, against a 90% target. Overall 67% of all EY UK's audits inspected were graded as requiring no more than limited improvements. We are proud of the progress we have made in the UK since the launch of UK Sustainable Audit Quality (SAQ) programme a few years ago. But there is still more work to be done to consider audit quality from the viewpoint of key stakeholders: investors, audit committees, companies, regulators and our people. The work we have done to model the behaviours of our highest performing teams, using cognitive psychologists, will continue. In the year ahead we will prioritise the extent and consistency of the model's adoption. We aim to transform the behaviours that feature in the model into business-as-usual activity across all of our audit teams.

As organisations become more complex, so do audits, making access to different skills and capabilities more important than ever. The traditional audit has already been transformed by the use of technology and digital platforms, and the pace of change will only accelerate. These new capabilities enable us to search, sift and sort through large quantities of data, allowing us to identify potential areas of risk and understand an organisation's performance at a more granular level. The audit process is becoming more forward looking, with a focus on anticipating future risks. Our new capabilities are also providing insights into areas that were once thought to be impossible to measure, such as culture.

This unprecedented scrutiny and demand for change, can be seen as an incredible opportunity to focus our efforts on addressing the root cause, deliver sustainable high quality audit and gain the trust and confidence in the capital markets society needs and demands.

Key questions for the Audit Committee

2018 Budget

How has the 2018 Budget impacted the local authority's financial plans for the current year and the year ahead?

CIPFA Investment Guidance

How much is your authority dependent on commercial investment income to fund services?

What governance structures are in place to ensure that the authority's borrowing is proportionate to its need and level of resources?

IFRS 9: Statutory Override

Have you considered the impact of the new IFRS 9 accounting standard? How will you plan for the possibility that the statutory override will end in five years' time?

Public Sector Pension Scheme Valuation

Have you taken into account the impact of the most recent review of the public sector pension scheme on your budgets and medium term financial position?

Local Public Audit – Expectations gap

How far do you recognise the issues of the ICAEW report on the expectations gap in local public audit? What is your perspective on the value that external audit provides?

PSAA: Report on results of 2017/18 audits

What lessons have you learnt from the earlier accounts and audit deadlines in 2017/18? Are you confident that these lessons will be applied for the 2018/19 accounts and audit process?

Find out more

EY Club Item

https://www.ey.com/uk/en/issues/business-environment/financial-markets-and-economy/item---forecast-headlines-and-projections

2018 Budget

https://www.gov.uk/government/news/budget-2018-24-things-you-need-to-know

https://www.local.gov.uk/about/news/lga-responds-budget-2018

https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/cipfa-responds-to-budget-2018

https://www.local.gov.uk/sites/default/files/documents/Moving%20the%20conversation%20on%20-%20LGA%20Autumn%20Budget%20Submission%202018.pdf

CIPFA Investment Guidance

https://www.publicfinance.co.uk/news/2018/10/cipfa-investment-guidance-will-help-councils-steer-through-challenges

Local Public Audit – Expectations gap

https://www.icaew.com/about-icaew/regulation-and-the-public-interest/policy/public-sector-finances/local-public-audit-expectations-gap

https://www.icaew.com/-/media/corporate/files/about-icaew/policy/local-public-audit-expectation-gap.ashx?la=en

IFRS 9: Statutory Override

https://www.publicfinance.co.uk/news/2018/11/ifrs-9-override-last-five-years

Public Sector Pension Scheme Valuation

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/738917/Technical_Bulletin_Public_Service_Pension_Schemes_Valuations.pdf

https://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2018-09-06/HCWS945/

PSAA: Report on results of 2017/18 audits

https://www.psaa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/

EY Transparency Report 2018

https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2018

https://www.ey.com/Publication/vwLUAssets/ey-uk-2018-transparency-report/$File/ey-uk-2018-transparency-report.pdf

Notes

Notes

Notes

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ED None

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ADUR & WORTHING
COUNCILS

Joint Governance Committee
26 March 2019
Agenda Item 8

Key Decision: No

Ward(s) Affected: N/A

Internal Audit Progress Report

Report by the Acting Head of Internal Audit

Executive Summary

1.	**Purpose**
	This report seeks to update Members of this Committee with:
1.1	The current performance of the Internal Audit Section.
1.2	Summary information on the key issues raised in final audit reports issued since our last report to the Committee.
1.3	The current status on the implementation of agreed audit recommendations.

2.	**Recommendations**
2.1	**Recommendation One**
	That the Committee note the contents of this report.

3. Context

3.1 Background

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

4. Issues for Consideration

4.1 <u>Internal Audit Performance - 2018/19</u>

The 2018/19 Annual Internal Audit Plan presented to the Joint Governance Committee on 27th March 2018 contained 511 days and 36 items of audit work to be undertaken by the Internal Audit Service during the year.

Since approval, the audit plan has been revised to accommodate requests to move audits to different parts of the year and to take account of changes in requirements. The current plan is summarised as:

Period	Audits planned	No of days planned	% of days planned
Quarter 1 (April – June)	6	73.5	14.4%
Quarter 2 (July – September)	5	67.5	13.2%
Quarter 3 (October – December)	11	151.5	29.6%
Quarter 4 (January – March)	15	218.5	42.8%
	37	**511**	**100%**

As at 28th February, 374.29 (73.25%) of the planned days had been delivered. Attached as **Appendix 1** is a summary of the current status of audits in the plan.

There are 4 audits (2 general, 1 computer, and 1 contract) equating to 55 days (10.8%) which will not be in progress by the end of the 2018/19 financial year but will be conducted as early as is practicable in 2019/20.

4.2 Final Audit Reports

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

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

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

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

A summary of the final reports issued since our last report to this Committee, including the key issued raised, is attached as **Appendix 2**.

Since our report to the Committee in January 2019, nine reports have been finalised. We are pleased to report that one of these reports was given Full Assurance and five were given a Satisfactory Assurance opinion. Three reports were Limited assurance. Ten P1 recommendations were raised within these reports.

Details of the Priority 1 and Priority 2 recommendations raised within these reports have been circulated to Members prior to the meeting in a separate briefing note.

4.3 Follow up of Audit Recommendations

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

Follow-up is undertaken to ensure that all recommendations raised have been successfully implemented according to the action plans agreed with the service managers. The Follow-up Protocol requires implementation of 80% of all priority 2 and 3 recommendations and 100% of priority 1 recommendations. The current performance in relation to these targets for the last 3 years is shown in the tables below:

Analysis of status of recommendations 2016/17

	Total Due	Imp	%	Carried Over (Not Impl'd)	%	Overdue	%	FU & No Response	%	Total % NOT Impl'd	FU Not Due	Total
P1	17	16	**94.1%**	0	**0%**	1	5.9%	0	0%	**5.9%**	0	17
P2	92	66	**71.7%**	10	**10.9%**	16	17.4%	0	0%	**28.3%**	0	92
P3	11	10	**90.9%**	0	**0%**	1	9.1%	0	0%	**9.1%**	0	11
Other	18	16	**88.9%**	0	**0%**	2	11.1%	0	0%	**11.1%**	0	18
Total	**138**	**108**	**78.3%**	**10**	**7.2%**	**20**	**14.5%**	**0**	**0%**	**21.7%**	**0**	**138**

Analysis of status of recommendations 2017/18

	Total Due	Imp	%	Carried Over (Not Impl'd)	%	Overdue	%	FU & No Response	%	Total % NOT Impl'd	Not Due	Total
P1	24	20	**83.3%**	0	**0%**	4	16.7%	0	0%	**16.7%**	15	39
P2	56	43	**76.8%**	6	**10.7%**	7	12.5%	0	0%	**23.2%**	30	86
P3	19	15	**78.9%**	2	**10.5%**	2	10.5%	0	0%	**21.1%**	6	25
Other	1	0	**0%**	0	**0%**	0	0%	1	100%	**100%**	0	1
Total	**100**	**78**	**78%**	**8**	**8%**	**13**	**13%**	**1**	**1%**	**22%**	**51**	**151**

Analysis of status of recommendations 2018/19

	Total Due	Imp	%	Carried Over (Not Impl'd)	%	Overdue	%	FU & No Response	%	Total % NOT Impl'd	Not Due	Total
P1	2	1	**50%**	0	**0%**	1	**50%**	0	**0%**	**50%**	1	3
P2	6	4	**66.7%**	0	**0%**	0	**0%**	2	**33.3%**	**33.3%**	34	40
P3	9	9	**100%**	0	**0%**	0	**0%**	0	**0%**	**0%**	14	23
Total	**17**	**14**	**82.3%**	**0**	**0%**	**1**	**5.9%**	**2**	**11.8%**	**17.7%**	**49**	**66**

Attached as **Appendices 3, 4 & 5,** are tables which summarise the current follow-up status of recommendations made in final audit reports from audits contained in the 2016/17, 2017/18 and 2018/19 Audit Plans. The shaded boxes indicate where changes have occurred since our last report.

There are also six recommendations still outstanding from 2015/16 audits, one of which is a priority 1, which we will continue to monitor until their completion.

As requested at the Committee's meeting on 22nd January 2019 we have highlighted in **Appendix 6** attached, those Priority 1 recommendations which remain outstanding after their agreed implementation date.

5. Engagement and Communication

5.1 Internal Audit attends monthly meetings with the Chief Financial Officer on progress against the plan. Issues arising and potential plan changes are discussed both at these meetings and whenever necessary.

6 Financial Implications

6.1 There are no financial implications arising from this report.

7. Legal Implications

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

Background Papers
None

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Sustainability & Risk Assessment

1. Economic

Matter considered and no issues identified.

2. Social

2.1 Social Value

Matter considered and no issues identified.

2.2 Equality Issues

Matter considered and no issues identified.

2.3 Community Safety Issues (Section 17)

Matter considered and no issues identified.

2.4 Human Rights Issues

Matter considered and no issues identified.

3. Environmental

Matter considered and no issues identified.

4. Governance

The report does not seek to meet any particular Council priority.

ADUR & WORTHING
COUNCILS

Joint Governance Committee
26 March 2019
Agenda Item 9

Key Decision: No

Ward(s) Affected: N/A

2019/20 Internal Audit Plan

Report by the Acting Head of Internal Audit

Executive Summary

1. Purpose

1.1 This report Asks Members to consider and approve the 2019/2020 Internal Audit Plan.

2. Recommendations

2.1 **Recommendation One**

That the Committee consider whether there are any specific audits which they would like to see progressed in 2019/20, which are not currently contained within the proposed plan.

2.2 **Recommendation Two**

That the 2019/20 Audit Plan be approved.

3. Context

3.1 Background

Audit Plans have been presented annually to Members for approval since 1998.

In order to focus audit resources on areas of high risk or where independent assurance is required, we have met with each Head of Service to discuss and identify potential audits by:

- Examining their service plans to identify any areas of change or where additional services will be provided;

- Reviewing the risks contained within the Councils' corporate and service risk registers;
- Considering current issues impacting on Local Government; and
- Considering the requirements of the Chartered Institute of Internal Auditors (CIIA) International Standards which became effective from 1 April 2013.

4. Issues for Consideration

4.1 The proposed 2019/20 Internal Audit Plan, attached as **Appendix A**, consists of 35 audits and 510 days of work allocated as summarised below:

Category of Work	Type of Work	Number of Days
Audits of High Risk areas	System audits, annual testing of key financial and governance systems	240
Audits of High Risk areas	Cross service audits	20
Audits of Medium Risk areas	System audits	32
ICT Audits	Specialist ICT related audits and Application Reviews	60
Contract Audits	Specialist reviews & Contract examination	30
NFI	Co-ordination & investigation of matches	30
Follow Up	Follow up to confirm implementation of agreed audit recommendations	20
Other	Management & Contingency	78
Total Days in Plan		**510**

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

4.3 The Committee is also asked to consider whether there are any specific areas of interest, which they would like to see covered in the 2019/20 Audit Plan.

5. Engagement and Communication

5.1 Following the meetings with each Head of Service, the proposed draft 2019/20 plan was compiled and sent to all Heads of Service for any further comment. It was then sent to the Councils' Leadership Team for review and comment and has been discussed with the Chief Financial Officer. Any comments received have been addressed within the proposed plan.

6. Financial Implications

6.1 This plan is based on the reduced audit plan agreed in order to achieve the savings reported to Overview & Scrutiny Committee on 26 November 2015.

7. Legal Implications

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

Background Papers
None

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Sustainability & Risk Assessment

1. Economic

Matter considered and no issues identified.

2. Social

2.1 Social Value

Matter considered and no issues identified.

2.2 Equality Issues

Matter considered and no issues identified.

2.3 Community Safety Issues (Section 17)

Matter considered and no issues identified.

2.4 Human Rights Issues

Matter considered and no issues identified.

3. Environmental

Matter considered and no issues identified.

4. Governance

The report does not seek to meet any particular Council priority.

		RISK REGISTER ISSUE	NOTES	AUDIT RISK RATING	PROPOSED DAYS	Q1	Q2	Q3	Q4
	ECONOMY					**APR-JUN**	**JUL-SEP**	**OCT-DEC**	**JAN-MAR**
	Planning & Development								
1	Land Charges	**PD13** - Land Charges - loss of access to systems	Area subject to major staffing changes and IT issues in 2018. Councils have statutory duties under Local Land Charges Act 1975 to maintain accurate Land Charges Registers. Incomplete or inaccurate information provided during searches is a risk for the Councils.	**H**	10			10	
1	Planning Enforcement		HoS - would like IA assurance that process working effectively	**M**	8		8		
	Culture								
	None								
	Place & Economy								
	None								
	Major Projects & Investment								
1	Management of Major Projects	**Corporate Risk -** Major Project Delivery **MPI01** - Union Place development **MPI02** - Decoy Farm development **MPI03** - Development of Adur Civic Centre **MPI04** - Re-development of Grafton site **MPI05** - Provsion of flood defence walls at Sussex Yacht Club **MPI06** - Development of Worthing Civic Centre Car park **PD07** - Teville Gate re-development **PD17** - Fire Safety **PE03** - Funding - failure to secure private & public sector investment and deliver the same in line with funder expectations	Legal Services - Service Plan Risk	**H**	15				15
1	Management of the Commercial Property Portfolio	**MPI07** - Estates Income - Councils fail to meet targets **MPI09** - Failue to develop and adhere to property acquisition and management protocols **MPI10** - Commercial leased out premises - ensuring buildings are safe, lawful and complaint with requirements **PD17** - Fire Safety	Spend increasing to £150million Councils need to ensure plans are in place to actively manage the assets after they have been purchased.	**H**	15		15		
	COMMUNITIES								
	Environmental Services								
	None								
	Housing								
1	Tenancy Management		Postponed from 18/19 audit Plan. Horizon Scanning	**H**	10				10
1	Rent in Advance		Proposed by HoH - management of monies advanced and recovery to be looked at	**M**	8	8			
1	Regulatory Compliance	**H01** - compliance risk - Fire, Gas, electrical, water		**H**	15		15		
1	Homeless Reduction Act compliance	**H0**7 - risk of not meeting obligations of HRA 2017	Horizon Scanning - compliance with 2017 legislation	**H**	10			10	
	Wellbeing								
1	Management of Community Buildings	**W03** - Eastbrook Manor Community Centre	Councils own many buildings which are leased out to Community groups to run - how do the Councils manage them/ are there better ways of working	**H**	10		10		
	DIGITAL & RESOURCES								
	Revenues & Benefits								
1	Revenues & Benefits		Annual testing of key controls across both Councils and both services	**H**	30			30	
	Financial Services								
1	General Ledger		New financial management system Tech1 due to be implemented in July 2019	**H**	10				10
1	Exchequer (Creditors & Debtors)		New financial management system Tech1 due to be implemented in July 2019	**H**	20				20
1	Cashiering		Annual audit of key financial system	**H**	10			10	
1	Budget Development	**Corporate Risk** - Council Finances **FS01** -Risk to overall financial position **FS02** - Future spending requirements under estmated	CFO request - cover how Councils pull the budget together, capture cost pressures, changes, engagement with services	**H**	10		10		
1	VAT Arrangements		HoS request - cover how Councils comply with VAT requirements - preparations for Making Tax Digital	**M**	8	8			
	Customer & Digital Services								
1	Management of Call Centre volumes	**CD01** - Corprate Contact Centre demand	Postponed from 18/19 plan	**L**	5		5		

1	Risk Management		Annual audit of Council Risk Management processes	**H**	10				10	
	Legal Services									
1	Corporate Governance	**HR03** - people not engaging in mandatory training	Annual audit of general governance arrangements. Horizon scanning. Scrutiny guidelines due. Include mandatory training.	**H**	10		10			
1	Decision Making		Legal Services - Service Plan Risk	**H**	10	10				
	Human Resources									
1	Data input & accuracy		Matsoft & Resourcelink (Payroll) interface issues, duplication of input may impact on accuracy. Quality of data and therefore decisions, maybe impacted.	**H**	10	10				
1	Apprenticeship Levy		Horizon Scanning - Management of scheme in order to ensure all levey is used/ given to worthy partners	**M**	8			8		
	Business & Technical Services									
1	Asbestos Management (non Housing)	**BTS02** - corporate buildings Asbestos Register & management arrangements		**H**	10			10		
1	Business Continuity	**Corporate Risk** - Emergency Response **BTS04** - Business Impact Analysis not being completed		**H**	10				10	
1	Regulatory Compliance (non Housing)		No risk but should be - examine compliance in respect of gas safety, legionnaires, lifts & electrical (non Housing)	**H**	10	10				
	COMPUTER AUDITS									
1	Network Architecture and Resilience		IT Audit Needs Assessment	**H**	10				10	
1	Account Security		IT Audit Needs Assessment	**H**	10	10				
1	Starters & Leavers process		IT Audit Needs Assessment	**H**	10	10				
1	Incident & Problem Management		IT Audit Needs Assessment	**H**	10				10	
1	Supplier & Contract Management		IT Audit Needs Assessment	**H**	10			10		
1	GDPR Compliance	**Corporate Risk** - Failure to comply with GDPR	IT Audit Needs Assessment	**H**	10		10			
	CONTRACT AUDITS									
1	Management of Capital Programme		HoH proposed	**H**	10			10		
1	Contract audit to be determined			**H**	10				10	
1	Contract Management	**H02** - poor contracts management in relation to Adur Homes maintenance repairs, services and their compliance	Proposed by HoH - audit across housing on how contracts are managed. Procurement review to be conducted in 19/20 first	**H**	10		10			
	CROSS SERVICE REVIEWS									
1	Welfare Reform	**Corporate Risk** - Welfare Reform	Proposed in 17/18 plan but postponed. Horizon Scanning	**H**	10			10		
1	Councils preparedness for EU exit		HoPE proposed. Potential coverage:- legal implications/supply chain/social intercations/constructions costs.	**H**	10		10			
	OTHER									
	Management & Admin				40	10	10	10	10	
	Ad-Hoc/Contingency				38	10	9	9	10	
	NFI Co-Ordination				10	2.5	2.5	2.5	2.5	
	NFI Testing				20	10	10			
	Follow Up				20	5	5	5	5	
35					**510**	**103.5**	**139.5**	**134.5**	**132.5**	
										510
						20.29%	**27.35%**	**26.37%**	**25.98%**	

ADUR & WORTHING
COUNCILS

Joint Strategic Committee
5 March 2019

Joint Governance Committee
26 March 2019
Agenda Item 10

Key Decision [No]

Ward(s) Affected:All

Strategic Property Investment Fund 2019 (SPIF)
The Commercial Property Investment Strategy (CPIS) 2019/20

Report by the Director for the Economy

Executive Summary

This document comprises the Strategic Property Investment Fund 2019 (SPIF) Commercial Property Investment Strategy (CPIS) 2019/20. This document is split into two elements, this Business Case and also the Investment Strategy 2019/20, which is attached as **Appendix 1**.

It is recommended both these documents, which collectively comprise the commercial property investment strategy, are approved by the respective Councils.

Statutory guidance places a duty upon local authorities to prepare an annual investment strategy, which must ideally be approved before the start of the forthcoming financial year, by full Council, or its closest equivalent.

This Business Case, the attached Investment Strategy and other appendices, collectively:

- detail the current fund structures and completed investment purchases up to February 2019.
- detail mechanisms to support the ongoing structured and measured approach to property income generation, pro-actively managing the risk inherent in

investment.

- detail measures to support the ongoing development of a balanced portfolio delivering long term sustainable income, for the purpose of supporting the continued provision of Council Services.
- outline the future strategy to continue building and developing the property investment funds including recommendations to increase fund size from £75M per council, to £125m per council, capital reserves allocations and resourcing and management requirements for the funds.

The primary objective of the CPIS, is to build a strong and resilient portfolio, generating consistent income, to facilitate ongoing core service delivery, mitigating the impact of reductions to central government funding.

1. Purpose

1.1 The purpose of this report is to set out a robust commercial property investment strategy, building upon the existing portfolio, 2018/19 CPIS (link provided under background documents) and previous Strategic Property Investment Fund (SPIF) reports.

1.2 To meet the statutory guidance on investment strategy, as detailed under s12 below, which stipulates councils are to prepare an annual investment strategy which must be approved before the start of the forthcoming financial year by full Council.

1.3 This report will support the Councils' Medium Term Financial Strategy, providing a basis for expansion and management of each Council's portfolio, by setting : -

- Robust parameters to guide and support the development of risk managed, financially resilient, income generating commercial property portfolios.

