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ADUR & WORTHING
COUNCILS

18 January 2021

Joint Governance Committee	
Date:	**26 January 2021**
Time:	**6.30 pm**
Venue:	**Remote Meeting via Zoom**

Committee Membership:

Adur District Council: Councillors; Kevin Boram (Adur Chairman), George Barton (Adur Vice-Chairman), Paul Mansfield, Ann Bridges, Brian Coomber, Debs Stainforth, Catherine Arnold and Liz Haywood

Worthing Borough Council: Councillors; Roy Barraclough (Worthing Chairman), Tim Wills (Worthing Vice-Chairman), Louise Murphy, Mike Barrett, Steve Waight, Steve Wills, Rebecca Cooper and Hazel Thorpe

Agenda

Part A

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.

3. Minutes

To approve the minutes of the Joint Governance Committee meeting held on 24 November 2020, copies of which have been previously circulated.

4. Public Question Time

To receive any questions from members of the public.

In order for the Committee to provide the fullest answer, questions from the public should be submitted by **noon** on **Friday 22 January 2021.**

Where relevant notice of a question has not been given, the person presiding may either choose to give a response at the meeting or respond by undertaking to provide a written response within three working days.

Questions should be submitted to Democratic Services, democratic.services@adur-worthing.gov.uk

(Note: Public Question Time will operate for a maximum of 30 minutes.)

5. Items Raised under Urgency Provisions

To consider any items the Chairman of the meeting considers to be urgent.

6. Statement of Accounts 2019/20 Members Update Report (Pages 1 - 72)

To consider a report by the Director for Digital, Sustainability and Resources, copies attached as item 6.

7. Internal Audit Progress Report (Pages 73 - 100)

To consider a report from the Internal Auditors, copies attached as item 7.

8. Joint Treasury Management Strategy Statement and Annual Investment Strategy 2021/22 to 2023/24, Adur District Council and Worthing Borough Council (Pages 101 - 158)

To consider a report by the Director for Digital, Sustainability & Resources, copy attached as item 8.

9. Risk & Opportunity Management Update (Pages 159 - 200)

To consider a report by the Director for Digital, Sustainability & Resources, copy attached as item 9.

10. Scheme of Officer Delegations (Pages 201 - 208)

To consider a report by the Monitoring Officer, copy attached as item 10.

Part B Exempt Reports - Not for Publication

None.

Recording of this meeting
Please note that this meeting is being live streamed and a recording of the meeting will be available to view on the Council's website. This meeting will be available to view on our website for one year and will be deleted after that period. The Council will not be recording any discussions in Part B of the agenda (where the press and public have been excluded).

For Democratic Services enquiries relating to this meeting please contact:	For Legal Services enquiries relating to this meeting please contact:
Neil Terry Democratic Services Lead 01903 221073 neil.terry@adur-worthing.gov.uk	Maria Memoli Head of Legal Services and Monitoring Officer 01903 221119 maria.memoli@adur-worthing.gov.uk

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

Duration of the Meeting: Four hours after the commencement of the meeting the Chairperson will adjourn the meeting to consider if it wishes to continue. A vote will be taken and a simple majority in favour will be necessary for the meeting to continue.

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Joint Governance Committee
26 January 2021
Agenda Item 6

ADUR & WORTHING
COUNCILS

Ward(s) Affected: All

Statement of Accounts 2019/20 Members Update Report

Report by the Director for Digital, Sustainability & Resources

Executive Summary

Purpose

1.1 To provide the Joint Governance Committee with an updated position of the Audit of the 2019/20 financial statements for Adur District Council and Worthing Borough Council.

1.2 At its meeting on 24th November 2020, the committee approved the financial statements for 2019/20 as presented. The committee was advised that the external audit of these accounts for both Councils was not complete and delegated authority to the Joint Chairmen of the Joint Governance Committee, in consultation with the s151 Officer, to consider and approve any amendments to these accounts, with the requirement for an update report to be brought to the next meeting.

1.3 The following appendices have been attached to this report:

(i) **Appendix 1** Adur District Council Letter of Representation

(ii) **Appendix 2** Independent Auditors Report to the Members of Adur District Council

(iii) **Appendix 3** Adur District Council Audit Results Report 2019/20

Recommendations

2.1 The Joint Governance Committee is recommended to:

- Note the revision within the Adur District Council financial statements 2019/20 of the signature dates for the Statement of Responsibilities and Annual Governance Statement to the audit completion date of 16th December 2020.

- Note the amended letter of representation for Adur District Council in appendix 1.

- Note the Independent Auditors Report to the Members of Adur District Council for the 2019/20 financial statements in appendix 2.

- Note the final Audit Results Report 2019/20 for Adur District Council in appendix 3.