- Governance criteria to facilitate purchase of investment property, ensuring diligent analysis and transparency, supporting an informed decision making process. This remains unchanged from last year's CPIS.

- Governance criteria to facilitate a commercial approach to the asset management of the investment properties, supporting proactive management, analysis and forecasting, in order to support strategic decisions, whilst qualifying risk and opportunity. This remains unchanged from last years CPIS.

2. Recommendations

2.1 The Joint Governance Committee is asked to consider the contents of the report and provide any feedback, or comments, to the Joint Strategic Committee**.**

2.2 The Joint Strategic Committee is recommended to:

2.2.1 Note the requirement to create a further additional post as part of the 2020/21 revenue budget to ensure the delivery of the Commercial Property Investment Strategy to provide additional necessary resourcing (Ref 9).

2.2.2 Agree the suggested delivery and governance model as set out in the report.

2.2.3 Recommend to Adur District Council the adoption of the 2019 Commercial Property Investment Strategy.

2.2.4 Recommend to Adur District Council to:

i) increase to their Commercial Property investment fund from the current £75,000,000 to £125,000,000 with a maximum investment in any year of £50,000,000

ii) Increase the operational and authorised borrowing limits by £25,000,000 in 2019/20.

2.2.5 Recommend to Adur District Council to resolve that the Strategic Property Investment Fund budget for future years may be brought forward with the approval of the Executive Members for Resources, following their consideration of a business case.

2.2.6 Recommend to Worthing Borough Council the adoption of the 2019 Commercial Property Investment Strategy.

2.2.7 Recommend to Worthing Borough Council to:

i) increase to their Commercial Property Investment fund from the current £75,000,000 to £125,000,000 with a maximum amount invested in any year of £50,000,000

ii) Increase the operational and authorised borrowing limits by £25,000,000 in 2019/20.

2.2.8 Recommend to Worthing Borough Council to resolve that the Strategic Property Investment Fund budget for future years may be brought forward with the approval of the Executive Members for Resources, following their consideration of a business case.

3. Context

3.1. Due to ongoing reductions in central government grant funding, local authorities are increasingly reliant upon income-generating services. By 2020/21, the revenue support granted to Councils as the main source of government funding will no longer exist and Councils will need to be self-funding from raising local taxation (Council Tax and Business Rates). In order to sustain service provision, this has led many local authorities to implement strategies to generate additional income, including commercial property investment.

3.2. Adur and Worthing Councils have to jointly make £8.3M of savings over the next 4 financial years.

3.3. *Achieving Financial Sustainability - Budget Strategy for the 2019/20 budget and beyond(2018/19 to 2023/24)*, presented to the Joint Strategic Committee (JSC) on 10th July 2018, set out changes to council funding over the next few years, detailing our strategic response and increasing reliance upon income generation. The paper illustrated that either income growth, or significant savings, will need to

be delivered to balance the budget. Property investment was identified as an option to generate *"a return of between 2% and 3%... after financing costs"*.

3.4. Direct Property Investment is now commonly undertaken by local authorities, acquiring assets both within and outside of their governance boundaries. Public Works Loan Board (PWLB) long-term lending is at very preferential rates (c.2-3%), when compared to the wider commercial sector lending rates. Property investment is capable of generating returns above PWLB rates, creating positive income. This can be used to fund current services and mitigate the impact of ongoing cuts to council services, protecting services that would otherwise be at risk.

3.5. The Councils have a statutory ability to borrow from the PWLB on long-term preferential fixed-interest terms, typically below rates available in the wider market. Borrowing is subject to guidance and regulations to ensure appropriate assessment, overview and scrutiny, in relation to any borrowing activity.

3.6. The Councils approved the establishment of a Strategic Property Fund (SPF) in July 2015, following a report to JSC. Further SPF reports in July 2016 and July 2017 built upon the initial strategy, containing a series of approved contributions to increase the budget to the current £75M per Council.

3.7. The 31 May 2018 Joint Governance Committee report, *"Managing Investment opportunity and risk when investing in Commercial Property"*, details how both Councils are managing risk in the acquisition of property and the implications of the changes to both the regulatory framework and the associated guidance.

3.8. In July 2018, the Commercial Property Investment Strategy (CPIS) was approved by JSC, reflecting medium-term financial strategy objectives. The main body of the report provided guidance on governance, scrutiny and resourcing requirements to build and maintain a property investment portfolio. The Investment Strategy was included as an Appendix, detailing investment objectives, fund policy/structure, purchase guidelines, mechanisms to proactively manage risk and promote financial resilience. The strategy also provided mechanisms for strategic asset management, including annual reviews, KPIs. The purpose of this is to ensure ongoing proactive and strategic

management, to optimise performance, promoting capital values and maximising returns. This years Investment Strategy 2019/20 (**Appendix 1**), follows the same format.

3.9. In accordance with statutory requirements, as detailed below under Section 12, an investment strategy is to be produced annually. This 2019/20 CPIS report essentially follows the same format as last year's 2018/19 CPIS report, having been updated, proposing measures to manage the expanding portfolio, changing investment market and economic outlook.

3.10. It is proposed to continue building upon the successes to date, raising capital through the PWLB, to invest directly in the UK property market.

4. SPIF - Commercial Property Investment Fund - Current Position

Financial Position

4.1. Please note all capital values quoted in this report are based upon initial purchase price, excluding purchasers costs. The two portfolios' investment properties will be subject to market valuations, following the end of the 2018/19 year and annually thereafter.

4.2. At the end of the previous financial year on 31 March 2018, the commercial fund was as follows: -

i) The Worthing Fund comprised four assets, valued at £11.935M, generating a net annual income, after borrowing costs, of £346,100.
ii) The Adur Fund comprised one asset, valued at £10.93M, generating a net annual income, after borrowing costs, of £287,760.
iii) The combined total commercial fund market value stood at £22.865M, generating a net annual income, after borrowing costs, of £633,860.

4.3. For the current financial year ending on 31 March 2019, the commercial fund has increased, to the end of February 2019, as follows: -

Worthing Fund

i) three new commercial property purchases have been completed, amounting to an investment of £25.14M and a net annual income, after borrowing, of £522,210 per annum.

ii) the total commercial fund now comprises seven assets, equating to £37.075M and a net annual income, after borrowing, of £868,300 per annum.

Adur Fund

a) three new commercial property purchases have been completed, amounting to an investment of £24.98M and a net annual income, after borrowing, of £521,730 per annum.

b) the total commercial fund now comprises four assets, equating to £35.91M and a net annual income, after borrowing, of £809,500 per annum.

4.4. The commercial funds for both Councils now comprises a combined total of £72.985M, an increase of 219% during 2018/19 financial year. The total net annual income, after borrowing, is £1,677,800 per annum.

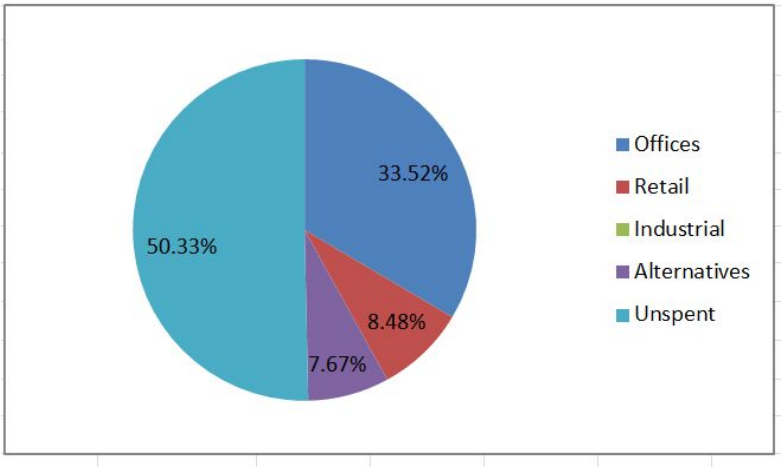
4.5. The 2018/19 net revenue target of £416,000 per council from new purchases has been exceeded for Worthing Council by 10.03%, whilst 98.19% of the Adur target has been achieved, to date. It is important to note that whilst the net income target of £416,000 per council for the 2018/19 year has been exceeded for both councils in terms of a full-year's income from new investments, due to the timing of individual purchases throughout the financial year, the apportioned net annual income from various purchase dates to year end, equates to a different figure for each council of £452,380 for Worthing, £408,460 for Adur.

Current Fund Structure

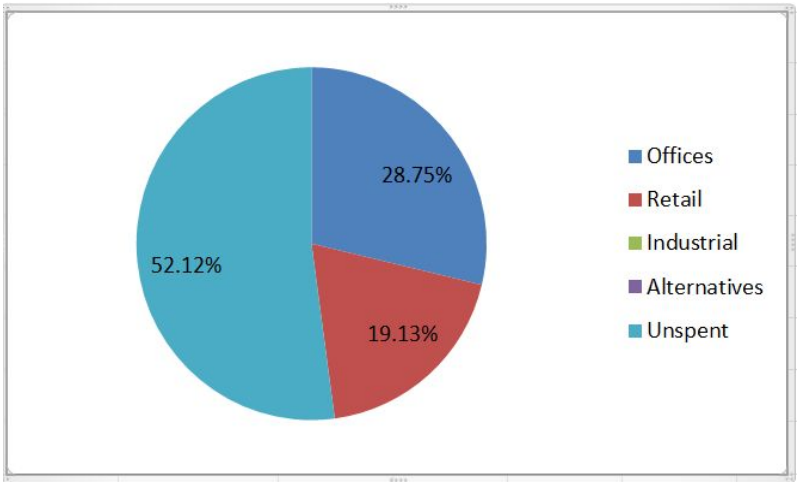
4.6. During the 2018/19 financial year, net initial yields in the region of 5-6% have typically been targeted, striking a balance between risk and return. Acquiring assets below 5% typically offers a limited return after the deduction of financing and operational/management costs and any such purchases require strong underpinning fundamentals illustrating positive future growth.

4.7. The pie charts below, detail the current weighting by sector of all purchases to date, based on the current total fund size of £75M per Council: -

Worthing



Adur



4.8. The above charts illustrate the heavy weighting into offices, for which a total investment in the region of 30% has been targeted during the 2018/19 year, essentially in the south east office market. This was expected, as stated in last year's strategy, *"At the outset, the portfolios will be heavily weighted into certain sectors and classes, driven by opportunities and market performance"*. It is to be expected that a fully diversified fund is a longer term objective, whereas shorter term purchases will be heavily influenced by market performance and opportunity.

4.9. Purchases to date are summarised in Appendix 2. These have initially concentrated on Greater London, the South East and established regional centres, on the basis these are established mature markets that have typically experienced a longer term trend of lower voids and vacancies, when compared to the wider UK. Key considerations underpinning this approach are: -

Offices

i) The office sector has been the subject of particular focus this year, driven by strong market performance, particularly in Greater London and south east office market. During 2018, take-up in the south east office market was above the 10-year average. During the 2018/19 year, the Councils have acquired four office buildings, making up a significant proportion of the year's investments. This is not unexpected, given the current challenges of retail and industrial market purchases, as detailed below.

Retail

ii) The retail market has been facing some notable headwinds, with onerous business rates, the ever-expanding threat of online shopping and decreasing profit margins. This has seen weakening pricing and occupier uncertainty, with significant insolvency and Company Voluntary Arrangements (CVAs). The financial impact of a CVA-imposed rent reduction can be significant.

Certain retail investments have remained attractive to investors and we have made some cautious and limited investment into the retail sector. It is likely that prices will continue to soften into 2019, giving rise to some carefully chosen opportunities.

Industrial

iii) The industrial market has been performing well, with strong occupier demand and the lack of stock in London and the south east continuing to drive rental growth across the region. As a result, prime stock is strongly priced, typically below 5% net initial yield, which equates to a nominal return, after accounting for financing and operational costs. As a result, acquiring suitable quality industrial stock remains challenging, particularly

in the south east. Looking ahead, regional centres may present some suitable opportunities and will therefore be considered.

Alternatives

iv) Specialist alternative investments traditionally cover those assets not included within the traditional commercial property sectors of offices, retail and industrial. Alternative investments include hotels, healthcare, certain leisure facilities, student accommodation, car parks and petrol stations. Acquiring some alternatives supports overall fund diversity, which can diversify risk exposure, supporting overall fund performance. To date, a car park and a petrol station have been acquired in this sector, with both offering long leases with index linked reviews, which is attractive. Looking ahead, subject to judicious specialist advice, further alternative sector purchases may be recommended, particularly with index linked fixed uplifts.

5. SPIF - Commercial Property Investment Fund - Strategy Review

5.1. The funds have been steadily increased over the 2018/19 financial year, judiciously applying last year's strategy, to ensure fund development remains robust and the approach reflects the key Investment Strategy objective: -

"To adopt a structured and measured approach to property income generation, pro-actively managing the risk inherent in investment, creating a balanced portfolio delivering long term sustainable income, for the purpose of supporting the continued provision of Council Services."

5.2. The current portfolios have been comprehensively reviewed, in the context of the wider economy, to shape future fund direction. In addition to the annual in-house review, the endorsed CPIS principles of arms-length scrutiny and objectivity have been applied, commissioning a specialist consultancy report (SCR), whereby a private sector property consultancy firm has undertaken an arms-length independent review of the CPIS. Their report is attached as **Appendix 3** and was commissioned to answer three questions: -

1) to provide guidance on the optimal size and scale of The Fund in the context of financial needs and broader commercial property market conditions.

2) to provide recommendations for the preservation of some income derived from Fund revenue which should be set aside for irrecoverable expenditure, potential capital expenditure and incentives/rent free periods on re-letting of voids.

3) to recommend a number of initiatives which the Councils may wish to consider in order to develop a robust, liquid and diversified fund providing stable and predictable levels of income while aiming towards future rental and capital growth.

5.3. The SCR concludes there are no concerns regarding the commercial strategy checks and balances in place for developing and monitoring the funds, making the following recommendations: -

i) **Fund Size**
"the optimal size for a local authority investment fund is in the order of £250m". (£125M per Council)

Recommended actions are detailed under 7.0 below

ii) **Prioritise Active Asset Management**
developing the ability to absorb changes to the rental income stream to enable lease re-gears.

Recommended actions are detailed under 7.3 below

iii) **Funding Spread Over Three Years**
The SCR suggests the inability to deploy more than £50M in any one year constitutes a potential weakness that may hinder acquisition of available assets meeting the Council's criteria and hold back investment.

Recommended actions are detailed under 8.0 below

iv) **Resourcing**

The importance of resourcing is emphasised, the report stating:

"An in-house or independent investment advisor role is critical to ensure that local authority funds have sufficient resources in place to benchmark their portfolio and provide independent advice on acquisitions both before and during the period of ownership."

And

"An active asset management function is crucial to unlocking future growth, revenue protection and enhancement"

Section 2 of the 2018/19 Investment Strategy (Appendix 1), details proactive risk and opportunity management mechanisms, including Asset Management principles for cash flows, capital expenditure forecasting, annual review and equivalent yield projection. The same principles apply this year. In addition, further measures to improve resourcing are recommended, as detailed under 9 Resource and Capacity, below.

6. Capital Reserves

6.1. To strengthen the financial resilience of the CPIS funds and protect core income revenue, which directly sustains service provision, it is necessary to allocate a percentage of income to a capital reserve. This reserve is a conventional mechanism that will be deployed against future voids, incentives (such as rent free periods) and capital expenditure (such as refurbishment/repair).

6.2. Capital reserves are an important risk management mechanism to meet forecast costs, that will be projected in cash flows, whilst also providing a buffer against unexpected costs. This provides a layer of protection against core income revenue disruption, increasing fund stability.

6.3. The SCR includes advice regarding a suitable level of income retention to meet costs. The SCR reviewed our investment strategy, providing an illustrative analysis of the estimated costs for three notional assets over a 10 year period to sit between 15-18%, excluding major refurbishment costs. Their report concludes that a 20% retention of revenue is acceptable.

6.4. In consideration of the foregoing, this report recommends the capital reserve should remain unchanged at **20% retention of income revenue**. The precise mechanism to deliver this will be determined by finance who confirm that currently the Council has a policy of gradually increasing the amounts set aside from the rental streams for future revenue losses and capital maintenance requirements. The aim is to achieve a 20% annual set aside over a 5 year period. In the interim, any surplus commercial income over and above the budget will also be set aside.

7. Fund Size

7.1. According to the Ministry of Housing, Communities and Local Government (MHCLG), local authorities invested £4 billion in land and buildings in the financial year to March 2018, of which £1.8 billion is considered to be property investment. It is estimated that this figure will rise slightly to £1.9 billion for the 2018 calendar year.

7.2. The currently approved fund sizes of £75m per council are small, when considered in context the wider property investment market fund sizes. Smaller funds will have less overall spread and diversity of assets, increasing volatility and exposure to the underperformance of any single asset. Smaller funds can also lack economies of scale, resulting in higher expenses running the funds, which can increase as the funds grow. A larger fund would enable a greater spread of investments, further diversifying overall risk and increasing fund resilience, providing the parameters detailed within the commercial strategy are applied.

7.3. Currently, the income revenue from property investments, after deduction of costs, is predominantly allocated to core revenue requirements for the provision of Council services. As a result, the Councils are unable to hit the target of a 20% retention of income revenue from property investments being put into capital reserves. Increasing the overall fund size, will, once further investment property purchases have been completed, generate an income that sufficiently exceeds the Councils' core revenue requirements, facilitating the growth of capital reserves.

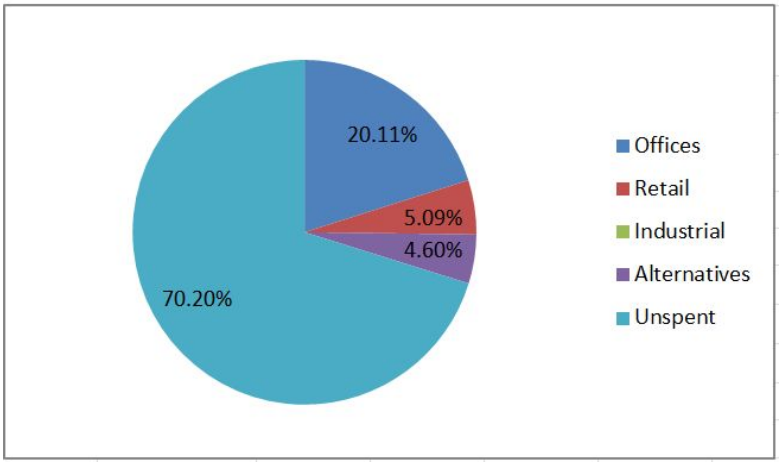
7.4. The SCR advice on overall fund size recommends *"the optimal size for a local authority investment fund is in the order of £250m"* (£125M per Council).

7.5. There is clearly potential to further increase the returns available to the Councils through continued judicious investment in commercial property acquisitions. Given the opportunity this provides to balance the budget.

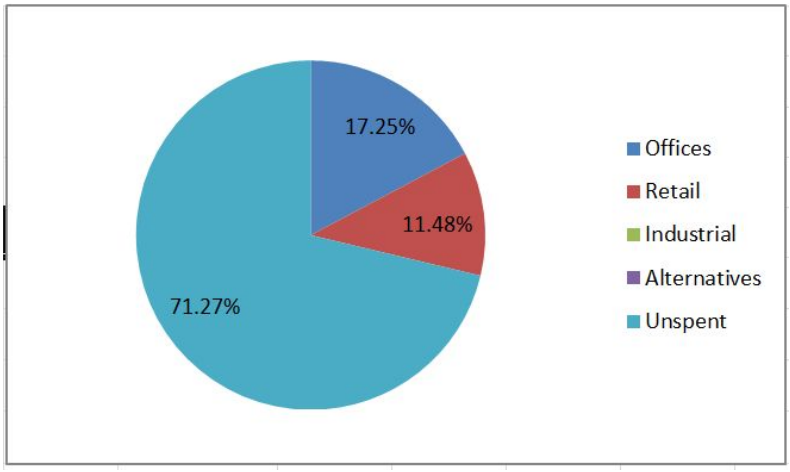
7.6. It is recommended to increase the fund's size to £125M per Council from 2019/20.

7.7. If the funds for each Council are approved for increase to £125M per Council, the current fund weightings by sector will reduce, to the following: -

Worthing



Adur



8. Funding Structure

8.1. Currently, available funds have been capped at £50m (£25m per Council) per financial year for 2018/19, 19/20 and 20/21. The inability to deploy more than £50m in any financial year constitutes a potential weakness in the funding structure that may hinder the acquisition of available assets which meet the Councils' criteria. Currently it is not possible to acquire existing portfolios, in whole or part, that come to market, which can provide economies of scale. Furthermore, when competing against other investors their ability to acquire multiple assets from a single portfolio, can make their offers more attractive to the vendors. It is, therefore, recommended that funds are made fully available, to support the acquisition of available appropriate assets.

8.2. The potential weakness detailed in 8.1 has been addressed by giving the Executive Member for Resources the authority to approve the drawdown of future years resources, subject to the approval of a business case.