- Note that an update report will be brought to the next Joint Governance committee to brief members on the outcome of the Worthing Borough Council audit for 2019/20.

3. Context

3.1 The Accounts and Audit Regulation 2015, section 8 sets out the requirements of signing, approval and publication of the statement of accounts for 2019/20.

3.2 The Chief Financial Officer (CFO) has complied with Section 9 of the regulations which require that the 2019/20 draft accounts be certified by the 31st July 2020.

3.3 In accordance with section 9, the CFO has also re-certified on behalf of that authority that they are satisfied that the statement of accounts following the audit presents a true and fair view of the financial position of the Councils at the end of the financial year; and the Councils' income and expenditure for that year.

3.4 Following the approval of the statement of accounts in July 2020, the audit of the two sets of accounts commenced. The accounts were presented to the Joint Governance Committee at its meeting on 24th November 2020 with all required disclosure, presentational and other error adjustments identified up to 13th November 2020. The Auditors findings at that stage were identified in the Auditor's draft 2019/20 External Auditor's Audit Results Report (ISA 260). The committee was advised that the audit of the financial statements for both Council were not complete. It was explained that the principal reason for the delay was additional due diligence work required related to the valuation of property, a small team of specialists within EY were undertaking this work and struggling with the volume within the timescales. This was recognised as a national issue, not confined to Adur and Worthing.

3.5 To address the potential late adjustment to the accounts the committee delegated authority to the Joint chairman, in consultation with the s151 officer, to receive any amendments to the accounts, consider them and approve them on behalf of the Joint Governance Committee, and to report back to this committee at its next meeting.

4. Issues for consideration

4.1 The audit of the Adur District Council financial statements 2019/20 was completed and an unqualified audit opinion signed on 16th December 2020. There was one judgemental error identified in relation to the valuation of properties, the accounts were not adjusted as the error is not material and reflects a difference in the professional judgements applied between the Council appointed valuers and the Ernst and Young Real Estate team.

4.2 At the time of writing the report the Worthing Borough Council audit was still not complete, with the due diligence work on property valuations still ongoing within the Ernst & Young Real Estate Team. At the time of writing this report no adjustments have been required to the statements that were presented to the committee on 24th November. A verbal update will be provided to members as to the status of the Worthing audit at the committee meeting.

4.3 At its meeting on the 24th November the committee considered the Letters of Representation and it was agreed that the wording should be re-ordered to ensure that it is clear that the Chairman is signing on behalf of the Council and confirming that the letter has been discussed and agreed by the Joint Governance Committee. The Letter of Representation for Adur District Council at appendix 1 has been updated for this amendment and section A(5) has been updated to reference the unadjusted judgemental error mentioned at 4.1 of this report. The Worthing Letter of representation will be finalised when the audit is completed.

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5. Financial Implications

5.1 There are no financial implications that result from this report. The financial position as set out in the Adur District Council financial statements 2019/20 not changed from that reported to this committee on 24th November 2020, the only amendment being the signature dates for

the Statement of Responsibilities and the Annual Governance Statement to the completion date of 16th December 2020. The final audited accounts for Adur District Council 2019/20 are available on the Council website;
https://www.adur-worthing.gov.uk/about-the-councils/finance/statement-of-accounts/
The Worthing Borough Council audit is still in progress, a report will be brought to the next Joint Governance Committee meeting to update members on the outcome following its completion.

6. Legal Implications

6.1 The two sets of Statements of Accounts have been prepared in accordance with statutory instrument number 234 (2015), the Accounts and Audit Regulations 2015 and the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, based on International Financial Reporting Standards (IFRS).

7.2 The formal approval of the accounts enables the Councils to comply with the Account and Audit Regulations 2015.

Background Papers
Background Papers:
Accounts and Audit (England) Regulations 2015
http://www.legislation.gov.uk/uksi/2015/234/pdfs/uksi_20150234_en.pdf

CIPFA Code of Practice on Local Authority Accounting in United Kingdom 2019120 – Based on International Financial Reporting Standards

CIPFA Guidance Notes for Practitioners 2019/20 Accounts

2019/20 External Auditor's Report to those Charged with Governance (ISA 260)

23rd July 2020 Joint Strategic Committee – Financial Performance 2019/20 "Revenue Outturn" and "Capital Projects Outturn"
https://www.adur-worthing.gov.uk/media/media,154334,en.pdf
https://www.adur-worthing.gov.uk/media/media,154335,en.pdf

28th May 2020 Joint Governance Committee – "The Annual Governance Statements 2019/20 – review and approval"
https://www.adur-worthing.gov.uk/media/media,153953,en.pdf

Officer Contact Details:-
Emma Thomas
Chief Accountant
Worthing Town Hall
01903 221232
emma.thomas@adur-worthing.gov.uk

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 External Auditor’s Audit Results Report - ISA (UK and Ireland) 260 is a publicly available document and as such, the findings in the report have an impact on the Councils reputations with regard to financial Governance.