8.3. This is supported by the SCR which recommends "*there is full and immediate access to remaining funding to ensure that all suitable investment opportunities can be investigated and acquired.*"

9. Resource and Capacity

9.1. The success of the Strategic Property Investment Fund 2019 (SPIF) Commercial Property Investment Strategy (CPIS) 2019/20 will have a direct impact on the Councils' finances. Ensuring the correct level of capacity to undertake diligent fund acquisition/disposal, asset management and wider market intelligence to shape fund direction and strategy, is crucial to overall success. The approach will need to be commercial, adopting normal 'private sector' principles for the day to day management of the investment portfolio. The growth of the investment funds necessitates additional resourcing. Currently limited resources are restricting overall capacity, which is becoming an increasing issue, as the funds grow. To address this, the following mechanisms are progressing: -

i) Property management of the investment portfolio is currently being outsourced to a large RICS firm, to undertake the day to day management.

ii) Property Officers are being upskilled to carry out some of the investment portfolio activities. We currently have two property officers undertaking the assessment of professional competence (APC), the training scheme that graduates need to complete, on the job, to qualify as Chartered Surveyors. In addition, a property support officer has been enrolled to complete a degree and his APC to become a Chartered Surveyor.

iii) Where necessary, we engage external consultants to provide specialist market intelligence, surveys, valuations and advice/reporting.

iv) Access has been purchased for online specialist property market research system, CoStar. This provides real time market research, insight, analysis and intelligence to property professionals.

v) A new professional post has been created in the 2019/20 budget, for a dedicated property investment officer, following recommendations in last year's JSC approved commercial investment strategy. This role will drive SPIF acquisitions and disposal work This will either be an appropriately accredited specialist consultancy role, or an internal appointment. The establishment of this post is recommended in the SCR report, which states, *"In our opinion, an in-house or independent investment advisor role is critical to ensure that local authority funds have sufficient resources in place to benchmark their portfolio and provide independent advice on acquisitions both before and during the period of ownership."*

In addition it is recommended that: -

vi) A new professional post is created for an Asset Portfolio Manager. This role will provide asset strategy, managing the SPIF properties, including forecasting cash flows, reviewing and identifying value add opportunities such as re-gearing and repurposing assets. The role will include an 'intelligent client' in-house function to monitor and oversee external managing agents, as well as reporting internally. The role will also review the councils non-operational portfolio to drive income generating opportunities, recommending operational and strategic actions. This is supported by the SCR report recommendation to seek a

"Greater focus on active asset management", also stating that *"An active asset management function will be crucial to unlocking future growth and ensuring that revenue is both protected and enhanced."*

9.2. In relation to both new posts detailed under v) and vi) above, these are important roles that will be key to fund performance. Appointees will need to be property professionals, ideally RICS, with demonstrable and extensive relevant knowledge and expertise, including significant private commercial property market experience.

9.3. In recognition of the increasing resourcing requirements as the SPIF expands, a business case will be prepared in due course, recommending appropriate additional resourcing is put into place during the 2020/21 budget round.

9.4. Last year's Strategic Property Investment Fund (SPIF) Commercial Property Investment Strategy (CPIS) 2018/19 report, was approved by JSC, including the allocation of 5% of net investment income, for increasing capacity and resources within the Head of Major Projects and Investment team to create a property investment team. Included in the 2019/20 Budget is the creation of an investment surveyor post to support the implementation of the strategy. Proposed for the 2020/21 Budget, will be the creation of an asset strategy post, to support long term proactive management of the funds.

10. Councils' Non-Operational Property Portfolio

10.1. The Councils' non-operational property portfolios consist of retail/leisure units, offices, industrial units and an extensive range of low-value commercial interests situated across the district and borough. The portfolio generates a gross annual income of circa £3.03M across both councils.

10.2. Like many Councils, the majority of revenue is derived from a small number of assets, reflecting the diverse reasons they were acquired, and retained, by the Councils in the past. A significant proportion of the stock held currently for non-operational purposes is now aging and dilapidated, management intensive, poorly located, unfit for purpose and/or difficult to let. These factors impact upon the rental return and its corresponding capital value. To address this, an Asset Strategy is being prepared, initially to set a pathway for a comprehensive review of

the estate, with the view to identifying opportunities to increase efficiencies, generate income and achieve revenue savings.

11. SPIF - Commercial Property Investment Fund - Future Fund Direction

11.1. The current weighting of funds into offices has been driven over the last year in consideration of market performance. The current office weighting does not preclude further office investment, particularly if the overall fund sizes are approved for increase, which will reduce office investments as a proportion of the increased fund sizes. It does however highlight the rationale to increase the focus upon alternative sectors for opportunities during 2019/20.

11.2. The SCR recommends the following areas of investment focus during 2019/20:

a) *Target investment opportunities which hold potential for additional revenue streams, i.e. retail parks with surplus parking for drive thru/car wash, prominent sites with signage options,*

b) *Adopt some exposure to well-let secondary assets with higher yield in the range of 7%-8%+, possibly through regional stock which preserves the required lease term. This will help to provide greater flexibility in the running yield for asset management initiatives.*

c) *RPI indexation within a proportion of the portfolio will generate more stable income in the Core category*

11.3. The advice from the SCR endorses the continuation of the current CPIS and Investment Strategy measures.

The following sections, 12 - 17, from Investment Evaluation to and including Scope of Investment, materially remain the same as detailed within last years 2018/19 CPIS, for which a link is provided under “Background Documents” below, with some nominal changes to layout and phrasing, to support transparency. For simplicity and ease of reference, they remain set out below.

12. Statutory Guidance

12.1. When investing in property, local authorities must comply with statutory guidance. This includes two codes of practice (Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes and The Prudential Code for Capital Finance in Local Authorities) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), in addition to, the Ministry for Housing Communities and Local Government (MHCLG) February 2018 publication, "Statutory Guidance on Local Authority Investment Activity". Copies of this guidance are attached to the CPIS 2018/19, for which there is a link under background documents at the end of this report.

12.2. This statutory guidance on investment strategy includes requirements for councils to: -

- prepare an annual investment strategy which must be approved before the start of the forthcoming financial year by full Council, or its closest equivalent.
- ideally present the strategy prior to the start of the financial year.
- ensure the Strategy is publicly available on a local authority's website.
- disclose the contribution that all other investments make towards the service delivery objectives and/or place making role of that local authority.
- include quantitative indicators within the strategy, that allow Councillors and the public to assess a local authority's total risk exposure as a result of its investment decisions. This should include how investments are funded and the rate of return.

The investment strategy must include:

i) details of the processes used to ensure effective due diligence, defining the authority's risk appetite, including proportionality in respect of overall resources.
ii) qualify independent and expert advice and scrutiny arrangements.
iii) disclose the contribution that investments make "towards the service delivery objectives and/or place making role of the local authority".

iv) propose indicators that enable councillors and the public to assess the authority's investments and the decisions taken.

- The investment guidance is clear that Councils may not "borrow in advance of need" to profit from the investment of the sums borrowed. The definition of investment has recently been extended to include investment in property and the granting of loans to third parties.

- In recognition of the importance of commercial income to councils at a time when government funding is steeply declining, a council can choose to disregard the Prudential code and this part of the guidance. In this case, its investment strategy should set out why this is the case and what the council's relevant policies are.

12.3. The implications of the guidance are that in future the Councils will need to have at least one Investment Strategy ("the Strategy") that meets all the disclosures and reporting requirements specified in the statutory guidance.

12.4. For Adur and Worthing Councils, there will be two separate elements to the Strategy:

i) The annual treasury management investment strategy which covers all cash investments.
ii) The annual SPIF commercial property investment strategy covers the Councils' approach to property investment.

The annual Treasury Management Investment Strategy was approved by the Councils in February 2019. This Business Case and also the Investment Strategy 2019/20, which is attached as **Appendix 1**, provide evaluation criteria for the assessment of investment properties, risk profiling, evaluation, resourcing and monitoring, accounting for the statutory guidance.

13. Investment Evaluation Process

13.1. Prospective investment opportunities are reported by suitably qualified and experienced in-house MRICS (Member of the Royal Institute of

Chartered Surveyors) professionals, in a risk matrix (**Appendix 4**). This risk matrix provides analysis of a set of key criteria against which every prospective purchase is evaluated. The presentation of information highlights fundamental matters such as tenant covenant strength, lease length and location, in a transparent and consistent format, to support clear scrutiny and decisions. The risk matrix provides a basis for scoring and weighting risk, to support the analysis of potential acquisitions and qualify overall suitability for inclusion in the portfolio. A minimum score threshold is set, below which it is not recommended to proceed. The score threshold is not an absolute, but set to guide decisions, reflecting the **Fund Structure** objectives, as detailed in the Investment Strategy (**Appendix 1**), which assumes a low risk profile. The process is further supported by the inclusion of a Strength, Weakness, Opportunities, Threat analysis (SWOT).

13.2. To ensure arms-length objectivity and scrutiny, external agents and consultants provide professional market analysis, specialist data and advice, to support the evaluation and internal reporting process.

13.3. Since tenant default is a significant threat to the performance of the property investment fund, in-house reports are undertaken by Credit Safe and/or Dun and Bradstreet, providing an assessment of tenant covenant strength and financial resilience. This is augmented by additional internal assessment of the tenants' covenant and likely future performance, where relevant.

13.4. If a decision is made to proceed, in-house surveyors lead negotiations, via the introducing/retained external agents, who are professional property firms with relevant market specialism.

13.5. To ensure independent and expert advice and scrutiny, all pre-sale technical due diligence is undertaken by arms-length external professional advisors, including as required: -

i) A valuation, in accordance with the RICS Red Book, Professional Valuation Standards, issued by RICS as part of their commitment to promoting and supporting high standards in valuation delivery worldwide. The publication details mandatory practices for RICS members undertaking valuation services.
ii) A Building Survey report, as part of the proposed purchase for investment purpose, including preparation of a Site

Environmental Assessment and preparation of a Reinstatement Cost Assessment for insurance purposes.

iii) Environmental, services and any further surveys required to qualify the investment.

iv) Specialist investment market advice, including, as required, occupational market context and financial modelling to qualify and forecast prospective investment performance.

13.6. The above is reviewed by the Asset Portfolio Manager as an experienced in-house MRICS (Member of the Royal Institute of Chartered Surveyors) professional, with support from the internal multi-disciplinary property teams, for final decision by the Head of Investment and Major Projects, on whether to proceed.

13.7. The Head of Investment and Major Projects receives regular updates on market activity, trends, forecasts and occupier activity from RICS firms and in-house surveyors to support the decision process. In addition, it is also recommended that all members and officers involved in the decision process are provided with annual updates on the commercial investment market, including occupier activity and trends.

13.8. A separate paper will be presented in due course, detailing a proposal for a disposals strategy.

14. Property Investment Governance

14.1. Clear, robust and transparent governance is critical to the strategy, meeting the statutory guidance and ensuring an appropriate level of due diligence and scrutiny is applied, together with objective arms-length external advice where appropriate. It is also important to ensure any decision process retains fluidity, so officers are empowered to respond promptly and competitively, to investment opportunities in the market and avoid missing opportunities through delay.

14.2. The current Scheme of Delegations provides that the authority to acquire or dispose of land, is vested in the Head of Major Projects and Investment, and where the land is purchased through the Strategic Investment Fund, the delegation is only exercisable in consultation with the relevant Leader, Executive Member for Resources and the Chief Financial Officer.

14.3. It is proposed that a formalised staged governance approach is adopted in relation to Strategic Property Investment Fund (SPIF) purchases, as follows:

Stage 1

Asset Portfolio Manager/investment surveyor identifies suitable opportunity in the market, having undertaken appropriate investigative and due diligence assessment, in accordance with the above "Investment Evaluation Process".

Stage 2

The opportunity is reported in writing, with all supporting information as detailed in the "Investment Evaluation Process", to the Head of Major Projects and Investment, in consultation with the Chief Financial Officer/s151 officer, notifying the Head of Legal Services, Director for the Economy and Chief Executive.

The report will include: -

1. A risk matrix and SWOT analysis
2. A financial appraisal
3. A summary of the investment, including a request for authority to bind the Council to a range of terms and indicating an acceptable price point for acquisition.

If the proposal is supported, the potential acquisition will progress to Stage 3.

Stage 3

The Asset Portfolio Manager/investment surveyor, will progress negotiations, seeking to formally agree Heads of Terms with the vendor, including price and basis/terms of acquisition. If negotiations lead to the agreement of acceptable terms, final approval to proceed will be sought in accordance with Stage 4.

Stage 4

A recommendation will be reported in writing to the Head of Major Projects and Investment. In making any decision to purchase, the Head of Major Projects and Investment will carry out a consultation, as provided for in the Scheme of Officer Delegations, with the relevant Council Leader, Executive

Member for Resources and Chief Financial Officer.

The relevant Council for any acquisition will be determined, applying the principles in the Investment Strategy (**Appendix 1**) in relation to financial resilience and risk diversification requirements, to support the development of balanced portfolios.

Subject to approval, written authority to proceed, will be provided by the Head of Major Projects and Investment to the Asset Portfolio Manager/investment surveyor, who will then seek to acquire the asset, which will be subject to an external Red Book valuation, building and other necessary surveys and legal reports and conveyancing, providing pre-acquisition due diligence.

A decision notice will be completed and published in accordance with the Officer Decision Making Protocol, and such decisions will be subject to the call-in provisions.

Stage 5

Completed purchases will be reported to the next available Joint Strategic Committee meeting for noting.

Should any proposal to purchase prove abortive, this will also be reported to the next available Joint Strategic Committee meeting for noting.

15. Risk Management

15.1. Property investment will necessitate exposure to risk, whereby the total invested can exceed the Market Value. Prices are prone to fluctuation, particularly due to changes in locality, the general economic outlook, or asset specific risks, such as tenant failure. Furthermore, property investment is relatively illiquid, requiring a longer term approach. In the event of a market crash, property is much less liquid than other assets and can be hard to sell.

15.2. The Councils' exposure to risk equates to the total amount of capital invested, plus financing costs (such as interest due on loans), property operational running costs (management, vacant business rates, service

charges, professional fees etc.) and legislative compliance. The Councils' risk quantum will be defined as this total exposure, less the value of held assets.

15.3. Whilst risk is a natural, necessary, part of investment that cannot be eliminated, it can be proactively managed.

15.4. The Property Investment Strategy is built upon a series of conventional measures to manage risk, reflecting the key objective:

"To adopt a structured and measured approach to property income generation, pro-actively managing the risk inherent to investment, creating a balanced portfolio delivering long term sustainable income, for the purpose of supporting the continued provision of Council Services."

15.5. The Investment Strategy (Appendix 1) Fund Objectives and Fund Policy build upon this key objective, providing a series of controls to direct the Investment Strategy towards a prudent low risk fund with a cautious perspective on investment, limiting exposure to unnecessary capital risk, whilst generating a return.

15.6. Financing property investments is based upon utilising reserves, capital receipts and borrowing. Borrowing is currently available with fixed interest for the duration of any loan, via the Public Works Loan Board funding, mitigating the risk associated with exposure to interest rate fluctuations.

15.7. The Minimum Revenue Policy (part of the treasury management strategy statement) details the Council's position and deals with the Minimum Revenue Provisions (MRP) that must be made to mitigate that risk. The MRP is the amount the Councils must set aside each year from the annual revenue budget for the repayment of debt.

15.8. The Investment Strategy (Appendix 1) Financial Resilience section details a series of measures to guide decisions, based around spreading capital across a variety of asset classes, locations and sectors. This diversification reduces the risks of exposure to a single asset, tenant, or market failure.

15.9. Funds that are excessively concentrated in one particular sector or region increase risk, whilst a good spread of properties across retail,

office and industrial diversify sector-specific risks and varying the locality, reduces local market risk.

15.10. The average property size is a measure to ensure the fund does not only hold a very small number of large properties, which increases risk, such as a single large tenant failing. This measure also assumes a number of properties will be transferred into the fund from the existing asset portfolio, to create a sufficient number of properties within the fund to generate diversity.

15.11. The Council's exposure to investment risk can also be profiled by defining the acceptable parameters. The Investment Strategy (Appendix 1) Fund Structure details a series of different segments that provide a basis for dividing commercial property investments, based upon their position at differing points on a risk v return spectrum.

15.12. The fund has been structured to include some allocation toward more risk exposed investment. This will enable the fund to respond fluidly, should a suitable opportunity arise, particularly where there is an opportunity for socio-economic benefits to residents, repurposing or re-gearing assets, to generate income. The proposed Investment Strategy distribution of purchases across the above four categorisations is weighted heavily towards lower risk assets. This reflects the Investment Strategy (Appendix 1) Fund Objectives and Fund Policy targets to adhere to a cautious perspective on investment, generating a return, whilst, insofar as possible, limiting exposure to unnecessary capital risk.

15.13. The ability to vary the distribution of purchases between each of the above four categories, is a common portfolio investment tool. This provides flexibility to respond fluidly to opportunities and changes in the economy, market climate and differing performance across asset classes, as the fund evolves. Such agility is key to maximising operational efficiencies.

15.14. The proposed portfolio weighting offers a lower return, which reduces overall exposure to invested capital risk. This portfolio profile favours acquiring premises leased to strong covenant tenants in established markets, which are typically more attractive to investors, thus easier to sell if required, when compared to higher risk investments.

15.15. Whilst acquiring properties offering higher returns may appear attractive, the additional yield typically reflects higher risks such as tenant default, low liquidity, obsolescence and market risk. These increase the prospect of the investment generating an income and capital loss.

15.16. The Investment Strategy (Appendix 1) Annual Review sets out a series of measures to provide detailed analysis of investment performance. This is to ensure detailed periodic arms-length objective monitoring is undertaken, using conventional measures, as a means to identify any emerging hazards or opportunities. This will support proactive management, which is key to driving a successful strategy and managing risk.

16. Annual Performance Monitoring

16.1. Active management of the portfolio is key to proactively maintain the buildings to maximise value and monitor occupiers. Tenant covenant strength, compliance with lease obligations, such as repair and maintenance, management of the payment of rent and service charge needs to be actively managed. External Managing Agents are in the process of being appointed to manage investment portfolio properties and to support the Investment Strategy Annual Review **(Appendix 1)**.

16.2. In addition to ongoing monitoring, the Investment Strategy (Appendix 1) details a series of measures to undertake a comprehensive annual re-evaluation, including detailed assessment of key performance indicators, to quantify, monitor and benchmark the portfolio operation and strategic direction.

17. Scope of Investment

17.1. A holistic approach to property income generation will be undertaken. In addition to acquiring investment property, the Councils are already successful commercial landlords and will build upon this: -

- Retaining existing assets where appropriate, to generate income, investing where necessary to enhance returns.
- Re-evaluate the existing property portfolio to identify opportunities to maximise the financial benefit.

- The asset portfolio manager/Investment Surveyor will review the existing portfolio and report any of the existing property portfolio that fit the investment criteria, recommending transfer into the Property Investment Fund, whereby they will be funded and managed with an express focus upon income generation. This will support a more tailored approach for relevant premises that is proactive and focussed solely upon income, as opposed to wider socio-economics drivers, that apply to the existing estate.
- Any capital return generated from the investment fund, will be ring fenced for future property investment, after deduction of financing costs and professional fees.

17.2. A Disposal Strategy will be provided as part of a separate report, subject to the adoption of the Property Investment Strategy and any conditions or amendments following consultation.

18. Corporate Implications

18.1. If the Councils had not taken the decision to invest, this would have led to an overall reduction in the capacity of the Councils to deliver, with cuts in services, particularly those we are not under a statutory duty to deliver.

18.2. The additional income delivered from CPIS investments, has contributed to the delivery of more robust and sustainable Revenue Budget for 2019/20 and the MTFP.

18.3. As part of this initiative, the councils will inevitably be taking on more risk. Consequently, a robust risk management strategy should be adopted, both in acquiring property and managing the portfolio for the future, to ensure that there is sufficient revenue income, to repay the debts the councils are acquiring and to continue to contribute to council's financial health.

19. Engagement and Communication

19.1. This report builds upon the previous Commercial Property Investment Strategy Report 2018/19, taken to JSC in July 2018

19.2. Consultations have taken place with legal and finance and their comments are contained within.

19.3. Consultation has taken place with private sector property investment firms and consultants report was commissioned (SCR Report), attached as Appendix 3.

20. Financial Implications

20.1 The Councils have in the past three years addressed significant budget shortfalls. The investment in commercial property has enabled the Councils to protect front line services and increase the level of spend in areas such as Housing Need.

	2017/18	2018/19	2019/20
Adur			
Level of annual savings	£1.089m	£1.333m	£0.757m
Net new annual income from new commercial property	£100,000	£493,000	£200,000
% of savings from commercial property income	9.2%	37%	26.4%
Worthing			
Level of annual savings	£1.669m	£1.853m	£1.367m
Net new annual income from new commercial property	£200,000	£420,000	£150,000
% of savings from commercial property income	12%	22.67%	11%

This investment continues to be an important strand of the budget strategy, helping balance the budget as the Council continues to address significant financial challenges, particularly in 2020/21.

20.2 The Councils have already approved an overall investment of £75m per Council which was allocated as follows:

	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
Adur		11,579	25,000	25,000	13,421

Worthing	3,472	9,464	25,000	25,000	12,064
Total	3,472	21,043	50,000	50,000	25,485

The Executive Member for Resources can approve an accelerated spend in any given year subject to the provision of a business case to justify a higher level of spend.