ADC
ADUR DISTRICT
COUNCIL

Adur District Council
℅ Worthing Town Hall
Chapel Road
Worthing
West Sussex, BN11 1HA
www.adur-worthing.gov.uk

To:
Ernst & Young
Grosvenor House,
Grosvenor Square
Southampton
SO15 2BE
United Kingdom

Date: 16th December 2020
Service: Finance
Tel: 01903 221221
Email: Sarah.gobey@adur-worthing.gov.uk

Adur District Council – Audit for the year ended 31 March 2020

This letter of representations is provided in connection with your audit of the financial statements of Adur District Council ("the Council") for the year ended 31 March 2020. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Council financial position of Adur District Council as of 31 March 2020 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with [the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.
5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected any differences identified by and brought to the attention from the auditor as they represent immaterial differences in judgemental opinion between the Council appointed valuers and the Ernst & Young Real Estate professionals.

B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have disclosed to you, and provided you full access to information and any internal investigations relating to, all instances of identified or suspected non-compliance with law and regulations, including fraud, known to us that may have affected the Council (regardless of the source or form and including, without limitation, allegations by "whistle blowers") including non-compliance matters:
    - involving financial statements;
    - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
    - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;
    - involving management, or employees who have significant roles in internal controls, or others; or
    - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

Adur and Worthing Councils, Town Hall, Worthing, West Sussex BN11 1HS
www.adur-worthing.gov.uk

1. We have provided you with:

   - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
   - Additional information that you have requested from us for the purpose of the audit; and
   - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the financial statements, including those related to the COVID-19 pandemic

3. We have made available to you all minutes of the meetings of the Council, Executive, Joint Governance and Joint Strategic Committees held through the year to the most recent meeting on the following date: 1st December 2020.

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.

5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

7. From the date of our last management representation letter through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants) , to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.

2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in Note 38 to the financial statements all guarantees that we have given to third parties.

E. Subsequent Events

1. There have been no events subsequent to period end, including events related to the COVID-19 pandemic, which require adjustment of or disclosure in the financial statements or notes thereto.

F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report.

2. We confirm that the content contained within the other information is consistent with the financial statements.

G. Going Concern

1. Note 3 to the financial statements discloses all the matters of which we are aware that are relevant to the Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

H. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of land and buildings and investment property, in the calculation of the NDR appeals provision, in generating the IAS19 pension disclosures and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

I. Estimates

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

2. We confirm that the significant assumptions used in making the NDR appeals provision, valuation of assets and IAS19 disclosure estimates appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.

3. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete ,including the effects of the COVID 19 pandemic on the NDR appeals provision, valuation of assets and IAS19 disclosure and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20

4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events, including due to the COVID-19 pandemic.

J. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Signed:

Name: Sarah Gobey

Position: Chief Financial Officer

Date: 16/12/20

Signed on behalf of Adur District Council

I confirm that this letter has been discussed and agreed by the Joint Governance Committee.

Name: Councillor Kevin Boram

Position: Chairman, Joint Governance Committee

Date: 16/12/20

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ADUR DISTRICT COUNCIL

Opinion

We have audited the financial statements of Adur District Council for the year ended 31 March 2020 under the Local Audit and Accountability Act 2014. The financial statements comprise the Movement in Reserves Statement, Comprehensive Income and Expenditure Statement, Balance Sheet, Cash Flow Statement, and the related notes 1 to 41; the Housing Revenue Account Comprehensive Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the related notes 1 to 12; the Collection Fund and the related notes 1 to 5.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

In our opinion the financial statements:

- give a true and fair view of the financial position of Adur District Council as at 31 March 2020 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – Property, Plant and Equipment and Investment Property valuation

We draw attention to Note 4 Assumptions made about the future and other sources of estimation uncertainty, Note 12 Property, plant and equipment and Note 14 Investment Properties of the financial statements, which describe the valuation uncertainty the Council is facing as a result of COVID-19 in relation to property valuations. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

- the Chief Finance Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the Statement of Accounts for the Financial Year 2019/20, other than the financial statements and our auditor's report thereon. The Chief Finance Officer is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General in April 2020, we are satisfied that, in all significant respects, Adur District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Responsibility of the Chief Finance Officer

As explained more fully in the Statement of the Chief Finance Officer Responsibilities set out on page 29, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities.This description forms part of our auditor's report.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, as to whether Adur District Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Adur District Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, Adur District Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Certificate