20.3 The recent consultants report has highlighted the need to increase the overall portfolio size from £75m to £125m per council to enable the Councils to better manage risk. The report also recommends that the Councils set a higher maximum level of annual purchases so that opportunities to acquire suitable properties that meet the Councils' investment criteria are not missed. If the increase to the portfolio is approved the Council will need to amend the borrowing limits contained within the prudential indicators.

20.4 It is clear from the consultant's report that the Councils should seek to retain an average of 20% of rental income towards future expenditure on repairs, refurbishment, lettings incentives, and void periods. To achieve this the Council will take three measures:

i) A regular contribution to earmarked reserves is to be created over the next 5 years to equate to 15 - 20% of annual rental income;
ii) Any over-achievement against the commercial income budget set will be placed into earmarked reserves at the year end;

iii) Where commercial properties are disposed of, all the surplus income in excess of any associated debt and the original purchase price, will be placed into a specific reserve for future capital reserve requirements. In the short term, this reflects the need to build reserves. In the medium term, it is envisage these funds could also be released for reinvestment into the portfolios.

Finance Officer: Sarah Gobey
Date: 18th February 2019

21. Legal Implications

21.1. S.111 Local Government Act 1972 provides the Councils with the power to do anything (whether or not involving the expenditure, borrowing or lending of money or the acquisition or disposal of any property or rights) which is calculated to facilitate, or is conducive or incidental to, the discharge of any of their functions."

21.2. s.1 of the Localism Act 2011 provides the Councils with the general power of competence to do anything that an individual may do.

21.3. The Scheme of Officer Delegations includes the following delegation to the Head of Major Projects and Investment at paragraph 3.13.2: "To acquire land in connection with the Council's functions and to take leases, easements, licences and wayleaves of, in, or over buildings or land in connection with the Council's functions. (Where acquisition of land is purchased through the Strategic Investment Fund, the delegation is to be exercised in consultation with the Leader, Executive Member for Resources and the Chief Financial Officer).

21.4. The Officer Decision Making Protocol in each Council's Constitutions provides a procedure for giving notice of key decisions, Officer Decision making, the publication of Decision Notices, and the procedure for Call-In of such decisions.

21.5. Any decisions made to acquire under the Strategic Investment Strategy are subject to scrutiny by the Council's Joint Overview and Scrutiny Committee in accordance with the Joint Overview and Scrutiny Procedure Rules in each Council's Constitutions.

Legal Officer: Susan Sale
Date: ……..

Background Papers

CPIS and Investment Strategy, JSC Report July 2018

JSC Report 2 February 2016 - Strategic Property Investment Fund - Investment Strategy

Platforms for our Places - Platform 1 - Our Financial Economies. 1.4.2 Use the Councils' Strategic Property Investment Fund to deliver new revenue streams and support investment projects.

Ministry for Housing Communities and Local Government (MHCLG) February 2018 publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes The Prudential Code for Capital Finance in Local Authorities

Officer Contact Details:-

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Role: Asset Portfolio Manager
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Sustainability & Risk Assessment

1. Economic

The proposal forms part of the Council's Capital Strategy to produce additional income

2. Social

2.1 Social Value

Matter considered and no issues identified.

2.2 Equality Issues

Matter considered and no issues identified.

2.3 Community Safety Issues (Section 17)

Matter considered and no issues identified.

2.4 Human Rights Issues

Matter considered and no issues identified.

3. Environmental

Matter considered and no issues identified.

4. Governance

This aligns with the Councils' Capital Strategy. Investment in good quality commercial property to produce additional income is part of a combined strategy in the Councils' approved budget strategy.

SECTION 1

THE INVESTMENT STRATEGY

SECTION 1 – The Investment Strategy

1. Objectives

The key objective:-

"To adopt a structured and measured approach to property income generation, pro-actively managing the risk inherent in investment, creating a balanced portfolio delivering long term sustainable income, for the purpose of supporting the continued provision of Council Services."

This key objective will be delivered through the application of the following principles: -

- To invest in commercial property to generate a sustainable income, with clear margins exceeding the costs of acquisition (including purchase costs), management and financing.

- To build financial resilience through the creation of a diversified portfolio, to spread and balance risk and return.

- To acquire established commercial properties generating an immediate stable income and preserve capital (notwithstanding market changes).

- Supporting economic growth within the District and Borough, where suitable opportunities arise, provided the return covers the costs of any associated financing.

- Re-evaluate the existing property portfolio to maximise the financial benefit.

- Retain/re-purpose/dispose of the existing property portfolio, where/when appropriate, to maximise long term revenue generation in consideration of wider market outlook and opportunity.

2. Fund Policy

- Retain existing assets, where appropriate, to generate income, investing where necessary to enhance returns.

- Review the benefits of an investment vehicle, such as a holding company, to retain acquired assets.

- Capital receipts from the sale of Strategic Investment Fund (SIF), or other council properties, to be considered for ring fencing to: -
  - Reinvestment in SIF property, to sustain income generation and maximise opportunities
  - Repayment of capital borrowing to improve the return on existing assets.

- Allocation of new prospective purchases to either Adur or Worthing Portfolios, will be driven by fund diversification and risk management considerations.

- We will not engage with occupiers who may present a significant unmitigated reputational risk.

SECTION 1 – The Investment Strategy

3. Financial Resilience

We will always undertake thorough due diligence to ensure risks associated with any proposed acquisition are understood and mitigated.

The following table details a series of guiding principles, employing conventional measures that are intended to assist decisions to create a balanced portfolio, by providing a basis to manage risk through diversification.

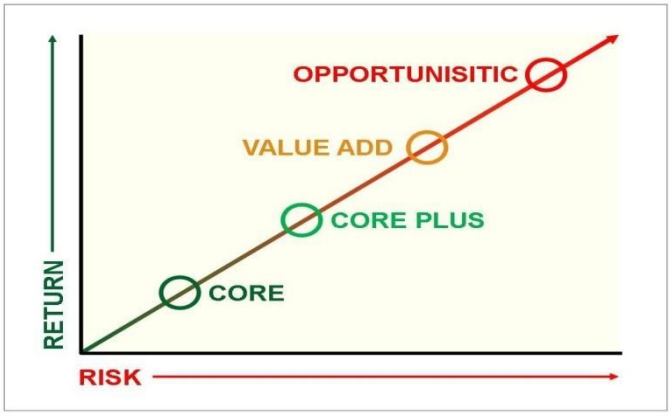
Risk Diversification		
Geographical Diversification	Maximum of 30% of the Target Fund size is invested in any single town.	Given the relatively small size of the funds, initially concentrating on outer London and the wider South East area, with consideration given to wider geographical diversification, as the funds grow and approach their target sizes.
Asset Class/Sector Mix	Industrial/Warehouse 25% Offices 30% Retail 20% Alternatives 25% (e.g. car parking)	To ensure a spread of risks, acquisition across office, retail and industrial sectors. At the outset, the portfolios will be heavily weighted into certain sectors and classes, driven by opportunities and market performance. It is expected weightings will progress towards targets as the portfolio matures in the longer term.
Average Property Size	Guide Size c.£5-15m	Assuming a combined fund size of £150M, this will support a spread of investments. Acquisition outside the guide sizes will be considered where they offer a good return, support diversity within the portfolios, do not create over exposure to a large single tenant/asset.
Leases Expiring within 5 years	Maximum 30%	Spread and diversity sought in future lease expiries across acquisitions to protect revenue streams
Target Return	A return exceeding the cost of borrowing	Initial return exceeding the cost of borrowing, preferably by 2%. Lower returns considered if there is a viable business case/portfolio fit.
Target Fund Size	£250M	In order to make a meaningful contribution to the financial challenge, the Councils has agreed to build a portfolio that will generate an initial yield of at least 5%.
Capital Reserve Fund	20% of the gross rental income	Held in a fund to provide a long term contingency to mitigate future d capital expenditure , maintenance, refurbishment etc.

It is important to acknowledge that the above principles are ongoing long term objectives and attaining balance will progress as the fund matures.

SECTION 1 – The Investment Strategy

4. Fund Structure

Commercial property investments can be divided into different segments, based upon their position at differing points on the risk v return spectrum.



The following guideline Fund Structure is the basis of investment, adopting a prudent, income focused, strategy: -

	%	
Core	50% (+/-20%)	Modern, or extensively refurbished buildings, fully let on long leases to good covenant tenants in major core markets.
Core plus	30% (+/-20%)	Single or multi-let buildings, with various lease lengths and tenant covenant. Opportunity to add value.
Value Add	Max 20%	Higher risk assets that can be repurposed to generate income.
Opportunistic	Max 10%	

SECTION 1 – The Investment Strategy

5. Purchase Guidelines

- Target area UK wide, with focus upon Greater London and the south east.
- Commercial real estate.
- Freehold, or long leasehold nominal rent purchases.
- Income producing properties, leased on conventional terms, secured against good covenant tenants.

SECTION 2 – Investment Portfolio Management

6. Annual Review

To monitor performance and ensure proactive risk and opportunity management, the Annual Review will consider: -

Portfolio

- Market update on activity and forecasts to identify any re-purposing of any asset(s)
- Review of the current investment strategy
- An external market valuation of the portfolio to monitor and benchmark performance, meeting financial requirements.
- An updated three to five year cash flow forecast
- An update of three to five year capital expenditure forecast
- A review of retain, sale, repurpose or re-gear of each asset
- Review of the previous year performance including any (Key Performance Indicators) KPIs
- Review of the underlying life cycle of the asset and refurbishment expectations.

Asset Management

Report to include: -

- Rent collection rates, arrears, service charge reconciliations.
- Advise on all critical lease matters including rent reviews, lease renewals, lease breaks, re-gearing opportunities.
- Dilapidations, health and safety, insurance claims.
- Capital expenditure over the preceding 12 month period.
- Forecast 5 to 10 year Capital Expenditure
- Forecast main plant, mechanical and electrical lifecycle and major refurbishment timeline and costs.

INVESTMENT PROPERTY NEW PURCHASE PERFORMANCE 2018/19 financial year

	ADUR	WORTHING	COMBINED TOTAL pa
INCOME TARGET			
Net Income Target	£416,000	£416,000	£832,000
Net Income Target - Surplus/ Deficit	£7,544	-£41,723	-£34,179
Target Delivered to date (%)	**98.19%**	**110.03%**	
PURCHASES			
Completed 2018/19 (Purchase Price excl purchase costs)	£24,980,000	£25,140,000	£50,120,000
Prev Years	£10,930,000	£11,935,000	
Sub-Total	**£35,910,000**	**£37,075,000**	**£50,120,000**
Committed Future Expenditure (under offer)	£5,600,000		£5,600,000
Committed Future Expenditure (exchanged)			
Total	**£41,510,000**	**£37,075,000**	**£78,585,000**
NET INCOME (per annum after financing costs)			
2018/19	£521,733	£522,207	£1,043,940
Prev Years	£287,764	£346,097	£633,861
Total	**£809,497**	**£868,304**	**£1,677,801**

ADUR

YEAR	Address	Description	Tenure	Rent Passing (per annum)	Purchase Price	Purchase Date	Gross Yield	Net Yield (purchase costs deducted @ assumed rate of 6.75%)	Net Income (per annum after financing costs)	Tenant (incl Company No)
Prev Years	Highdown House, Yeoman Way, Worthing, West Sussex BN99 3HH	Office with 359 car spaces, single tenant	Freehold	£700,000	£10,930,000	Jun-16	6.40%	6.00%	£287,764	Equiniti Ltd (06226088)
	Sub-Total			**£700,000**	**£10,930,000**				**£287,764**	
2018/2019 f/y	Portsbridge Service Station, Portsmouth Road, Cosham, Hants PO6 2SJ	Petrol Station with Morrisions convenience store	Freehold	£150,000	£2,700,000	Sep-18	5.56%	5.20%	£22,450	Rontect Service Station A1 Ltd (108480)
	One York Road, Uxbridge, UB8 1RN	Office with 72 car spaces, let to three tenants	Freehold	£736,966	£10,630,000	Sep-18	6.93%	6.49%	£292,136	Multi Let to: - TM Lewin & Sons Ltd (00340508) NFON UK Ltd (08510507) London Square Ltd (07774351)
	Waitrose Altrincham WA14 5ZL	Waitrose supermarket and car parking	Freehold	£639,333	£11,650,000	Jan-19	5.49%	5.14%	£207,147	Waitrose Limited (00099405)
	Sub-Total			**£1,526,299**	**£24,980,000**				**£521,733**	
Total				**£2,226,299**	**£35,910,000**				**£809,497**	

WORTHING

	Address	Description	Tenure	Rent Passing (per annum)	Purchase Price	Purchase Date	Gross Yield	Net Yield (purchase costs deducted @ assumed rate of 6.75%)	Net Income (per annum after financing costs)	Tenant (incl Company No)
Prev Years	85-91 Montague Street, Worthing, BN11 3BN	Two High Street retail units, multi let to two tenants	Freehold	£190,000	£1,700,000	May-16	11.18%	10.47%	£100,634	Multi Let to: Burton/Dorothy Perkins Properties Ltd (04464946) Bon Marche Ltd (07909526)
	81-83 Montague St, Worthing, BN11 3BN	High Street retail unit, single tenant	Freehold	£115,000	£1,360,000	Aug-16	8.46%	7.92%	£60,950	Clarks (00099857)
	73-79 Montague St, Worthing, BN11 4BN	Two High Street retail units, multi let to two tenants	Freehold	£237,000	£3,300,000	May-17	7.18%	6.73%	£112,376	Multi Let to: Caversham Trading Limited ta Brighthouse (05396147) River Island Clothing Co Ltd (00636095)
	Union Place Car Park, Worthing, West Sussex, BN11 1LG	A large surface car park, leased to NCP, 178 spaces. Annual RPI uplift rent	Freehold	£306,335	£5,575,000	May-17	5.49%	5.15%	£72,137	National Car Parks Ltd (00253240)
	Sub-Total			**£848,335**	**£11,935,000**				**£346,097**	
2018/2019 f/y	Matchtech, Building 1450, Solent Business Park, Fareham, Hampshire, PO15 7AF	Office with 99 car spaces, single tenant	Freehold	£275,141	£4,300,000	Nov-18	6.40%	5.99%	£95,904	Matchtech Group (UK) Ltd (04426336)
	Building One, Wyndyke Furlong, Abingdon, OX14 1UQ	Office with 121 car spaces, single tenant	Head lease 250yrs	£593,450	£9,600,000	Jul-18	6.18%	5.79%	£198,516	Gigaclear PLC (07476617)
	Beta Building, Reading RG1 3ES	Office with 41 parking spaces, single tenant	Virtual Freehold	£659,565	£11,240,000	Jan-19	5.87%	5.50%	£227,787	The Prudential Assurance Company Limited (15454)
	Sub-Total			**£1,528,156**	**£25,140,000**				**£522,207**	
Total				**£2,376,491**	**£37,075,000**				**£868,304**	

Combined Total (Adur & Worthing)				
Previous years	**£1,548,335**	**£22,865,000**		**£633,861**
2018/19 financial year	**£3,054,455**	**£50,120,000**		**£1,043,940**
Total Spend to Feb 2019	**£4,602,790**	**£72,985,000**		**£1,677,801**

REPORT ON ADUR DISTRICT COUNCIL & WORTHING BOROUGH COUNCIL'S STRATEGIC INVESTMENT FUND

JANUARY 2019

REPORT PREPARED BY:

JEREMY GIDMAN BA (Hons) MSc MRICS

On behalf of

CITICENTRIC LTD

29th January 2019

This report has been written to advise Adur District Council and Worthing Borough Council ("The Council") on the development of its commercial property investment fund ("The Fund"). Since the approval of its Investment Strategy in July 2018 the Council has purchased seven assets with a value on acquisition of £50.12m. Assets have been acquired both within the Council's administrative district and in other areas within the South East of England. The overall combined fund now comprises 15 assets with an overall purchase value of £72.99m.

The purpose of this report is threefold. Firstly, it aims to provide guidance on the optimal size and scale of The Fund in the context of financial needs and broader commercial property market conditions.

Secondly, it provides recommendations for the preservation of some income derived from Fund revenue which should be set aside for irrecoverable expenditure, potential capital expenditure and incentives/rent free periods on re-letting of voids.

Finally, it recommends a number of initiatives which the Council may wish to consider in order to develop a robust, liquid and diversified fund providing stable and predictable levels of income while aiming towards future rental and capital growth.

1. Analysis of the size and nature of the UK commercial real estate investment market and its participants.

The Office for National Statistics (ONS) National Accounts "The Blue Book" gives the most comprehensive picture of the total stock of property assets in the UK. At the end of 2017, the Blue Book recorded a total of £8.8tn in property assets representing 87% of the total stock of fixed assets and 21% of the national wealth, including equities and bonds. The ONS estimates that commercial property stock in the UK accounts for £935bn of this total.

By floor area, industrial dominates with 56% of the total but, with rental values less than half the average for all commercial property and marginally higher yields, the sector accounts for only 24% of total value as against 38% for retail and 30% for offices.

From 2003 two 2017, the total value of commercial stock (including net additions to stock) has risen at an annual rate of 3.4%, slightly ahead of inflation at 2.9% although a fitted trend over the period indicates a lower underlying growth rate in value, at 2.1% per year. The table below shows the split of stock by investor type, with changes in market share over the last year and over a period of analysis dating back to 2003. Local authority activity is classified within 'Other Owners' and represents the major positive contributor to ownership during the 12 month period analysed.

Table 1 – Commercial investment stock by owner type

UK Investors	2017 £bn	2017 % share	Change in market share (%)	
			From 2016	From 2003
Insurance Direct & Funds	42	8	0.0	-12
Pension Funds	42	8	0.2	-2
Unlisted & Collective Schemes	83	16	0.0	7
Listed Companies & REITs	73	14	-0.8	0
Private Companies	58	11	-0.9	-6
Estates & Charities	23	5	-0.2	0
Private Investors	14	3	0.0	0
Other Owners	22	4	0.3	-1
Sub-total	**357**	**70**	**-1.4**	**-14**
Overseas Investors				
Unlisted & Collective Schemes	52	10	0.4	..
SWF & Government	29	6	0.2	..
Private Companies, Individuals	26	5	0.2	..
Listed Companies & REITs	14	3	0.1	..
Insurance & Pension Funds	12	2	0.1	..
Other Owners	18	4	0.1	..
Sub-total	**152**	**30**	**1.2**	**15**
Total	**509**	**100**		

Source: Own estimates from MSCI, RCA, PFR and other sources

2. Local Authority Activity in the Commercial Investment Market

According to the Ministry of Housing, Communities and Local Government, local authorities invested £4 billion in land and buildings in the financial year to March 2018, an increase of 43% from a year earlier. Officials believe that £1.8 billion of last year's total was for investment purposes, a six-fold increase from 2014. Expenditure on investment property by local authorities during the 2018 calendar year is estimated at £1.9bn.

Despite being historic, the table below highlights the growth in acquisitions during 2016/2017 but also the spread of transactions by lot size and value.

Table 2 – Investment transactions by local authorities 2016-2017

Investment Transactions by Local Authorities	2016			2017		
	No of Transactions	Value (£m)	Average Lot Size	No of Transactions	Value (£m)	Average Lot Size
>£100m	1	£387	£387	4	£561	£140
>£20m-<£100m	11	£494	£45	18	£680	£38
>£10m-<£20m	19	£249	£13	26	£389	£15
<£10m	47	£239	£5	39	£201	£5
Total	78	£1,369	£18	87	£1,831	£21
Inside Administrative Boundary		85%			75%	

Source: Ministry of Housing, Communities and Local Government/Property Data

The majority of local authorities have adopted similar strategies for acquiring well-secured investments on an income yield model targeting returns of between 5% and 6%. Where local authorities tend to diverge in strategy is over geographical focus, with a number of councils pursuing assets only within their administrative area whereas others are prepared to invest anywhere in the UK (see Table 3 below). Certain councils have a stated ambition to invest for town centre regeneration purposes only, e.g. Woking Borough Council, although councils such as these are now making opportunistic acquisitions of long term investment product in order to maintain their own place making criteria.

Table 3 – Alternative local authority investment strategies

Focus of investment	Features	Example
Within council area	• Investment only within council boundaries • Priority is investment in regeneration projects and meeting council's strategic objectives	• Bournemouth Borough Council • Eastleigh Borough Council • Lincolnshire County Council
Within 'economic area' as defined in the relevant investment policy	• Investment within boundaries of council and adjoining local enterprise partnerships	• Scarborough Borough Council • Torbay Council • Northamptonshire County Council • Three Rivers District Council
Outside council area	• Investment only occurs outside area, or there is clear preference for such an investment strategy by council • Policy of clear separation between day-to-day investment and day-to-day asset management • Avoidance of local political interference in investment decisions	• Confidential – given sensitivity of investment out of area
Hierarchy of localities	• Priorities for investment starting with council area, then region, county-wide, and eventually national	• Kettering Borough Council
Anywhere	• Solely driven by financial assessment of opportunity	• Surrey County Council • West Berkshire Council
Separation of objectives	• One fund for investment and one for regeneration	• Torbay Council

Source: Real Estate Works/RICS

3. Guidance on diversification, fund size and structure

Property investments carry unique individual characteristics which means that the individual assets can perform differently, generating different return profiles. It is therefore important for any balanced fund to carefully assess portfolio structure, diversification and individual / aggregated lot sizes.

a) Portfolio Structure

Investment strategies typically allow for a mix of asset profile, and the Council has identified this within its Investment Strategy, targeting assets at both end of the risk spectrum, notably:-

Core – lower yielding, lower risk, with limited added value. For example a modern building led on FRI leases to national covenants for 15 years or more.