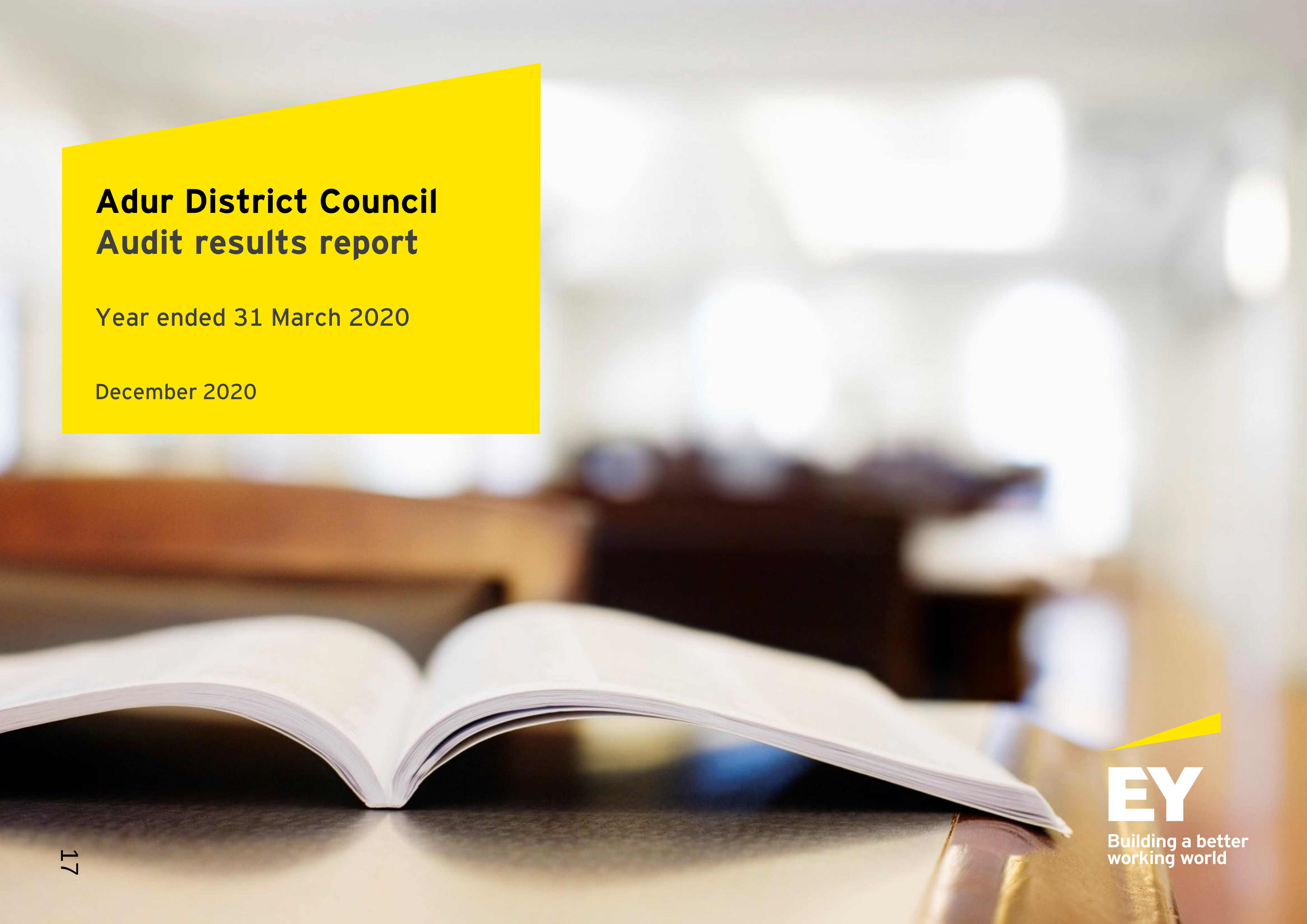
We certify that we have completed the audit of the accounts of Adur District Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the members of Adur District Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Helen Thompson
Ernst & Young LLP

Helen Thompson (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Southampton
17 December 2020



Adur District Council
Audit results report

Year ended 31 March 2020

December 2020

Building a better working world

17 December 2020

Adur District Council
c/o Worthing Town Hall
Chapel Road
Worthing
West Sussex
BN11 1HA

Dear Joint Governance Committee Members

We are pleased to attach our Audit Results Report for the forthcoming meeting of the Joint Governance Committee.

We have completed our audit of the Council for the year ended 31 March 2020, As set out on pages 5 and 6, a number of issues have arisen as a result of COVID-19 which impacted on our audit. We have issued an unqualified audit opinion on the financial statements.

This report is intended solely for the use of the Joint Governance Committee, other members of the Council, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

Yours faithfully

Helen Thompson

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

Contents

Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the Chief Executive of each audited body and the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/).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 and further guidance (updated April 2018)" 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 Audit Results Report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

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

01 Executive Summary

Executive Summary

Scope update

In our audit planning report included in the papers for the 24 March 2020 Joint Governance Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. In our audit plan update, present to you at the Joint Governance Committee meeting on 22 September, we highlighted the changes to that scope as summarised below:

Changes to reporting timescales

As a result of COVID-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final, audited accounts from 31 July to 30 November 2020 for all local authority bodies.

Changes to our risk assessment as a result of Covid-19

- **Valuation of investment property -** The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Council's external valuer. We consider that the material uncertainties disclosed by the valuer gave rise to an additional risk relating to disclosures on the valuation of investment property.
- **Pension Liability Valuation -** Due to the timing of the pandemic and the UK restrictions it is highly likely that the value of plan assets within the pension fund will be significantly impacted – in particular level 3 assets where there is no active market. West Sussex Pension Fund had £488m worth of Level 3 assets as at 31st March 19. Although Adur DC only represents 2.56% of the fund this is still material at £12.5m at 31 March 2019. Due to the timing of the pandemic the IAS 19 fair value of assets will be based on an estimate. Considering the size and nature of these assets it is likely that actual values will be different to the estimate and even small changes can have a material impact on the Council's accounts. As a result of the Covid-19 impact on fair value valuations, we have escalated this risk from an area of audit focus to a significant risk.
- **Valuation of Land and Buildings -** The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Council's external valuer. We consider that the material uncertainties disclosed by the valuer gave rise to an additional risk relating to disclosures on the valuation of property. This impact is expected to affect PPE valued at Existing Use Value (EUV) as the valuation basis for these properties is linked to recent market transactions. Whilst we have not escalated this to a significant risk, there are additional considerations to the area of audit focus.
- **Disclosures on Going Concern** – Financial plans for 2020/21 and beyond will need revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the Council would not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the Council's actual year end financial position and performance.
- **Adoption of IFRS16** – The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of local authority financial statements has been deferred until 1 April 2021. The Council will therefore no longer be required to undertake an impact assessment, and disclosure of the impact of the standard in the financial statements does not now need to be financially quantified in 2019/20. We therefore no longer considered this to be an area of audit focus for 2019/20.

Executive Summary

Scope update (continued)

Changes in materiality

We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment. Based on our materiality measure of gross expenditure on provision of services, we updated our overall materiality assessment to £1.34m (Audit Planning Report – £1.0m). This results in updated performance materiality, at 75% of overall materiality, of £1.0m, and an updated threshold for reporting uncorrected misstatements of £66,000. We have considered whether any change to our materiality is required in light of Covid-19. Following this consideration, we were satisfied that the values for planning materiality, performance materiality and our audit threshold for reporting differences reported to you in our audit planning report remain appropriate.

We also identified areas where misstatement at a lower level than our overall materiality level might influence the reader and developed an audit strategy specific to these areas, including:

- Remuneration disclosures including any severance payments, exit packages and termination benefits. We audit these fully given their inherent sensitive nature.
- Related party transactions. We consider any related parties in terms of the underlying relationship and potential influence, and not simply the overall values disclosed.

Information Produced by the Entity (IPE): We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Council's systems. We undertook the following to address this risk:

- Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
- Agree IPE to scanned documents or other system screenshots.

Additional EY consultation requirements concerning the impact on auditor reports because of Covid-19. The changes to audit risks, audit approach and auditor reporting requirements changed the level of work we needed to perform. We have set out the impact on our audit fee in Section 8.

Executive Summary

Status of the audit

We have completed our audit of Adur District Council's financial statements for the year ended 31 March 2020 and have performed the procedures outlined in our audit planning report.

Audit differences

There is one unadjusted audit difference arising from our audit.

We also identified one audit difference in the cashflow statement, with no impact on the Comprehensive income and expenditure statement, which has been adjusted by management.

Details can be found in Section 5 Audit Differences.

Executive Summary

Areas of audit focus

Our audit planning report, and our audit planning update, identified key areas of focus for our audit of the Council's financial statements This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

Risk	Findings & Conclusions
Misstatements due to fraud or error (management override)	Our audit work has found no evidence that management had attempted to override internal controls and we have not identified any instances of inappropriate judgements being applied. We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.
Incorrect capitalisation of revenue spend	We are satisfied that capital additions made in the year met the requirements of IAS 16, and had been correctly capitalised.
Introduction of new financial management system	From the work performed we have sufficient assurance the data transfer from the old system to the new system was materially accurate and complete.
Valuation of investment properties	We concluded that the investment properties and assets within land and buildings valued on a similar basis are reasonably stated. We identified that the Council had not initially adequately disclosed the material uncertainty highlighted within the Valuers' Report. We agreed additional wording to enhance the disclosure within the financial statements.
Pensions liability valuation	We concluded that the net pension liability was fairly stated.
Valuation of land and buildings	We concluded that assets held in property, plant and equipment are reasonably stated. We identified that the Council had not initially adequately disclosed the material uncertainty highlighted within the Valuers' Report. We agreed additional wording to enhance the disclosure within the financial statements.
Going concern disclosure	We have reviewed management's going concern assessment in the draft financial statements. We noted that this disclosure was very limited and requested that management provide an enhanced disclosure and supporting evidence to reflect the impact of Covid-19. Our work included stress testing of assumptions and cash flow forecasts and ensuring the updated going concern disclosure within the financial statements was consistent with management's going concern assessment and that there is no material uncertainty which requires disclosure.