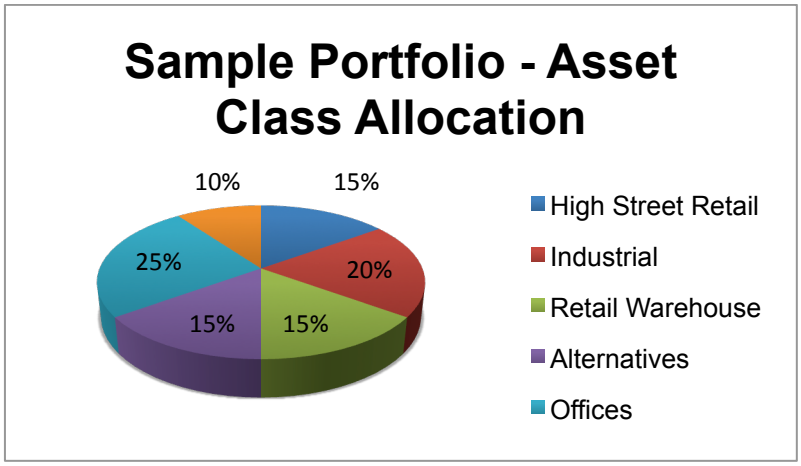
Core Plus - higher yields (risk) but with added value opportunities. Examples include regional office buildings let to a mixture of national and local covenants for a seven-year average lease term, or a multi-let industrial estate fully let to 10 or more tenants with five-year average lease terms.

Value Add / Opportunistic - high-risk but greater reward often refurbishment led. An example might include part vacant office building in a Big Six office location with the opportunity to refurbish and re-let, or a single let retail shop in Bournemouth let to a single national tenant but with a underutilised upper floors capable of being relet or sold off for a higher value use through changes use planning.

Investors looking for income security and income growth will generally place greater weight to the core/core plus categories. Value Add and Opportunistic assets, however, play a part in a balanced portfolio as they can produce superior returns that are often capital intensive (development led) and generate a low income yield in the early years.

b) Portfolio Sector Balance

Property sectors also behave differently, driven by various economic influences, some micro, others more macro. An example is perhaps between retail and offices where we have seen a structural change in the retail consumer market, impacting on how people shop and the demand for retail premises, compared to the office sector which has seen a large reduction of total office stock through conversion to residential. Retail rents have declined whereas office rents have risen due to lack of stock. To provide the right balance between risk and return, a spread of sector exposure is required. Based upon our view of the current property market, a long-term aspirational sector split is shown in the table below.



The term 'Alternatives' refers to assets such as student accommodation, hotels, petrol filling stations, car parks, data centres etc. Our reference to 'Other' means investment in infrastructure or indirect investment in assets / asset classes where direct access may not be possible due to lot size or scale.

The above allocations highlight a fairly balanced approach towards the retail, industrial and office sectors, but with the principal objective remaining a strong income return. Many larger funds have started to reduce their exposure to the retail sector (particularly the retail warehouse sub-sector) due to a weaker occupational outlook. However, we believe that retail assets remain an important element of a balanced portfolio, and indeed there are early signs that certain investors with retail expertise are now targeting re-priced retail assets. In short, we see retail as an opportunity sector for 2019/2020 with the potential for higher yielding income returns subject to careful stock selection.

It is important to stress that ideal fund balance and weightings will continue to change due to a number of factors, not least market conditions. The above model should therefore not be viewed as prescriptive in terms of fund policy.

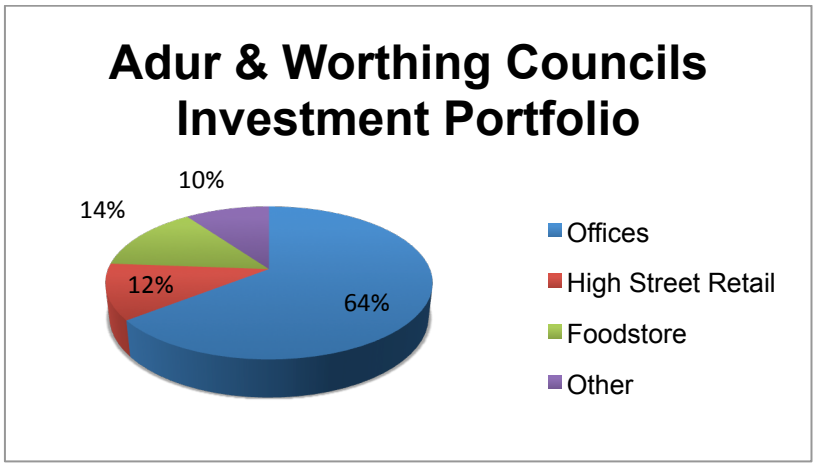
4. Observations on Adur & Worthing Councils' Investment Strategy and Fund.

In preparing this report we have had sight of the Council's Investment Strategy dated July 2018. Broadly speaking, this strategy is in keeping with a number of other local authority fund structures. It provides for investment generally outside of the administrative area with diversification policies in terms of geographical spread, asset class, lease term weightings, lot size and tenant exposure.

We understand that The Council has an endorsed investment fund of £150 million, operating effectively as two separate funds of £75 million pounds per council. Expenditure on assets to date has been £39.9 million by Adur District Council and £37.08 million by Worthing Borough Council. Funding has been via the Public Work Loans Board, typically on 40 year loans at interest rates of below 2% fixed. We are advised that the nature of the loan may be extended to 50 years from April 2019 in return for a higher fixed interest rate of 2.5%.

The investment portfolio currently comprises 11 assets producing a net rental income of £4,602,790 per annum. Based upon the original (but historic) purchase price of £72,985,000 this suggests a net initial yield of 5.91%. Pricing may well have changed on the more historic purchases and we would recommend a portfolio valuation within the next three months. It is noted that the fund has invested just over £50m within the last six months following the establishment of its investment strategy. Our understanding is that there are approvals in place for further acquisitions of £50m per year over the course of the next two years.

The portfolio is currently weighted heavily towards the office sector, with no present exposure to industrial or out of town retail assets. We suspect that it has proved challenging to acquire good quality industrial stock given the strong demand in the market for this sub-sector, placing inward pressure on yields. Many local authority funds are in a similar position.



To a large extent the scale of a Local Authority fund should be governed by its financial need for additional revenue and/or the requirement for investment into its administrative area (i.e. town centre regeneration). As noted within the Council's investment strategy, statutory guidance makes clear that local authorities should not "borrow in advance of need."

The Council has agreed a strategy to build a combined portfolio of £150m, with funding spread over three years at £50m per year. It is noted that £50m has been deployed in the six months from July 2018, suggesting that further investment may be held back by the agreed strategy and opportunities may be missed. In our view the main observations identified with the current fund size and structure are:-

Profile	Comment	Advantages	Challenges	Recommendation
Sector Weightings	Overweight in offices. Underweight in industrial.	Improved running yield.	Higher capital expenditure requirement.	Target good quality secondary industrial.
Geographical Spread	Recent purchases in strong South East locations.	Reduced void/re-letting risk. Improved income return.	High capital values / reduced number of assets.	No change
Tenant Risk	Predominantly single let acquisitions to strong covenants	Reduced management and tenant risk	Exposure to larger voids on expiry.	No change
Average Property Size	Average price of recent acquisitions £7.69m.	In line with Investment Strategy targeting £5m-£15m.	More assets = greater management resourcing	No change
Target Return	Running yield 5.91%	In excess of 5%+ strategy.	Income strategy restricts ability to regear leases / extend income.	Consider value add / opportunistic assets.
Funding Structure	£50m funding p.a.	Structured deployment of capital and allows for orderly management of assets.	Limits acquisition strategy and opportunistic purchases during Q1 2019	Ensure access to full funds is available to enable consideration of all investment opportunities.

Based on the above observations we have no immediate concerns regarding the agreed strategy being pursued by The Council. There is a potential weakness in the funding structure whereby the inability to deploy more than £50m in any financial year may hinder the acquisition of available assets which meet the Council's criteria. We recommend that access to all committed funds is available to ensure that any appropriate investment opportunities can be fully considered as necessary, subject to the robust assessment, scrutiny and check systems which the Council already has in place.

In our view the optimal size for a local authority investment fund is in the order of £250m (in this case we refer to a combined figure for both councils), and we would recommend that, in due course, the size of the aggregated Fund is increased towards this level subject to monitoring of performance. Funds in excess of this threshold tend to adopt an income plus capital model, whereby value can be created through yield shift from lease extensions and regears, which is more of a challenge for income focused funds.

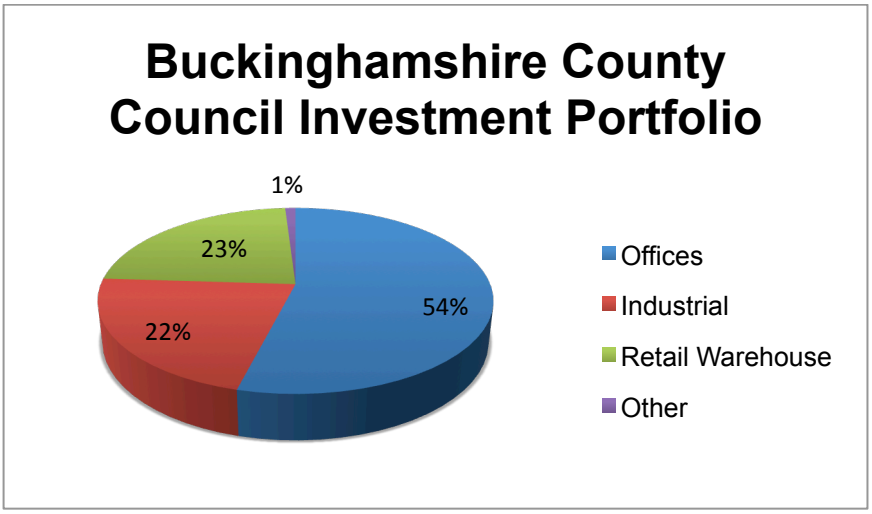
By expanding to a portfolio of this size in due course, the Council should be able to derive sufficient regular and predictable income in order to service the funding gap identified, while also allowing for greater diversification to enable a more effective recycling of capital in a measured and timely fashion when market conditions or opportunity arises.

It will also create greater flexibility and reserves to enable lease re-gears on assets such as Highdown House, where the tenant is willing to re-negotiate lease terms which should enhance asset value.

Case Study – Buckinghamshire County Council

In our experience, most local authorities have ventured into the commercial property investment market through funds of an initial size of £25 million to £50 million, before increasing their exposure on an incremental basis.

An example of this is Buckinghamshire County Council which established a £50m fund in 2016, purchasing two assets in county with a lot size of between £1.5m and £2.2m, before growing the Fund to £75m by the end of 2017 (purchases at £16m to £22m) and to £141m by the end of 2018 (recent lot sizes of £30m and £35m). Their fund currently comprises 8 assets with the following sector spread (by income):-



Buckinghamshire County Council have adopted a strategy of investing within County where possible, based upon a sensible sector allocation and targeting a running yield of 6%. They have found a reasonable level of stock at the desired lot size levels, assisted by their focus in-county which has led to a number of speculative/early approaches by vendors and agents. On the downside they are highly exposed to certain sub-markets such as Maidenhead offices (£75m of portfolio by value). There has also been CVA/insolvency activity affecting both of the retail parks held within the fund.

Buckinghamshire County Council has also experienced issues with sanctioning lease regears where tenants are prepared to commit to longer leases in return for an extended rent free period. These initiatives were identified at a time when the running yield on the portfolio was at just under 6% and the impact of rental income interruptions would have breached the commitment of the fund to maintain a running yield at close to 6%.

5. Market update including commentary on opportunities, current and future competition and market trends.

Despite the economic uncertainty surrounding Brexit, there remains strong demand from domestic and international investors for good quality, well secured investment stock within the UK. Investment transactional activity during 2018 is predicted to have reached just under £60bn which is consistent with the previous two years, despite Brexit uncertainty.

Prime yields have largely remained unchanged throughout 2018 with the exception of the retail sector, specifically out of town retail and shopping centres where pricing has weakened significantly (see below).

Table 4 – Prime Net Initial Yields

Sector	Dec-17	Dec-18	Sentiment
High Street Retail – Regional	4.25%	5.00%	Negative
Shopping Centres – Dominant Regional	5.50%	7.25%	Negative
Open A1 Retail Parks	4.50%	5.50%	Negative
Foodstores (RPI)	4.25%	4.25%	Positive
SE Industrial	4.25%	4.00%	Stable
SE Offices (Towns)	5.00%	5.00%	Stable
SE Offices (Business Parks)	5.00%	5.00%	Stable

The retail sector has suffered a challenging year with occupier uncertainty spreading from the high street to the out of town retail park market, principally due to the continued increase in online shopping, decreasing profit margins for retailers and the impact on business rates. We predict that there will be further CVA and insolvency activity during the first half of 2019 including further casualties in the travel and food and beverage sectors. As a consequence, yields on high street retail investments have softened by 50 to 75 bps over the course of 2018, with retail parks moving out by 100 bps. However, we are aware that some funds and property companies are beginning to view retail, particularly out of town retail, as good value and we believe that experienced retail investors will begin to acquire re-priced assets during the latter part of the year. Now would be a sensible time to evaluate this sector.

The industrial sector remains aggressively priced at 4%-4.25% NIY for prime stock in Greater London and the South East. Good quality regional stock offers better value at 5.50%-6% and should be considered as an opportunity to increase weightings in this sector. Regional office stock is currently trading at between 4.75% (Thames Valley) and 5.25%/5.75% for other Big Six office locations.

Factoring in capital growth, all property total returns during 2018 were 5.60%, with industrial being the star performer at 16.60% based principally on capital growth of 11.40%. The office sector has also outperformed with total returns of 6.20%.

6. Recommendations on a suitable level of income retention to deploy against future voids, capital expenditure, incentives etc.

The Council's investment strategy makes provision for the retention of 20% of income revenue to put towards future expenditure on repairs, refurbishment and letting incentives. In our experience this is a sensible proportion of income and many other local authorities are preserving much lower levels of 5%-10% of revenues for the purposes of replenishing interruptions in income.

The most effective method of predicting levels of irrecoverable expenditure and revenue interruptions is through the preparation of cash flows at the point of acquisition and at regular intervals as part of the asset management programme. Needless to say each asset will produce a different income and expenditure profile, but the following model may be helpful in testing whether appropriate cash reserves are being held.

The table below sets out the estimated costs of three notional assets over a 10 year hold period, assuming that during this period 50% of the accommodation will become void. It includes the cost of minor refurbishment, as opposed to major overhaul of services (net of dilapidations) together with overall costs of holding the asset while it is not income producing (i.e. non-received rent, business rates, service charge and insurance).

Table 5 – Indicative Expenditure on a 10 year hold basis

Asset	Void Costs	Refurbishment	Total	Proportion of Total Net Income p.a. over 10 years
Multi-let SE office building 30,000 sq ft	£675,000	£150,000	£825,000	**18%**
Multi-let SE industrial estate 40,000 sq ft	£260,000	£100,000	£360,000	**15%**
Multi-let SE retail park 45,000 sq ft	£1,031,000	£169,000	£1,200,000	**18%**

This is an overly simplistic model but based upon the assets being acquired by the Councils, we believe that a 20% retention of revenue is appropriate to prepare for potential irrecoverable expenditure. Where possible, we always recommend that a landlord client implements a planned preventative maintenance programme on multi-let assets in order to manage and predict building fabric and M&E/services expenditure.

7. Conclusion and Recommendations

Our experience of local authority investment shows that many councils are focused on maintaining a running yield and not giving due attention to active asset management opportunities either because of limited resources or because there is insufficient flexibility within the fund structure to allow for changes to income stream. This is a natural symptom of an investment model which focuses principally on income return.

We note that The Council has a strategy in place to appoint external property managers and valuers to support the Annual Review process. In our opinion, an in-house or independent investment advisor role is critical to ensure that local authority funds have sufficient resources in place to benchmark their portfolio and provide independent advice on acquisitions both before and during the period of ownership. We have experience of working with local authorities in this regard and can expand on this further if required.

The Council is at a stage where it has successfully seeded the Fund and it will naturally aim to balance the weightings through the next cycle of investment. Our recommendations for this next stage are:-

a) Target investment opportunities which hold potential for additional revenue streams, i.e. retail parks with surplus parking for drive thru/car wash, prominent sites with signage options

b) Adopt some exposure to well-let secondary assets with higher yield in the range of 7%-8%+, possibly through regional stock which preserves the required lease term. This will help to provide greater flexibility in the running yield for asset management initiatives.

c) RPI indexation within a proportion of the portfolio will generate more stable income in the Core category

d) Greater focus on active asset management and preparation for future recycling of capital

e) Ensure that there is full and immediate access to remaining funding to ensure that all suitable investment opportunities can be investigated and acquired.

We have no concerns over the checks and balances which the Council has in place for developing the Fund. An active asset management function will be crucial to unlocking future growth and ensuring that revenue is both protected and enhanced.

In our opinion the decision by Adur & Worthing to target strong outer London and South East locations is sensible, and should provide confidence to grow the fund size as long as suitable diversification strategies are is in place.

Property Name/Location:
Vendor:
Tenure:
Category:
Price:
Rent per annum:
Rent Free:
Initial Yield:
VAT Election:
EPC:
Net Return After Borrowing

	Criteria	Criteria Description	Comments	Weighted Property Score	Excellent	Good	Acceptable	Marginal	Poor
LOCATION	Location: Macro	Quality of the location (town, city, area) with regard to the property use		0					
	Location: Micro	Quality of the individual situation of the property within the macro location, with regard to the property use		0					
	Building Quality	Quality of the building compared to the Industry standard Grade A for the property type		0					
OCCUPANCY	Tenant Covenant	Ability of the tenant/s to pay the rent for the duration of the lease. Credit rating of the tenant		0					
	Tenure	Freehold / Long Leasehold. Consideration of any ground rent obligations		0					
	Lease Term	Length of the secured income.		0					
	Lease Structure	Tenant repairing obligations, rent review mechanisms		0					
	Rental Growth Prospects	Opportunity / Likelihood to increase passing rent/ ERV		0					
	Occupational Demand	Anticipated level of demand from alternative occupiers if the tenant/s were to vacate		0					
STRATEGY	Management Intensity	Complexity and cost of managing the property		0					
	Liquidity/Exit Strategy	The degree to which the property can be quickly sold in the market without affecting the price. Please provide specific commentary on exit strategy.		0					
	Alternative Use / Underlying Value	The value of the land and the opportunity to explore a change of use should this be required		0					
	Asset Management Opportunities	Opportunities to add value to the property		0					
	Financial Return (risk v reward)	The forecast gross financial return considering the risk profile of the property and in accordance with the sector with a focus upon income v capital values at lease expiry		0					
	Portfolio Strategy Context	The extent to which the property meets the strategy and contributes to the achievement of a diversified portfolio		0					

Weighted Score	A property will be expected to score at least 140 out of 200 (70%) on the above matrix unless there are other economic / wider benefits to be delivered within or to the county.	**0**	

Investment Decision Guide for fillingin matrix

example considerations

Criteria	Criteria Description	Maximum Weighted Score	Excellent	Good	Acceptable	Marginal	Poor
Score numerically between 1 and 5 for each row as follows……..							
SCORE TO APPLY TO EACH COLUMN			5	4	3	2	1

PLEASE SCORE 1 TO 5 IN THE TEMPLATE CORRESPONDING SCORES WITH THE ABOVE ILLUSTRATED NUMBERING

SCORING GUIDE			SCORING CONTROLS				
Location: Macro	Quality of the location (town, city, area) with regard to the property use	15	Major Prime	Prime	Major Secondary	Micro Secondary	Tertiary
Location: Micro	Quality of the individual situation of the property within the macro location, with regard to the property use	15	Excellent transport / footfall				Location with limited benefit
Building Quality	Quality of the building compared to the Industry standard Grade A for the property type	15	New, modern or recently refurbished	Good quality- no spend required for 20 years+	Good quality but spend required in 10 years	Spend required in 5 years	Tired / Significant spend CapEx likely
Tenant Covenant	Ability of the tenant/s to pay the rent for the duration of the lease. Credit rating of the tenant	15	Excellent financial covenant	Strong financial covenant	Good financial covenant	Poor but improving covenant	Poor financial covenant
Tenure	Freehold / Long Leasehold. Consideration of any ground rent obligations	10	Freehold	Long Leasehold 125 years + / peppercorn ground rent	Lease between 100 and 125 years / peppercorn ground rent	Lease between 50 and 100 years	Less than 50 years and/or high ground rent (10%+)
Lease Term	Length of the secured income.	15	Greater than 15 years	Between 10 and 15 years	Between 6 and 10 years	Between 2 and 5 years	Under 2 years / vacant
Lease Structure	Tenant repairing obligations, rent review mechanisms	15	Full repairing and insuring	Full repairing and insuring- partially recoverable	Internal repairing	Internal repairing- partially recoverable	Landlord responsible
Rental Growth Prospects	Opportunity / Likelihood to increase passing rent	15	Fixed uplifts at frequent intervals				Significantly over-rented (tenant paying above the market)
Occupational Demand	Anticipated level of demand from alternative occupiers if the tenant/s were to vacate	15	In demand from many tenants		Reasonable prospect of securing new tenants		Niche with limited demand
Management Intensity	Complexity and cost of managing the property	10	Single Tenant				Multiple Tenants
Liquidity/Exist Strategy	The degree to which the property can be quickly sold in the market without affecting the price	10	Lot size & sector attractive to investors				Attractive to niche purchasers only
Alternative Use / Underlying Value	The value of the land and the opportunity to explore a change of use should this be required	10	Favourable location / planning				No opportunity to change use
Asset Management Opportunities	Opportunities to add value to the property	5	Significant opportunity to add value				No opportunity
Financial Return (risk v reward)	The forecast gross financial return considering the risk profile of the property and in accordance with the sector.	20	Return higher than expected for sector / the risk profile				Return lower than expected for sector / risk profile
Portfolio Strategy Context	The extent to which the property meets the strategy and contributes to the achievement of a diversified portfolio	15	Under-represented sector		**Client to fill in**		Sector already heavily represented
Weighted Score		200	A property will be expected to score at least 140 out of 200 (70%) on the above matrix unless there are other economic / wider benefits to be delivered within or to the county.				

SWOT	
Strengths	**Weaknesses**
Opportunities	**Threats**

ADUR & WORTHING
COUNCILS

Joint Governance Committee
26 March 2019
Agenda Item 11

Ward(s) Affected: N/A

Financial Regulations

Report by the Director for Digital & Resources

Executive Summary

1. Purpose

1.1 This report proposes a revision to the financial regulations used by both Adur District Council and Worthing Borough Council. The revised financial regulations will form part of the Constitutions of both Councils.

1.2 The revision has been prompted by the recent LGA Peer Review which recommended that the Councils modernise the Financial Regulations. The aims of this review are to:

- Update the financial regulations for new job titles, Executive Member titles and new Committee names;
- To simplify the current regulations to make them more understandable to both Officers and Members of the Councils
- Consider revised approval processes with a view to reducing unnecessary bureaucracy in the light of the streamlined democratic processes;
- Consider the approved virement limits; and
- To address any recommendations raised by internal audit in the course of their work.

1.3 These provisions have been the subject of consultation with both Executive Members for Resources, and the points raised to date have been built into these financial regulations. Any further points raised will be verbally reported to the meeting.

2. Recommendations

2.1 Joint Governance Committee is asked to:

i) recommend to the Councils that the revised Financial Regulations be approved; and

ii) delegate to the Chief Financial Officer any minor amendment to the regulations for items such as changed job titles.

3. Context

3.1 The Financial Regulations provide the framework for managing the Authority's financial affairs. They apply to every member and employee of the Council and anyone acting on behalf of the Council. The regulations identify the financial responsibilities of employees and members and where these responsibilities are delegated.

3.2 The Chief Financial Officer is responsible for:

- Maintaining a continuous review of the financial regulations and submitting any additions or changes necessary to the Council for approval.

- For reporting, where appropriate, breaches of the financial regulations to the Council and/or to the Cabinet Members.

- Issuing advice and guidance to underpin the financial regulations which Members, employees and others acting on behalf of the Council are required to follow.

2.3 The financial regulations were last revised in 2014.

4. Issues for consideration

4.1 Attached at Appendix 1 are the proposed new regulations. These are significantly different from the current regulations. However any changes to items such as virement limits have been highlighted for information.

4.2 The main changes (apart from audit recommendations and changing job titles) to the financial regulations are as follows:

1. The format of the financial regulations has changed substantially to make it easier to follow, provide better understanding of why the regulations are needed, to to be more specific about officer responsibilities.

2. Increases to the virement limits and to introduce new virement rules for the use of reserves as follows:

   a. Directors and Chief Executive £50,000 (currently £25,000)
   b. Chief Financial Officer £100,000 (new limit)
   c. Executive members £250,000 (Currently £100,000) which is to be agreed by via a formal report rather than a consultation process.
   d. JSC or Cabinet £250,000 or higher (currently £150,000)

   These should now align more clearly with the key decision limits. Any such changes have been highlighted for information.

3. Removal of sections which were guidance on good financial administration. These will be included in a separate guide for officers. Examples include guidance on the use of petty cash, the operation of imprest accounts and the details of banking arrangements.

4.3 It is important that the proposed Financial Regulations adopted by both Councils are as identical as possible to avoid genuine confusion by the officers who manage the joint services on behalf of both Councils.

5. Engagement and Communication

5.1 An internal working group comprising of the Chief Financial Officer, Head of Legal, the Head of internal Audit, the Chief Accountant and representatives from Democratic Services was convened to undertake this review. The head of Place and Economy was consulted on the section on external funding.

5.2 The draft regulations have been circulated to the Corporate Leadership Team and the Organisational Leadership Group for comment.

5.3 Prior to this meeting, the proposed regulations have also been shared with the Executive Members for Resources and the Chairmen of the Joint Governance Committee for comment.

6. Financial Implications

6.1 Agreement of a revised set of Financial Regulations will improve the internal control environment of both Councils as the revision addresses any concerns raised by audit.

7. Legal Implications

7.1 These Financial Regulations 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.

7.2 The Rules will form part of each Council's constitution, and accordingly will be published on the Councils' website.

Background Papers

Financial Regulations - Part 4, article 12 of the Councils constitution

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Chief Financial Officer
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Sustainability & Risk Assessment

1. Economic

Matter considered and no issues identified.

2. Social

2.1 Social Value

Matter considered and no issues identified.

2.2 Equality Issues

Matter considered and no issues identified.

2.3 Community Safety Issues (Section 17)

Matter considered and no issues identified.

2.4 Human Rights Issues

Matter considered and no issues identified.

3. Environmental

Matters considered and no issues identified.

4. Governance

The report concerns the revision of the financial procedure rules which should enhance our governance arrangements.

APPENDIX 1

ADUR DISTRICT COUNCIL & WORTHING BOROUGH COUNCIL

JOINT FINANCIAL REGULATIONS

INDEX

1. INTRODUCTION

1.1 Financial Regulations provide the internal framework for managing the Councils' financial affairs. These regulations apply to every Member and Officer of Adur District Council and Worthing Borough Council and anyone in the public or private sector who acts on behalf of the Councils. It is imperative that the Councils have a strong and usable set of Financial Regulations that are accessible to all who are dealing with its financial matters.

1.2 Under Section 151 of the Local Government Act 1972, each local authority is required to make arrangements for the proper administration of its financial affairs and arrange for one of their Officers to be responsible for the administration of those affairs. For Adur District Council and Worthing Borough Council this officer is the Chief Financial Officer.

1.3 Throughout these Financial Regulations, the title Chief Financial Officer will be used to denote the designated Section 151 Officer of the Councils; in the case of absence or non-availability, the Chief Accountant will be the Deputy Section 151 Officer.

1.4 The Chief Financial Officer is responsible for maintaining a continuous review of the Financial Regulations and submitting any additions or changes necessary to the Councils for approval. He/she is also responsible, where appropriate, for reporting breaches of the Financial Regulations to the Joint Governance Committee.

1.5 It is the responsibility of the Corporate Leadership Team (CLT) / Heads of Service to ensure that all Officers in their service are familiar with the content of the Councils' Financial Regulations, as well as other internal regulatory documents, and also to confirm that they comply with them.

1.6 It is the responsibility of the Chief Financial Officer to provide advice and guidance regarding the Financial Regulations that Members, Officers and others acting on behalf of the Councils are required to follow.

STATUTORY REFERENCES

- Local Government Act 1972
- Local Government Act 1999
- Local Government Act 2003
- Local Audit and Accountability Act 2014
- Accounts and Audit Regulations 2015

CODES OF PRACTICE

- Code of Practice on Local Authority Accounting in the United Kingdom
- Prudential Code for Capital Finance in Local Authorities
- Service Reporting Code of Practice for Local Authorities (CIPFA)
- Treasury Management Code of Practice (CIPFA)
- United Kingdom Public Sector Internal Audit Standards (PSIAS) as interpreted by CIPFA's Local Government Application Note

2. FINANCIAL PLANNING

2.1 FORMAT OF THE BUDGET

2.1.1 Why is this important?

The format of the budget determines the level of detail to which financial control and management will be exercised. The format shapes how the rules around virement operate, the operation of cash limits and sets the level at which funds may be reallocated within budgets.

2.1.2 Responsibilities of the Chief Financial Officer

To advise the Executives on the format of the budget that is approved by their Council.

2.1.3 Responsibilities of CLT / Heads of Service

To comply with accounting guidance provided by the Chief Financial Officer.

2.1.4 Key controls

The key controls for the budget format are: -

(a) That the format complies with all legal requirements;
(b) That the format reflects the accountabilities of service delivery;
(c) That the format reflects the statutory reporting requirements for government returns; and
(d) That, in published statements where it is required, the format complies with CIPFA's Service Reporting Code of Practice for Local Authorities.

2.2 BUDGETS AND MEDIUM-TERM PLANNING

2.2.1 Why is this important?

The Councils needs to plan effectively and develop systems to enable limited resources to be allocated in accordance with priorities. The budget is the financial statement of the Councils' plans and policies.

The revenue and capital budgets must be constructed to ensure that resource allocation properly reflects the service plans and corporate priorities of the Councils. Budgets are needed so that the Councils can plan, authorise, monitor and control the way money is allocated and spent. It is illegal for the Councils to budget for a deficit.

CLT / Heads of Service shall prepare annually in accordance with an agreed timetable (normally in preparation for submission to the Executives each January/February), draft estimates of income and expenditure in a form agreed with the Chief Financial Officer together with any necessary explanations.

2.2.2 Responsibilities of the Chief Financial Officer

To prepare and submit reports on the budget prospects for the Councils, including information about any resource constraints determined by the Government. Reports should consider the medium-term financial prospects which will be updated as appropriate.

To determine the detailed form of revenue estimates and the methods for their preparation, consistent with the budget approved by each Council, and following consultation with the relevant Executive Member for Resources and CLT/ Heads of Service.

To prepare and submit reports to the Joint Strategic Committee on the overall position; and to each Executive on the aggregate spending plans of the individual portfolios (analysed by departments) and the resources available, identifying, where appropriate, the implications for the level of Council Tax to be levied.

To advise on the medium-term implications of spending decisions.

To encourage the best use of resources and value for money by working with CLT/ Heads of Service to identify opportunities to improve economy, efficiency and effectiveness, and by encouraging good practice in conducting financial appraisals of development or savings options, and in developing financial aspects of service planning.

To advise the Council on the Executive's proposals on the robustness of the budget set and the adequacy of reserves in accordance with the Local Government Act 2003.

2.2.3 Responsibilities of CLT/ Heads of Service

To prepare estimates of income and expenditure, in consultation with the Chief Financial Officer, to be submitted to the Joint Strategic Committee and the Executive.

To prepare budgets consistent with any relevant cash limits, with the Council's annual budget cycle and with guidelines issued by the Joint Strategic Committee. The format will be prescribed by the Chief Financial Officer in accordance with the Joint Strategic Committee's general directions.

To integrate financial and budget plans into service planning.

To ensure that budget proposals underpin the Councils' strategic priorities and objectives.

To utilise the Councils project management framework when delivering projects funded by the revenue budget.

2.2.4 **Key controls**

The key controls for budgets and medium-term planning are: -

(a) specific budget approval is given for all expenditure;
(b) budget managers are consulted in the preparation of the budgets for which they will be held responsible and accept accountability within delegations set by the Executive for their budgets and the level of service to be delivered; and
(c) a monitoring process is in place to regularly review the effectiveness and operation of budget preparation and to ensure that any corrective action is taken.

2.3 CAPITAL PROGRAMME

2.3.1 **Why is this important?**

Capital expenditure involves acquiring or enhancing fixed assets with a long-term value to the Council, such as land, buildings, and major items of plant, equipment or vehicles.

Capital assets can shape the way services are delivered in the long term and create financial commitments for the future in the form of financing costs and revenue running costs. Capital expenditure can also result in the creation of an intangible asset, for items such as software licenses which have no physical substance.

The Council is required to set its Capital Programme having regard to the Prudential Code, ensuring that it is affordable, prudent and sustainable. This means that capital expenditure forms part of a capital strategy that is carefully prioritised in order to maximise the benefit of limited resources. The Council must also approve its Prudential Indicators which are used to monitor performance throughout the year.

2.3.2 **Responsibilities of the Chief Financial Officer**

To prepare a capital strategy which outlines the Councils approach to developing a Capital Programme which meets the Councils' priorities;

To prepare a Capital Programme covering at least two future financial years. If an urgent and unforeseen need arises to undertake a project in excess of the current approved Capital Programme or to accelerate the preparation, commencement or completion of a scheme, the proposal will be considered by the Corporate Leadership Team and if supported will then be reported to Joint Strategic Committee (and Full Council if a supplementary estimate is required) for final approval.

To prepare and submit regular reports to the Joint Strategic Committee on the projected income, expenditure and resources compared with the approved estimates. Also, to inform the Executive where estimated expenditure on any scheme exceeds the Capital Programme provision by more than 10% or £50,000 whichever is lower, unless the amount is not material.

The definition of 'capital' will be determined by the Chief Financial Officer, having regard to government regulations and accounting requirements.

2.3.3 **Responsibilities of CLT / Heads of Service**

To comply with guidance concerning the development of the Capital Programme, capital schemes and controls issued by the Chief Financial Officer.

To utilise the Councils project management framework when delivering projects.

To ensure that all estimates and programmes prepared in connection with capital expenditure shall include reference to the estimated revenue implications in each of the development years and in a full cost year as agreed with the Chief Financial Officer.

To review the Capital Programme provisions for their services and the estimated final costs of schemes in the approved Capital Programme.

To ensure that adequate records are maintained for all capital contracts.

To proceed with projects / contracts only when there is adequate provision in the Capital Programme and guarantees of any external funding are in place.

To notify the Chief Financial Officer immediately if the total value of a contract or its annual sum is likely to be different from the original figure by more than the approved limits (the lower of more than 10% or £50,000 subject to materiality).

2.3.4 **Key controls**

The key controls for Capital Programmes are: -

(a) specific recommendation by the Joint Strategic Committee and resolution of the relevant Council for the planned programme of capital expenditure;
(b) Prior to any expenditure being incurred, each capital project must have a project initiation document (PID) as detailed in the capital strategy which is subject to approval by the relevant Director and Executive Member;
(c) Projects with a value in excess of £250,000 are Key Decisions (as defined in Article 12 of the Council's Constitution) and therefore must be included in the Council's Forward Plan to provided 28 days of any decision to be made, and a report taken to the relevant Executive Members detailing the following:
    - details of the scheme including the options considered;
    - the procurement strategy;
    - the capital and revenue implications of the proposed scheme over the medium term; and
    - requesting any further delegations as appropriate

(d) proposals for minor improvements and alterations to buildings and land must be approved by the appropriate Director/ Head of Service;
(e) monitoring of progress of the programme in conjunction with expected expenditure and comparison with approved budget; and
(f) monitoring of Prudential Indicators throughout the year.

2.4 MAINTENANCE OF RESERVES

2.4.1 Why are these important?

The Council holds reserves for one of three purposes:

- working balance to help cushion the impact of uneven cash flows, to manage budget risk and to avoid unnecessary temporary borrowing (general reserve);
- a contingency to cushion the impact of unexpected events or emergencies (general reserve); and
- a means of building up funds (earmarked reserves) to meet planned one-off expenditure, and to meet known or predicted liabilities.

It is the responsibility of the Section 151 Officer to advise the Council as to the level of general reserves.

2.4.2 Responsibilities of the Chief Financial Officer

To advise the Executive and/or the Council on prudent levels of reserves for the Council, having regard to advice from the External Auditor.

2.4.3 Responsibilities of CLT / Heads of Service

To ensure that reserves are used only for the purposes for which they were intended.

2.4.4 Key controls

The key controls for the maintenance of the reserves are:

a) To maintain reserves in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom and agreed accounting policies.
b) For each earmarked reserve established, the following must be provided:
    - The reason for / purpose of the reserve
    - How and when the reserve can be used
    - Procedures for the reserve management and control
    - A regular review of the reserve to ensure continuing relevance and adequacy.
(c) Expenditure from the reserves of in excess of £25,000 can only be approved by the Joint Strategic Committee unless a specific delegation exists (see guidance on virement limits at paragraph 3.2.4).

3. FINANCIAL MANAGEMENT

3.1 BUDGETARY CONTROL

3.1.1 Why is this important?

Budgetary control is the means by which the Council manages its finances and ensures their effective use in accordance with the approved budget. It is a continuous process, enabling the Council to monitor and review its financial performance during the financial year.

By continuously identifying and explaining variances against budgetary targets, the Council can identify changes in trends and resource requirements at the earliest opportunity.

To ensure that the Council in total does not overspend, each service is required to manage its own expenditure within the cash-limited budget allocated to it.

For the purposes of budgetary control by managers, a budget will normally be the planned income and expenditure for a service area or cost centre.

3.1.2 Responsibilities of the Chief Financial Officer

To administer an appropriate framework of budgetary management and control that ensures:

(a) Budget management is exercised within annual cash limits
(b) Each Director has available timely information on receipts and payments on each budget;
(c) Expenditure is only committed against an approved budget
(d) All Officers responsible for committing expenditure comply with relevant guidance, and these Financial Regulations
(e) Each budget heading has a single named Manager, determined by the relevant Director/ Head of Service. As a general principle, budget responsibility should be aligned as closely as possible to the decision-making processes that commit expenditure
(f) Significant variances of more than 10% or £25,000 (was £5,000) whichever is the higher from approved budgets are investigated and reported by budget managers regularly.

To administer the Council's Scheme of Virement (see 3.2.).

To submit reports to the Joint Strategic Committee and to the Council, in consultation with the relevant Director/ Head of Service, where it is not possible to balance expenditure and resources within existing approved budgets under his/her control (see 3.2.5 supplementary estimates).

To prepare and submit regular monitoring reports to Joint Strategic Committee on the Council's projected income and expenditure compared with the budget.

3.1.3 **Responsibilities of CLT / Heads of Service**

To maintain budgetary control within their departments and to ensure that all income and expenditure is recorded and accounted for properly.

To ensure that an accountable Budget Manager is identified for each item of income and expenditure.

To ensure that spending remains within the service's overall budget limit, by monitoring the budget and taking appropriate corrective action where significant variations from the approved budget are forecast.

To prepare and submit to the Joint Strategic Committee, reports on the service's projected expenditure compared with its budget as part of the regular budget monitoring reports, in consultation with the Chief Financial Officer.

To ensure compliance with the Scheme of Virement (see 3.2).

To agree with the relevant Director/ Head of Service where it appears that a budget proposal, including a virement proposal, may impact materially on another service area.

3.1.4 **Key controls**

The key controls for managing and controlling the revenue budget are: -

(a) Budget Managers should be responsible only for income and expenditure that they can influence;
(b) there is a nominated Budget Manager for each budget heading;
(c) Budget Managers accept accountability for their budgets and the level of service to be delivered and understand their financial responsibilities;
(d) all budgets are appropriately profiled through the financial year;
(e) Budget Managers follow an approved certification process for all expenditure;
(f) income and expenditure items are recorded and accounted for properly.

3.2 SCHEME OF VIREMENT

A summary of the limits relating to virement as set out in the sections below is provided in Appendix 1 to these Rules.

3.2.1. General Virement

a) Why is this important?

Virement is the transfer of budget from one specific area to another. This can either be a transfer within revenue budgets or a transfer within capital budgets. Restrictions may apply to transfers between capital and revenue budgets and you cannot vire between a capital budget to a revenue budget. Virement can be a temporary (in-year) or permanent transfer of budget.

The Scheme of Virement is intended to enable Executive Members together with CLT / Heads of Service and their staff to manage budgets with a degree of flexibility within the overall policy framework determined by the Council, and, therefore, to optimise the use of resources. Budget variation requests requiring Committee approval will be included on Joint Strategic Committee Agendas.

b) Responsibilities of the Chief Financial Officer

To submit a report to the Corporate Leadership Team and Executive where virements are proposed between Directorate areas or Member Portfolios;

To approve all virements in excess of £50,000 and up to but not including £100,000 (new limit for CFO);

To ensure that all virements of £100,000 (key decision limit as defined by article 12 of the constitution) and up to and including £250,000 are approved by the relevant Executive Member (was previously £50,000);

To ensure that all virements in excess of £250,000 are approved by the Joint Strategic Committee.

c) Responsibilities of CLT / Heads of Service

CLT / Heads of Service may exercise virement on budgets under their control of up to and including a maximum of £50,000 (was previously £25,000), provided the Chief Financial Officer has been consulted.

To submit a report to the relevant Executive Member or the Joint Strategic Committee for virements over £100,000, provided that the Chief Financial Officer has been consulted.

Salary budgets represent the Council's approved establishment. As such the salary budgets cannot be vired to other areas of the budget without the approval of the Chief Financial Officer. A favourable salary budget variance may be used to cover the additional temporary staffing costs incurred due to the vacant post, subject to the corporate vacancy target.