Executive Summary

Areas of audit focus (continued)

We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues
- You agree with the resolution of the issue
- There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Joint Governance Committee.

Executive Summary

Control observations

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements and which is unknown to you.

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our audit planning report we identified a significant risks over sustainable resource deployment. We have revisited this assessment and considered the wider results of our other audit procedures; we identified no further significant risks.

Our findings and conclusions in respect of this risk are set out at Section 5 Value for Money Conclusion Risks. We have no other matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We have no matters to report as a result of this work.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your WGA return. The extent of our review, and the nature of our report, is specified by the NAO. As the Council falls below the £500 million threshold for review as per the NAO's group instructions, we are not reporting any matters.

Independence

We have no issues to report.

Please refer to Section 9 for our update on Independence.

02 Areas of Audit Focus

Areas of Audit Focus

Significant risk

Misstatements due to fraud or error

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

What judgements are we focused on?

As part of our work we focused on the key judgemental areas of financial statements, such as accounting policies, the model applied to the minimum revenue provision and unusual transactions.

We reviewed accounting estimates for evidence of management bias, and specifically focused on the following:

- IAS 19 disclosures; and
- Valuation of land and buildings in Property, Plant and Equipment and Investment Properties.

What did we do?

We have performed the procedures described in our original audit plan. Please see the following page for full details.

What are our conclusions?

Our audit work has found no evidence that management had attempted to override internal controls.

We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.

This conclusion is based on detailed testing of accounts entries susceptible to potential manipulation.

Significant Risk

Significant risk

Further details on procedures/work performed

We identified the key fraud risks at the planning stage of the audit and considered the effectiveness of management's controls that are designed to address the risk of fraud. We updated our understanding of the risks of fraud and the controls put in place to address them and made enquiries of Internal Audit, management and those charged with governance to support our understanding.

We have:

- Inquired of management about risks of fraud and the controls put in place to address those risks.
- Understood the oversight given by those charged with governance of management's processes over fraud.
- Considered the effectiveness of management's controls designed to address the risk of fraud.

Performed mandatory procedures regardless of specifically identified fraud risks, including:

- Reviewing the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of the financial statements.
- Reviewing and discussing with management and challenging any accounting estimates on revenue or expenditure recognition for evidence of bias, specifically:
    - IAS 19 disclosures; and
    - Valuation of land and buildings in Property, Plant and Equipment and Investment Properties.

    We found that the valuation methodology for each of the above estimates has not changed from prior years.

- Reviewing the transactions in the financial statements for evidence of any significant unusual transactions.

In addition to our overall response, we considered where these risks may present themselves and identified a separate fraud risk related to the capitalisation of revenue expenditure and a separate significant risk over the valuation of investment properties and included the valuation of land and buildings as an area of audit focus as set out on the following slides.

Significant risk

Risk of fraud in revenue and expenditure recognition – specifically in inappropriate capitalisation of revenue expenditure

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

From our risk assessment, we have assessed that the risk manifests itself solely through the inappropriate capitalisation of revenue expenditure to improve the financial position of the general fund.

Capitalised revenue expenditure can be funded through borrowing with only minimal MRP charges recorded in the general fund, deferring the expenditure for 30+ years when the borrowing is repaid.

What did we do?

Our approach focussed on:

► For significant additions we examined invoices, capital expenditure authorisations, leases and other data that support the additions. We reviewed the sample selected against the definition of capital expenditure in IAS 16.

► We extended our testing of items capitalised in the year by lowering our testing threshold. We will also review a larger random sample of capital additions below our testing threshold.

► Journal testing – we used our testing of Journals to identify high risk transactions, such as items originally recorded as revenue expenditure and subsequently capitalised.

► Revenue Expenditure Funded by Capital Under Statute (REFCUS) - We extended our testing of items that were classified as REFCUS in the year by lowering our testing threshold. We challenged managements classification to ensure that items were appropriately included in this category. Expenditure that is classed as REFCUS is mainly in the form of capital grants where the Council does not receive an asset on their Balance Sheet.

What are our conclusions?

The Council made additions to operational assets of £5.7 million; Heritage Assets of £51,000 and Investment Properties of £43.4 million.

The Council also incurred revenue expenditure funded by capital under statute of £11.0 million.

We are satisfied that capital additions made in the year met the requirements of IAS 16, and had been correctly capitalised.

We are also satisfied that the expenditure under REFCUS was appropriately classified.

Significant Risk

Significant risk

Introduction of new financial management system

What is the risk?

The Council introduced its new Technology One financial management system with effect from November 2019. It put in place measures to migrate data on 2019/20 transactions and balances from the old to the new financial management system. The Council's 2019/20 financial statements were prepared using data taken from the new general ledger at the end of the financial year.

To ensure the production of materially accurate and complete 2019/20 financial statements, it is essential that the Council is assured over the completeness and accuracy of financial data to its new general ledger.

What did we do?

We:

- met officers to discuss and understand the process for implementing the new financial management system.
- reviewed the actions taken by the Council to ensure the complete and accurate migration of financial data to the new general ledger. This included reviewing the effectiveness of reconciliation processes.
- undertook our own testing on the completeness and accuracy of data migration.
- met internal audit to understand the work they had completed in 2019/20 in relation to the new ledger system.
- reviewed how data from the new system maps to the statement of accounts, as part of our understanding of the accounts production process for 2019/20.

What are our conclusions?

From the work performed we have sufficient assurance the data transfer from the old system to the new system was materially accurate and complete.

Significant Risk

Significant risk

Valuation of Investment Properties

What is the risk?

The fair value of Investment Properties represents a significant balance in the Council's accounts (£78.6 million) and is subject to valuation changes, impairment reviews and market fluctuations. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty in the valuations at year-end.

Since late March 2020 in the UK, Covid-19 has had a dramatic impact on the occupation of buildings due to the forced closure of restaurants, retail stores, leisure, offices and hotels due to government regulation. We do not know how long the government's measures will last or how long businesses will be impacted. Rental income is expected to fall as tenants may default on their rents or seek to negotiate rent reductions as they can no longer trade effectively. This could have a significant impact on investment properties and we have therefore raised a significant risk in relation to these valuations.

The value of Investment Properties at 31 March 2020 was £78.6 million.

What did we do?

We have:

- Considered the work performed by the Council's valuer, this included a review of the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample tested key asset information used by the valuer in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- instructed our own Property valuation team (EY Real Estates) to review a sample of property valuations performed by the Councils Valuer; and
- Tested accounting entries have been correctly processed in the financial statements.

We also noted that the Council's valuer attached a 'material uncertainty' clause to their valuation as a result of Covid. We reviewed the adequacy of the disclosure of this in the Council's accounts.

What are our conclusions?

We concluded that the investment properties and assets within land and buildings valued on a similar basis are reasonably stated.

We identified that the Council had not initially adequately disclosed the material uncertainty highlighted within the Valuers' Report. We agreed additional wording to enhance the disclosure within the financial statements.

Our audit opinion includes an emphasis of matter paragraph which draws attention to the material uncertainty over property valuations included within the valuers report and we will require additional disclosure in the financial statements regarding this matter, as a result of Covid-19. Our opinion is not modified in respect of this matter.

Significant Risk

Significant risk

Further details on procedures/work performed

We reviewed the adequacy of the scope of the work of the valuer and reviewed their professional capabilities. This, in conjunction with the review performed by our property valuation team, provides us with assurance over the work performed by the valuer.

We performed testing to ensure that the base data provided by the Council to the valuers to aid in their valuations, such as floor areas and rental agreements were consistent with the underlying records. We did not identify any issues in this testing.

We instructed our property valuation team to review a sample of the valuations performed by the Council. The review focused on whether the valuations were based on reasonable and supportable assumptions. We were able to conclude that the investment properties were all valued within a reasonable range and that the assumptions used by the valuers were supportable.

Our property valuation team highlighted that the Council values the majority of their assets at 1 April each year and then performs an indexation process to amend the valuation of assets to 31 March 2020 based on a market review performed by the external valuer. However, some assets were revalued at 31 March 2020.

We verified that the accounting entries included in the financial statements reflected the valuation movements and that the financial statements agreed with the underlying fixed asset register.

Recommendation 1

Management should consider the timing of the valuation of the assets. Performing a valuation closer to 31 March 2020 provides greater assurance over the balances at the year end date.

Management Response:

We have had discussions internally regarding the timing of the valuations and due to the volume of work and the earlier statutory closedown we have concerns that there would be a risk on the ability to complete the accounts on time.

Responsible **Officer:**

Chief Accountant

Areas of Audit Focus

Significant risk

Pension liability valuation

What is the risk?