To ensure, that where external funding has been successfully applied for, that a budget virement is undertaken to adjust the revenue budget for the confirmed funding and the related expenditure.

Virements against future anticipated fees and charges or other uncertain sources of income will not be allowed unless approved by the relevant Executive Member.

Savings of a non-recurring nature (temporary) cannot be used to justify the incurring of expenditure with a continuing commitment into later years (permanent).

Virement that is likely to impact on the level of service activity of another department should be implemented only after agreement with the relevant Director / Head of Service.

d) Key controls

Key controls for the Scheme of Virement are: -

(a) it is administered by the Chief Financial Officer within guidelines set by the Council. Any variation requires the approval of the Council;
(b) the overall budget is recommended by the Executive and approved by the Council. CLT / Heads of Service are authorised to incur expenditure in accordance with the estimates that make up the budget.
(c) virement does not create a net increase in budget. CLT / Heads of Service are expected to exercise their discretion in managing their budgets responsibly and prudently.

3.2.2 Virements Relating To S106 Contributions and Community Infrastructure Levy (CIL)

a) Why is this important?

Section 106 agreements are negotiated as part of a condition of planning consent. CIL levy is payable on certain developments. They provide an important source of additional funding towards a range of infrastructure and services such as community facilities, public open spaces, transport improvements and or affordable housing.

b) Responsibilities of the Chief Financial Officer

To ensure that virements relating to s106 and CIL funding in excess of £25,000 and up to and including a maximum of £100,000 are approved by the relevant Executive Member and that virements in excess of £100,000 are approved by the Joint Strategic Committee. (This introduces a limit for the Executive Member, previously all virements over £25,000 went to the JSC)

To be responsible for the proper accounting of S106 and CIL receipts.

c) Responsibility of the Head of Planning and development

To keep a record of all S106 and CIL receipts due to each Council.

To be responsible for the collection of any S106 and CIL receipts due.

d) Responsibilities of CLT / Heads of Service

CLT / Heads of Service may exercise virements relating to s106 / CIL funded expenditure under their control up to and including a maximum of £25,000 provided that the Chief Financial Officer has been notified and authorised the use of the receipts and the proposed use is in accordance with any legal agreement or Council policy governing their use.

To submit a report to the relevant Executive Members for expenditure in excess of £25,000 and up to and including £100,000 and to the Joint Strategic Committee for expenditure in excess of £100,000 and above at the earliest opportunity with details of how the funding is to be applied.

e) Key controls

Key controls for s106 funded expenditure are:

(a) it is administered by the Chief Financial Officer within guidelines set by the Council; and
(b) virement does not create a net increase in budget. CLT / Heads of Service are expected to ensure that funds are spent within the terms of the agreement including any time limits that may apply.

3.2.3 Virements Relating To Contingency Budgets

a) Why is this important?

The Contingencies and Special Items budget is assessed annually as a provision for known possible service changes that have not been sufficiently developed to fully cost into the budget.

b) Responsibilities of the Chief Financial Officer

To ensure that virements relating to contingency budgets have been fully costed before budget are vired to service areas. Virements are noted in budget monitoring reports.

c) Responsibilities of CLT / Heads of Service

To submit fully developed spending plans to the Chief Financial Officer at the earliest opportunity.

d) Key controls

Key controls for virements from Contingency budgets:

(a) it is administered by the Chief Financial Officer within guidelines set by the Council ;

(b) virement does not create a net increase in budget; and

(c) CLT/ Heads of Service are expected to ensure that the use of these budgets follow the Council's priorities.

3.2.4 Virements Relating To Reserves

a) Why is this important?

Earmarked reserves should only be used for the purpose that they are intended. Unrequired earmarked reserves should be returned to the General Fund. Capital reserves should only be applied in line with statutory approvals.

b) Responsibilities of the Chief Financial Officer

To ensure that all virements from Earmarked Reserves up to and including £25,000 are approved by the relevant member of CLT or the Head of Service.

To ensure that all virements relating to the use of Earmarked Reserves in excess of £25,000 and up to and including £250,000 are approved by Joint Strategic

Committee or the relevant Individual Executive Members where a delegation to that Executive Member is in force.

To ensure that all virements in excess of £250,000 are approved by the Joint Strategic Committee.

To ensure that all proposals for the use of capital receipts complies with statutory guidance, the Capital Strategy and have a viable business case.

c) Responsibilities of CLT / Heads of Service

To ensure that earmarked reserves are used only for the purpose for which they were intended.

That unrequired earmarked reserves are returned to the General Fund.

To submit proposals to the Chief Financial Officer as soon as practicable for the use of any earmarked reserve.

d) Key controls

Key controls for virements from reserves:

(a) It is administered by the Chief Financial Officer within guidelines set by the Council.
(b) Virement does not create a net increase in budget. CLT/ Heads of Service are expected to ensure that the use of these budgets follow the Council's priorities.

3.3 ACCOUNTING POLICIES

3.3.1 Why are these important?

The Council is required to follow proper practices in preparing its Statement of Accounts. The Council's Accounting Policies are a key part in ensuring that this is done and these are detailed in the Statement of Accounts.

3.3.2 Responsibilities of the Chief Financial Officer

To establish suitable accounting policies and to ensure that they are applied consistently.

To ensure that the accounting policies are consistent with proper practices as set out in the *Code of Practice on Local Authority Accounting in the United Kingdom*, for each financial year.

3.3.3 Responsibilities of CLT/ Heads of Service

To adhere to the accounting policies and guidelines approved by the Chief Financial Officer.

3.3.4 Key controls

The key controls for accounting policies are:

(a) Systems of internal control are in place to ensure that financial transactions are lawful;
(b) Suitable accounting policies are established and applied consistently;
(c) Proper accounting records are maintained;
(d) Financial statements are prepared which present fairly the financial position of the Council and its expenditure and income; and
(e) Accounting policies are set out in the Statement of Accounts and are subject to external audit.

3.4 ACCOUNTING RECORDS AND RETURNS

3.4.1 Why are these important?

Maintaining proper accounting records is one way in which the Council discharges its responsibility for stewardship of public resources. The Council has a statutory responsibility to prepare annual accounts that present its operations during the financial year fairly. These annual accounts are subject to external audit. This audit provides assurance that the accounts are prepared properly, that proper accounting practices have been followed and that quality arrangements have been made for securing economy, efficiency and effectiveness in the use of the Council's resources.

3.4.2 Responsibilities of the Chief Financial Officer

To determine the accounting policies, procedures and the method for recording transactions for the Council.

To arrange for the compilation of all accounts and accounting records under his/her direction.

To comply with the following principles when allocating accounting duties: -

(a) Officers responsible for the calculation, checking and recording of income and expenditure should not be responsible for the collection and disbursement of such income and expenditure; and
(b) Officers with the duty of examining or checking the accounts of cash transactions must not be engaged in those transactions.

To make proper arrangements for the audit of the Council's annual accounts in accordance with the Accounts and Audit Regulations 2015.

To ensure that all claims for funds (including grants) are made accurately and by the due date.

To prepare and publish the audited annual accounts of the Council for each financial year, in accordance with the statutory timetable.

To ensure the proper security and retention of financial documents in accordance with the requirements set out in the Council's Document Retention Policy.

To ensure that an asset register is maintained and assets are appropriately revalued and categorised in accordance with *Code of Practice on Local Authority Accounting in the United Kingdom.*

3.4.3 Responsibilities of CLT / Heads of Service

To ensure that a copy of any approved funding from a third party, including Government grant, is immediately passed to the Chief Financial Officer.

To ensure that all necessary service related information is available to support all claims for funds, including Government grants.

To maintain adequate records to provide a management/audit trail leading from the source of income/expenditure through to the accounting statements.

To supply information required to enable the statement of accounts to be completed and published in accordance with the timetable and guidelines issued by the Chief Financial Officer.

3.4.4 Key controls

The key controls for accounting records and returns are:

(a) All Executive Members, finance Officers and Budget Managers operate within the required accounting standards and timetables;
(b) All the Council's transactions, material commitments, contracts and other essential accounting information are recorded completely, accurately and on a timely basis;
(c) Procedures are in place to enable accounting records to be reconstituted in the event of systems failure;
(d) Reconciliation procedures are carried out to ensure transactions are correctly recorded;
(e) Prime documents are retained in accordance with legislative and other requirements, as set out in the Councils' Document Retention Policy; and
(f) The central accounting system of the Council, administered by the Chief Financial Officer, is the prime system upon which the financial position of the Council, or any part of the Council, will be assessed.

3.5 THE ANNUAL STATEMENT OF ACCOUNTS

3.5.1 Why is this important?

The Council has a statutory responsibility to prepare its own accounts to present its operations during the financial year in a fair manner. The Council is responsible for approving the statutory annual statement of accounts, through delegation to the Joint Governance Committee.

3.5.2 Responsibilities of the Chief Financial Officer

To establish suitable accounting policies and to apply them consistently.

To make judgements and estimates that are reasonable and prudent.

To comply with the *Code of Practice on Local Authority Accounting in the United Kingdom.*

To sign and date the statement of accounts, stating that it presents fairly the financial position of the Council at the accounting date and its income and expenditure for the financial year.

To draw up the timetable and requirements for final accounts preparation and to advise Officers and the External Auditor accordingly.

3.5.3 Responsibilities of CLT / Heads of Service

To comply with accounting guidance provided by the Chief Financial Officer and to supply the Chief Financial Officer with information when required.

3.5.4 Key controls

The key controls for the annual statement of accounts are: -

(a) The Council is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of these affairs. In this Council, that officer is the Chief Financial Officer; and
(b) The Council's statement of accounts must be prepared in accordance with proper practices as set out in the Code of Practice on Local Authority Accounting in the United Kingdom.

4. RISK MANAGEMENT AND CONTROL OF RESOURCES

4.1 RISK MANAGEMENT AND INSURANCE

4.1.1 Why is this important?

Risk management is a planned and systematic approach to identifying, evaluating and controlling risk. Its objectives are to secure the assets of the organisation and to ensure the continued financial and organisational wellbeing of the Council. It is, therefore, an integral and essential part of good business practice. Risk management is concerned with evaluating the measures an organisation already has in place to manage identified risks and then recommending the action needed to control these risks effectively.

It is the overall responsibility of the Joint Governance Committee to approve the Council's Risk Management Strategy, and to promote a culture of risk management awareness throughout the Council.

4.1.2 Responsibilities of the Director of Digital and Resources

To prepare and promote the Council's Risk Management Strategy.

To report regularly to the Joint Governance Committee on risk management matters.

4.1.3 Responsibilities of the Chief Financial Officer

To effect corporate insurance cover, through external insurance and internal funding, and to negotiate all claims, in consultation with other Officers where necessary.

4.1.4 Responsibilities of CLT / Heads of Service

To notify the Chief Financial Officer immediately of any injury, loss, liability or damage that may lead to a claim against the Council, together with any information or explanation required by the Chief Financial Officer or the Council's insurers.

To notify the Head of Legal of any injury, loss or liability that might result in legal action against the Council

To take responsibility for risk management and minimising exposure to loss, having regard to advice from the Chief Financial Officer and other specialist advisers (e.g. health and safety, emergency planning).

To ensure that there are regular reviews of Corporate and Departmental risk registers to identify and evaluate risk and to determine the ways risk can be managed. The risks and the mitigating actions should be recorded and monitored.

To notify the Director of Digital and Resources promptly of all new risks

To notify the Chief Financial Officer of any properties or vehicles that require insurance and of any alterations affecting existing insurances.

To consult the Chief Financial Officer and Head of Legal on the terms of any indemnity that the Council is requested to give.

4.1.4 Key controls

The key controls for risk management are:

(a) Procedures are in place to identify risks, to evaluate their likely impact and probability of occurring, and to determine suitable risk reduction strategies. The risk management process operates continually to ensure that changes in circumstances and new risks are identified, evaluated and managed;
(b) Corporate and Departmental Risk Registers are produced and are regularly reviewed and action taken when appropriate;
(c) Risk management procedures are communicated effectively throughout the Council. Managers know that they are responsible for managing risks in their areas and are provided with relevant information on risk management initiatives;
(d) Acceptable levels of risk are determined and insured against where appropriate; and provision is made through balances or reserves for losses where insurance is not appropriate;
(e) The Council has identified business continuity plans for implementation in the event of disaster that results in significant loss or damage to its resources.

4.2 AUDIT REQUIREMENTS

4.2.1 Internal Audit

a) Why is this important?

The requirement for an internal audit function is implied by the Accounts & Audit Regulations 2015 which requires that the Council must each financial year conduct a review of the effectiveness of the system of internal control and prepare an annual governance statement.

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

It will act in accordance with the internal audit charter and UK Public Sector Internal Audit Standards (PSIAS) and will undertake reviews that focus on areas of greatest risk to the Council, as agreed annually in consultation with CLT and approved by the Joint Governance Committee. However, it is the responsibility of every manager to establish and maintain an effective system of internal control.

Internal audit shall have the authority to have unrestricted access to all records, assets, personnel and premises deemed necessary to review the activities of the Council and (where appropriate, subject to contractual arrangements) its contractors and operating partners. It also has authority to obtain from all Officers and Members such information and explanations as are considered necessary and direct access and freedom to report to CLT, the Council and its committees (although its primary responsibility is to the Joint Governance Committee).

b) Key controls

The key controls for Internal Audit are:

(a) That it is independent in its planning and operation;
(b) The Head of Internal Auditor has direct access to the Chief Executive, all levels of management and directly to Elected Members; and
(c) The internal Auditors comply with the United Kingdom Internal Audit Standards as interpreted by CIPFA's Local Government Application Note.

4.2.2 External Audit

a) Why is this important?

It is a statutory requirement for the Council to publish an audited Statement of Accounts.

The Accounts and Audit (England) Regulation 2015 sets out the requirements of signing, approval and publication of the statement of accounts.

The arrangements for the appointment of external auditors are included in the Local Audit and Accountability Act 2014 which give the Councils two options:

i) to either opt in to the Appointing Person regime; or
ii) to establish an auditor panel and conduct their own procurement exercise.

b) Responsibilities of the Chief Financial Officer

Make arrangements to let the contract for the provision of external audit services.

To ensure that the appointed External Auditor is given access at all times to premises, personnel, documents and assets that he/she considers necessary for the purposes of their work.

To ensure there is effective liaison between external and internal audit.

c) Key controls

The key controls for External Audit are:

(a) That it is independent in its planning and operation;

(b) The External auditor has direct access to the Chief Executive, all levels of management and directly to Elected Members; and

(c) The External auditor reports to the Governance and Audit Committee.and that all reports of the auditor are publically available.

4.3 PREVENTING FRAUD AND CORRUPTION

The Council takes the prevention of fraud, corruption and maladministration very seriously and has the following policies in place, which aim to prevent or deal with such occurrences:-

- Anti-Fraud, Corruption & Bribery Policy
- Whistleblowing Policy (in respect of the Public Interest Disclosure Act 1998)
- Anti-money laundering procedures
- HR policies regarding discipline of staff
- Registers of Interests for Members and staff
- Robust processes for the procurement of goods and services

The Council expects all Members and Officers to act with propriety and accountability and also expects that individuals and organisations with whom the Council comes into contact (for example, suppliers, contractors and service providers) will act towards the Council with integrity and without thought or actions involving fraud and corruption.

Where financial or other impropriety is discovered or suspected it must immediately be reported to the Chief Financial Officer and the Head of Legal and/or the Head of Internal Audit for appropriate investigation and action.

4.4 ASSETS – LAND, BUILDINGS, FURNITURE, EQUIPMENT ETC.

4.4.1 Acquisitions

Why are these important?

The Council is publicly accountable for the way that it spends its money. Value for money must be demonstrated and the Council has a statutory duty to achieve best value in everything it does. Therefore, the Council has to exercise control over its purchasing activity, including asset acquisition (e.g. property, vehicles, plant and equipment, furniture).

Responsibilities of the Chief Financial Officer
To issue guidelines on the best practice in respect of asset acquisition.
To periodically review all guidelines to ensure that they still reflect best practice.
To ensure that all expenditure is properly recorded in the Council's accounts and records.

Responsibilities of CLT / Heads of Service
To ensure that the Council's policies and procedures are complied with.
To ensure that the necessary separation of duties is observed.
To ensure that assets purchased are necessary.

Key controls
The key controls for asset acquisition are:

(a) Council policies, including the Governance arrangements and Officer Decision Making Procedure Rules, in respect of the acquisition of assets are complied with at all times. This includes compliance with Contract Standing Orders for all relevant asset acquisitions.
(b) There are at least two Officers involved in the process of acquisition, with a separation of duties between Officers involved in the different parts of the process.
(c) Procedures protect Officers involved in the acquisition of assets from accusations of impropriety.

4.4.2 Asset disposal and transfer

Why is this important?
It would be uneconomic and inefficient for the cost of maintaining assets to outweigh their benefits. Obsolete, non-repairable or unnecessary resources should be disposed of in accordance with the law and the Council's policies and procedures.

Assets are sometimes used by or transferred to an external party, for example as part of an outsourced contract or partnership arrangement. It is important that the legal and financial basis for the transfer is determined and properly documented, so that the interests of the Council are protected.

Responsibilities of the Chief Financial Officer
To issue guidelines representing best practice for disposal of assets.

To ensure appropriate accounting entries are made to remove the value of disposed or transferred assets from the Council's records and to include the sale proceeds, if appropriate.

Responsibilities of CLT / Heads of Service

To seek advice from the Chief Financial Officer on the disposal of surplus or obsolete materials, equipment and vehicles.

To seek advice from the Chief Financial Officer where assets are to be transferred or predominantly used by an external party.

To ensure that income received for the disposal of an asset is properly banked and coded.

To authorise the write off and disposal of obsolete or surplus materials and equipment.

To ensure that the disposal of obsolete or surplus materials and equipment, is by competitive quotation or auction, unless, following consultation with the Chief Financial Officer, the Executive decides otherwise.

Specifically relating to the disposal or acquisition of land and buildings: -

To ensure that all disposals of land and buildings are in accordance with the Council's asset management strategy current at the time. Where disposal of land and buildings is allowed, it shall be conducted in accordance with the scheme of delegations and the provisions detailed in (a) (i) – (vi) below.

(a) Approved methods of disposal shall be by:-
   (i) Private Treaty;
   (ii) Auction;
   (iii) Tender
   (iv) Sealed Offer;
   (v) Exchanges of land; or
   (vi) Compulsory Purchase Order

(b) To ensure that where land is to be disposed of by the Council, the Chief Financial Officer shall ensure compliance with Financial Regulations and S123 of the Local Government Act 1972.

(c) Prior to any disposal of land, a valuation of the asset to be sold should be obtained from an appropriately qualified valuer.

Key controls

(a) assets for disposal or transfer are identified and are disposed of or transferred at the most appropriate time, and only when it is in the best interests of the Council, and the best price or contract terms are obtained, bearing in mind other factors, such as environmental issues or the delivery of strategic objectives.

(b) Prior to the disposal of any land or buildings, a formal valuation is obtained
(c) for items of significant value, disposal should be by competitive tender or public auction; and
(d) procedures protect Officers involved in the disposal of assets from accusations of personal gain.

4.4.3 Security (Including Inventories)

Why is this important?
The Council holds assets in the form of property, vehicles, equipment and other items worth many millions of pounds. Information held by the Council is also a key asset. It is important that assets are safeguarded and used efficiently in service delivery, and that there are arrangements for the security of assets. An up-to-date asset register is a prerequisite for proper fixed asset accounting and sound asset management.

Responsibilities of the Chief Financial Officer
To ensure that an asset register is maintained in accordance with good practice for all assets with a value in excess of £10,000. The function of the asset register is to provide the Council with information about fixed assets so that they are: -

- safeguarded;
- used efficiently and effectively;
- adequately maintained; and
- accounted for.

To receive the information required for asset accounting and associated financial records from each director/group head.

To ensure that assets are valued in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom*.

Responsibilities of the Head of Customer Services:
To maintain a central register of all IT and telephony equipment.

Responsibilities of the Head of Environmental Services:
To maintain a central register of all vehicles.

Responsibilities of CLT / Heads of Service
To ensure the proper security of all Officers, buildings and other assets under their control.

To pass title deeds and contract documentation to the Head of Legal Services who is responsible for custody of all title deeds.

To ensure the safe custody of vehicles, equipment, furniture, and other property belonging to the Council.

To ensure that assets are identified, their location recorded and that they are appropriately marked and insured.

To ensure cash holdings on premises are kept to a minimum and that maximum limits are agreed by the Chief Financial Officer.

To ensure that keys to safes and similar secure containers/cupboards are carried on the person of those responsible at all times; loss of any such keys must be reported to the Chief Financial Officer as soon as possible.

To arrange for the valuation of assets for accounting purposes to meet requirements specified by the Chief Financial Officer.

To carry out an annual check of all items on the inventory in order to verify location, to review condition and to take action in relation to surpluses or deficiencies, annotating the inventory accordingly.

To make sure that property is only used in the course of the Council's business, unless the Director / Head of Service concerned has given permission otherwise.

Key controls

(a) assets registers are accurately maintained and all assets are accounted for; and.
(b) assets are valued in accordance with approved policies and appropriate values included in the Council's Annual Accounts.

4.5 TREASURY MANAGEMENT

Why is this important?

Many millions of pounds pass through the Councils' accounts each year. The scale of the local authority treasury activity and issues such as the Icelandic banking collapse has led to the development of CIPFA's *Code of Practice on Treasury Management and Prudential Code for Capital Finance in Local Authorities (Prudential Code).* These aim to provide assurances that the Councils' money is properly managed in a way that balances risk with return, but with the overriding consideration being given to the security of the Councils' financial resources.

Responsibilities of Chief Financial Officer

To arrange the borrowing and investments of the Councils, including bank overdrafts, in such a manner as to comply with the CIPFA *Code of Practice on Treasury*

Management, the Prudential Code, the Councils' Treasury Management Strategy and the Councils' Treasury Management Practices.

To report on treasury activities to the Joint Governance Committee, with recommendations (including adoption of the Treasury Management Strategy Statement & Annual Investment Strategy) referred for approval by Full Council.

To operate bank accounts as are considered necessary. All arrangements with the Councils' approved bankers regarding the Councils' bank accounts, and the terms on which they are conducted, shall be made by the Chief Financial Officer.

To ensure that detailed arrangements are made regarding the Councils' bank accounts and for the issue of cheques and cards. All cheques or cards shall be ordered only on the authority of the Chief Financial Officer who shall advise on proper arrangements for their safe custody.

All of the Councils' bank accounts must be in the name of "Adur District Council" or "Worthing Borough Council".

To ensure that all investments or utilisation of monies and other accumulations and the sale or realisation of investments are made in the name of the relevant Council or in the name of nominees approved by the Executive.

To effect all borrowings in the name of the Councils.

To act as the Councils' registrar of stocks, bonds and mortgages and to maintain records of all borrowing of money and investment by the relevant Council.

To ensure that in circumstances where a Council has decided to finance capital expenditure by way of leasing, deferred purchase, or similar arrangements, the Chief Financial Officer or his/her authorised representative shall so far as possible, obtain competitive quotations from relevant funding sources and such arrangements shall be subject to approval by the relevant Executive Member.

Responsibilities of CLT / Heads of Service

To follow the instructions on banking issued by the Chief Financial Officer.

To ensure that loans are not made to third parties and that interests are not acquired in companies, joint ventures or other enterprises without the approval of the Executive, following consultation with the Chief Financial Officer and if appropriate Council.

To ensure that CLT / Heads of Service advise the Chief Financial Officer of the disposal of any vehicle or item of equipment that is subject to a lease.

Key controls

(a) the Treasury Management Strategy Statement & Annual Investment Strategy must be approved by Full Council by 31st March for the next financial year;

(b) Council investments are only placed with approved institutions in line with the agreed strategies;

(c) investment performance is monitored and reported to Officers and Members;

(d) funds transfers (e.g. by CHAPS) require dual authorisation by designated officers; and

(e) investment and borrowing requirements are identified and planned for in short-term cash flow forecasting and longer-term financial strategies.

4.6 STRATEGIC PROPERTY INVESTMENT FUND

Why is this important?

The Councils are investing millions of pounds in commercial property to produce a sustainable income stream to support the Councils' activities for the future. The scale of this investment activity and associated risks mean that such investments should be properly managed, a point reinforced by the recently revised *Prudential Code for Capital Finance in Local Authorities (Prudential Code).* This aims to provide assurances that the Councils' property investment activity is properly managed in a way that balances risk with return, but with the overriding consideration being given to the long-term security of the Councils' property investments.

Responsibilities of Head of Major Projects and Investment

To ensure that key decision notices are published for any potential purchase;

To ensure that the approval of any purchases complies with the governance arrangements detailed within the Commercial Property Investment Strategy.

To ensure sufficient resources are allocated to the long term management of Strategic Property Investment Fund assets to maintain their long term value is maintained.

To ensure that effective asset management plans, processes and procedures are in place to ensure that these assets are managed appropriately.

To report on property investment activities to the Joint Governance Committee, with recommendations (including adoption of the Annual Commercial Property Investment Strategy) referred for approval by Full Council.

To effect all purchases in the name of the relevant Council.

Responsibilities of Chief Financial Officer

To arrange the financing of any purchases (including borrowing) of the Council,, in such a manner as to comply with the CIPFA *Prudential Code,* the Councils' Treasury Management Strategy and the Councils' Treasury Management Practices.

Key controls

(a) the Commercial Property Investment Strategy must be approved by Full Council by 31st March for the next financial year;

(b) Council will only invest in line with the agreed strategy;

(c) The performance of the Strategic Property Investment Fund is monitored and reported to Officers and Members;

(d) An annual report is prepared for both the Joint Strategic Committee and the Joint Governance Committee detailing the value, outstanding borrowings and rental performance of the fund

(e) All property purchases are subject to extensive due diligence and conveyancing is managed by appropriately qualified legal resources.

4.7 WORKFORCE

Why is this important?

The Council sees its Officers as a valuable asset to running its business to provide the highest level of service, it is essential that the Council recruits and retains high calibre, knowledgeable Officers, who are qualified to an appropriate level.

Responsibilities of the Chief Financial Officer

To ensure that CLT / Heads of Service have identified budget provision for all existing and new employees.
To act as an advisor to CLT / Heads of Service on areas such as National Insurance and pension contributions, as appropriate.

Responsibilities of the Director of Digital and Resources

To develop a workforce strategy, policy and procedures and ensure they are disseminated and enforced.

Responsibilities of CLT / Heads of Service

To produce an annual workforce budget.
To ensure that the workforce budget is an accurate forecast of workforce levels and is equated to an appropriate revenue budget provision (including on-costs and overheads).
To ensure that the workforce budget is not exceeded without due authority and that it is managed to enable the agreed level of service to be provided.
To comply with, and ensure Officers comply with, the Council's Human Resource policies (for example: recruitment, training and flexible working policies).

Key controls

The key controls for employees are: -

(a) an appropriate workforce strategy and policy exists, in which Officer requirements and budget allocation are matched;
(b) procedures are in place for forecasting workforce requirements and cost;
(c) controls are implemented that ensure that Officer time is used efficiently and to the benefit of the Council; and
(d) checks are undertaken prior to appointing new Officers to ensure that they are appropriately qualified, experienced and trustworthy.

5. FINANCIAL SYSTEMS AND PROCEDURES

5.1 GENERAL

Introduction

The Council is governed by laws requiring that it makes proper arrangements for the administration, reporting and safeguarding of those funds and act in a way that is open and accountable as to how those funds are used.

Whilst all Council Officers and Members have a general financial responsibility, Section 151 of the Local Government Act 1972 requires that a suitably qualified Officer must be responsible for the financial administration of the organisation. This Officer is the Chief Financial Officer.

Chief Financial Officer

The Chief Financial Officer is responsible for the proper administration of the Council's financial affairs, prescribes appropriate financial systems, protocols, procedures and policies, maintains an internal audit service and reports to the Council in the event of any decision or action leading to, or may lead to, unlawful expenditure, loss, deficiency or accounting entry and;

(a) will be responsible for ensuring the final accounts are completed and published in accordance with statute and accepted public sector accounting requirements and the reporting to Members of any material amendments specified by external audit,

(b) will have unrestricted access to all Council assets, systems, documents, information, data, employees and Members held by the Council,

(c) issue guidance, advice or instruction on the application of these financial systems and procedures as appropriate,

(d) recommend to the Council the addition, alteration or deletion of any financial regulation.

CLT / Heads of Service

CLT and Heads of Service are the senior management of the organisation and:

a) will manage budgets and financial activity within their area of responsibility including the planning and control of budgets and prevention of fraud and corruption to ensure efficient and effective use of resources,

b) shall consult with the Chief Financial Officer and obtain approval on any matter that may have a material effect, advantageous or detrimental, on the Councils financial position or financial strategy,

c) Comply with any instruction given by the Chief Financial Officer regarding the form and method of financial record keeping or the operation of any financial procedures.

Executive, Committees and Sub-Committees

All Members of the Council including those appointed to the Executive, any Committee or Sub-Committee will ensure that decisions taken are within their remit and relevant budgets, are compliant with adopted policies, and consistent with achievement of the Council's service or corporate plans

Council

The Council will;

- Determine the Medium Term Financial Strategy (MTFS)
- Approve and the annual revenue and capital budgets and determine the level of local taxation and other statutory charges
- Approve the Treasury Management Strategy (TMS) and prudential indicators
- Approve the capital strategy
- Approve changes to these financial procedures (following consideration by the Joint Governance Committee)

Officers and Members

All Officers and Members will contribute to the general stewardship of the Council's financial affairs in compliance with these rules and any systems, procedures, policies prescribed by law or the Chief Financial Officer relating to the Council's financial management. They will bring to the attention of the Chief Financial Officer and the Head of Legal any matter that is contrary to the provisions of this code or the high standard of financial probity expected of the Council or may bring the Council into disrepute or legal challenge.

5.2 INCOME

All Officers receiving money or cashable instruments (including cash, cheques, credit/debit card payments, direct credits, etc.) or making arrangements for the collection of income must comply with the relevant procedures and instructions issued by the Chief Financial Officer to ensure that sums are properly recorded, receipted, and banked, and correct accounting entries made.

Cash, in coin or bank note, is only to be accepted in agreed circumstances and every effort should be made to promote cashless payments.

Budget Holders

All Officers with budget management responsibility are required to ensure that;

- invoices and credit notes are raised promptly,

- all enquiries relating to invoices raised and answered promptly,
- any matters that may affect recovery of an invoiced debt is made known to Accounts Receivable,
- any debts considered appropriate for write-off are notified to the Chief Financial Officer,
- income is regularly monitored and any irregularities are promptly notified to the Chief Financial Officer,
- a review of fees, charges and other income is undertaken at least annually and also as part of the budget setting cycle.

Write-off of irrecoverable debt

Once levied, debt may not be cancelled, except by full payment or by its formal writing off. A credit note to replace a debt must only be issued to correct a factual inaccuracy or administrative error in the calculation or billing of the original debt.

The Chief Financial Officer is:

a) approved to write-off a debt (or combination of debts) due from any individual debtor in any one financial year of not more than £2,500 in aggregate.

b) authorised to delegate the write off of small debts of less than £250.00 to nominated Officers

Debts greater than £2,500 may only be written-off with relevant Executive Member approval.

Disposal of Assets

CLT or Heads of Service will notify the Chief Financial Officer of any proposal to dispose of any surplus assets within their control or responsibility. The Chief Financial Officer will assess in consultation with the Director or Heads of Service the value of the asset(s) and determine the most appropriate route for disposal. The prior approval of the Executive Member for Resources is to be sought for the disposal of any individual asset with a current value of more than £50,000 in the Asset Register (currently £5,000).

5.3 EXPENDITURE

General

All purchases of goods and services are to be made in compliance with procedures in the Contract Standing Orders, as set out at Part 4 of this Constitution, or as otherwise instructed by the Chief Financial Officer. All Council purchases (other than those made by credit card) must be made and authorised by raising an Official Order in the Council's financial management system or repairs management system.

Purchases made using a Council credit card must be supported by a Payment Requisition signed by the purchasing Officer and counter-signed by an authorised Officer and forwarded promptly to the Chief Financial Officer.

The Chief Financial Officer will determine the authorised purchasing limits for all Officers in consultation with the relevant Director or Head of Service.

All purchases of goods and services must be supported by a valid invoice (in electronic or hard copy) that meets the requirements of the HM Revenue & Customs to support VAT recovery where appropriate.

Payments for goods and services will only be made where it can be referenced to an Official Order and will be by bank automated clearing system (BACS) or such other alternative method as may be approved by the Chief Financial Officer.

Acquisition of Assets

Assets purchased at a cost of more than £25,000 must be notified to the Chief Financial Officer for inclusion in a register of assets maintained to comply with public sector accounting requirements and best practice.

Officers and Members

All payments to Officers and Members will be made through the Council's payroll or as otherwise authorised by the Chief Financial Officer in order that all statutory and regulatory requirements are met.

No payment will be made unless approved by a duly authorised Officer. The Chief Financial Officer will determine the limit of authority for any Officer in consultation with the relevant Director or Head of Service.

5.4 TAXATION

The Council has a statutory duty for the proper administration of its tax affairs in pursuance of various United Kingdom and European Union legislation and directives.

All Officers and Members will comply promptly with any request made by the Chief Financial Officer for information or documentation in relation to any direct or indirect tax matters that may impact upon the proper administration of such matters including;

- Pay As You Earn income tax (PAYE)
- National Insurance Contributions (NIC)
- Value Added Tax (VAT)
- Construction Industry Tax (CIS)
- Corporation Tax

5.5 INSURANCE

Responsibilities of the Chief Financial Officer

The Chief Financial Officer will arrange for all insurance covers and negotiate settlement of all claims made through such insurances in consultation with relevant officers of the Council.

Responsibilities of CLT / Heads of Service

CLT and Heads of Service will ensure prompt notification to the officer responsible for insurances:

- of any incidents that may give rise to a claim against the Council the costs of which may be indemnified by the Council's insurances,
- of loss of or damage to any Council property or asset under its ownership, responsibility, custody or control,
- of any change in risk or ownership of or responsibility for any asset or property.

6. EXTERNAL ARRANGEMENTS

6.1 EXTERNAL FUNDING

Why is this important?

External funding is a very important source of income, but funding conditions need to be carefully considered to ensure that they are compatible with the aims and objectives of the Council. Local authorities are increasingly encouraged to provide seamless service delivery through working closely with other agencies and private service providers. Funds from external agencies provide additional resources to enable the Council to deliver services to the local community. However, in some instances, such funding may not link to the Council's aims and objectives, is linked to tight specifications and conditions and may impose risk and liability upon the Council.

Responsibilities of the Chief Financial Officer

i) To ensure that all funding notified by external bodies is received and properly recorded in the Council's accounts.
ii) To ensure that the match-funding requirements are considered prior to entering into the agreements and that future revenue budgets reflect these requirements or an exit strategy is agreed.
iii) To ensure that audit requirements are met.

iv) To ensure that all claims are submitted by the due date.
v) To ensure all virements in relation to approved bids are appropriately approved and actioned.
vi) To include progress updates on significant approved bids as part of the regular reporting process as and when required.

Responsibilities of CLT / Heads of Service

Bid Approvals

i) To ensure that the Chief Executive, Director of Digital and Resources, the Chief Financial Officer and the Head of Place and Economy are advised, at the earliest possible time, of all opportunities and applications for external funding.
ii) To ensure that any match funding is identified and in place prior to bidding for any external funding.
iii) To ensure all bids up to £100,000 are approved by the relevant Director prior to submitting the bid.
iv) To ensure all bids over £100,000 are subject to consultation with all of the relevant Executive Members prior to submission of any bid

Spend approvals

v) To update the forward plan for any new contracts or spend items which are over the key decision limits (currently £100,000);
vi) If successful in bidding, to submit reports to:
    a) the relevant Executive Member for bids that are over £100,000 and up to £250,000
    b) the Joint Strategic Committee for bids that are over £250,001

    which are sufficiently developed to enable the use of the funds without any further reporting requirement. This will include seeking approval for budget virements and any procurement activity.

Delivery

vii) To give the Chief Financial Officer a copy of all approvals received from government departments or other sources of external funds.
viii) To ensure that all supporting information is kept to support claims for funds.
ix) To ensure that the project progresses in accordance with the agreed conditions and that all expenditure is properly incurred and recorded.
x) To complete all grant monitoring information and claims in accordance with the agreed timescales.

Key controls

The key controls for external funding are: -

(a) To ensure that key conditions of funding and any statutory requirements are complied with and that the responsibilities of the accountable body are clearly understood;

(b) To ensure that funds are acquired only to meet the priorities approved in the policy framework by the Council;
(c) To ensure that any match-funding requirements are given due consideration prior to entering into long-term agreements and that future revenue budgets reflect these requirements or an exit strategy is agreed;
(d) To ensure risks are identified, within acceptable limits and are capable of being managed;
(e) To ensure monitoring and reporting frameworks are established and followed; and
(f) To ensure adequate controls and governance arrangements are in place and are followed.

6.2 GRANTS TO EXTERNAL ORGANISATIONS (INCLUDING RATE RELIEF)

Why is this important

Local groups and organisations make a significant contribution to the local community. However, this contribution is difficult to quantify in financial terms and it is therefore particularly important that any financial support the Council provides to these groups follows a clear and transparent process.

Responsibility of CLT / Heads of Service

To ensure that any grant payments and any awards of discretionary business rate relief are made in accordance with the agreed policies of the Council, and can be met from within existing budgetary provision.

APPENDIX 1: SCHEME OF VIREMENT AT A GLANCE (SECTION 3.2)

Type of Virement Delegation Limit	General (3.2.1)	S106 (3.2.2)	Contingency (3.2.3)	Reserves (3.2.4)
CLT	£50k	£25k	n/a	£25k
Chief Financial Officer (s151 Officer)	£100k	n/a	Technical virement (s151 Officer) allowed when fully costed and compliance with policy	
Executive Member	£100k+	£25k+	n/a	£25k+ If a delegation is in place
Joint Strategic Committee / Executive	£250+	£100k+	n/a	£250k+

Note:
It is essential that these limits are read in conjunction with the Financial Rules as contained in Part 4 of the Constitution as there are certain circumstances where virement is restricted or not permitted.

ADUR & WORTHING
COUNCILS

Joint Governance Committee
26 March 2019
Agenda Item 12

Ward(s) Affected: N/A

Local Government Ombudsman Complaints

Report by the Director for Digital & Resources

Executive Summary

1. Purpose

1.1 This report provides further analysis on the most recent Local Government Ombudsman complaints that have been received by the Councils.

2. Recommendations

2.1 That the Committee notes the contents of the report and agrees to receive a further report on the analysis of Local Government Ombudsman complaints in September 2019.

3. Context

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

3.2 The Committee has previously requested further analysis on the LGO complaints and as part of this ongoing analysis it received a report to its meeting on 25 September 2018 which also included the details of the LGO Annual monitoring letters for both Councils for 2017/18.

4. Issues for consideration

4.1 A detailed analysis of the most recent ongoing LGO complaints is now provided in the table below which covers the period September 2018 to March 2019.

Description of complaint	**LGO decision**
Adur District Council	
739995 - Letter to Head of Service re ongoing noise complaint, unhappy with the outcome of the investigation.	Decision pending.
Worthing Borough Council	
914607 - Complaint disputing Housing Benefit overpayment	Not upheld. The Ombudsman should not investigate this complaint. This is because it was reasonable for the complainant to appeal the overpayment decision to an independent benefits tribunal.
770133 - Complaint about Council Tax summons for non payment and handling of his telephone call.	Decision pending.
878831 - Unhappy with how Council Tax account has been handled, Council accepted liability for errors which resulted in complainant paying additional £150.	Not upheld. The Councils' actions did not lead to injustice for the complainant.
846793 - Unhappy with housing advice and service that has been given. Claims	Decision pending.

that Council's actions put undue stress on complainant. Feels unfairly treated and overlooked.	
943687 - Accommodation issues.	Decision pending.
903743 - Complaint regarding extension and pre-planning advice received from officer.	Not upheld. The Ombudsman will not investigate this complaint. This is because it is unlikely that the complainant's claimed injustice could be attributed to any fault by the Council.
724973 - Complaint about planning decision.	Decision pending.

4.2 The Service areas which have been generating the recorded LGO complaints during the periods of reporting to the Committee since 2014 have been broken down as follows:-

Adur District Council	
Planning	4 not upheld.
Environmental Health & Regulation	4 (1 upheld, 1 not upheld, 1 partially upheld and 1 decision pending).
Housing	4 (1 partially upheld, 1 upheld and 2 decision pending)
Census (Revenues & Benefits)	4 (2 not upheld, 1 partially upheld and 1 decision pending).
Worthing Borough Council	
Parks and Foreshore	2 not upheld.
Housing Services	2 not upheld and 1 partially upheld.
Planning	4 (2 not upheld, 1 upheld and 1 decision pending).
Revenues and Benefits	6 (1 upheld, 4 not upheld and 1 decision pending).
Democratic Services	1 (not upheld
Financial Services	1 (not upheld)

5. Financial Implications

5.1 There are no direct financial implications arising from this report but any upheld complaints by the Local Government Ombudsman might have some financial implications.

6. Legal Implications

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

6.2 Section 5 Local Government and Housing Act 1989 provides that the Council's Monitoring Officer has a duty to report to the Council on any proposal, decision or omission by the Authority which is likely to give rise to any maladministration or injustice as mentioned in Part III Local Government Act 1974.

6.3 The Councils' Constitutions provide at paragraph 2.4.4 of the Scheme of Officer Delegations that the Director for Digital and Resources is the link Officer with the Commissioner for Local Administration in England (Local Government Ombudsman) in consultation with the Monitoring Officer and appropriate Head of Service.

Background Papers

None.

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Sustainability & Risk Assessment

1. Economic

Matter considered. Complaints may impact on economic development if they are related to those issues.

2. Social

2.1 Social Value

The outcomes from complaints may impact on our communities or individuals.

2.2 Equality Issues

Matter considered. No direct implications.

2.3 Community Safety Issues (Section 17)

Matter considered and no direct implications.

2.4 Human Rights Issues

Matter considered and no direct implications

3. Environmental

Matter considered and there are no direct implications.

4. Governance

Matter considered. The outcomes from complaints might impact on the reputation of the Councils.