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by West Sussex County Council. The Council's pension fund liability is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2019 this totalled £34 million. The information disclosed is based on the IAS 19 report issued to the Council by the actuary.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates. In the prior year the 'McCloud' judgement impacted the estimate and resulted in an amendment of the net pension liability. We anticipate this will again be a key assumption in estimating the pension liability. We would expect the Council's actuary to be basing their assumptions taking into account the Council's specific membership profile and how it has been impacted by the judgement. We also note that there may be further developments in this area, potentially again coming after the balance sheet date.

Due to the timing of the pandemic and the UK restrictions it is highly likely that the value of plan assets within the pension fund will be significantly impacted – in particular level 3 assets where there is no active market. West Sussex Pension Fund has £488m worth of Level 3 assets as at 31st March 19. Although Adur DC only represents 2.56% of the fund this is still material at £12.5m at 31 March 2019. Due to the timing of the pandemic the IAS 19 fair value of assets will be based on an estimate. Considering the size and nature of these assets it is likely that actual values will be different to the estimate and even small changes can have a material impact on the Council's accounts.

What did we do?

We have performed the procedures described in our original audit plan. Please see the following page for full details.

What are our conclusions?

The value of the liability as at 31 March 2020 was £14.4 million.

We identified that the pension fund asset value at 31 March 2020 used by the actuary in their report was understated by £185,000.

As the difference is not material, we concluded that the net pension liability was fairly stated.

In all other respects we have no findings to report.

Significant risk

Further details on procedures/work performed

We:

- Liaised with the auditors of West Sussex Pension Fund to obtain assurances over the information supplied to the actuary in relation to Adur District Council;
- Assessed the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team.
- Considered the movement in fund asset values between the actuary's estimate and year end;
- Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19; and
- Reviewed the Council's calculation of the impact of the 'McCloud' and 'Goodwin' judgement noting that the post balance sheet events did not have a material impact on the pension liability and therefore are not required to be disclosed as post balance sheet event

We have considered the assurance reports from the West Sussex Pension Fund Auditor.

We have considered the information provided by the EY Pensions actuarial team and are satisfied that the information supplied to the actuary is accurate and the assumptions applied by the actuary are reasonable.

We considered the Council's response to legal rulings regarding age discrimination arising from public sector pension scheme transitional arrangements, commonly described as the McCloud ruling. On 16 July 2020, HM Treasury issued a consultation regarding transitional arrangements for public sector pensions to eliminate discrimination as identified through the McCloud case. This consultation introduced a requirement for members to have been members of the scheme on or before 31 March 2012 and on or after 1 April 2015 to be eligible for remedy. Our EY Pensions team has reviewed the approach taken by Hymans Robertson and established that the approach was reasonable, but noted the approach used by Hymans Robertson was likely to be more approximate compared to other actuaries.

The release of the Consultation allowed the actuary to complete a more detailed calculation of the added McCloud benefit for individual scheme members as opposed to rely on the GAD assumption. EY Pensions confirmed that if the McCloud impact was immaterial using Hymans' pre-consultation methodology, we would expect the McCloud impact to decrease and so remain immaterial. We noted that as the McCloud allowance for Adur District Council was £132,000, any further decrease in the allowance would be immaterial and likely trivial. As the adjustment relates to a post balance sheet event (i.e. the release of the consultation) an adjustment would only be required if it is material, as it is clearly not, no adjustment is required.

As a result, we are satisfied that the IAS 19 report used in the preparation of the draft financial statement is based on appropriate assumptions. We have also considered the impact of another recent legal ruling (referred to as Goodwin) and are satisfied based on the current guidance we have that the impact of this is not material to the Council's financial statements. Therefore no adjustments have been proposed. We have asked the Council to consider whether the post balance sheet events disclosure should be updated to reflect these recent events.

Areas of Audit Focus

Other risk

Valuation of property, plant & equipment

What is the risk?

The value of Property, Plant and Equipment (PPE) represents a significant balance in the Council's accounts and is subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. The value of operational assets in the draft accounts at 31 March 2020 is £37.7 million, £23.3 million of which is valued at Existing Use Value (EUV) with the remaining properties £14.5 million at Depreciated Replacement Cost (DRC) and HRA dwellings is £190.6 million valued using the Beacon method.

The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty in the valuations at year-end.

This impact is expected to affect PPE valued at EUV as the valuation basis for these properties is linked to recent market transactions.

What did we do?

We have:

- Considered the work performed by the Council's valuer, this included a review of the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample tested key asset information used by the valuer in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- instructed our own Property valuation team (EY Real Estates) to review a sample of property valuations performed by the Council's Valuer;
- Considered the annual cycle of valuations to ensure that investment properties are being revalued every year;
- Tested accounting entries have been correctly processed in the financial statements; and

We also noted that the Council's valuer attached a 'material uncertainty' clause to their valuation as a result of Covid. We reviewed the adequacy of the disclosure of this in the Council's accounts.

What are our conclusions?

We concluded that assets held in PPE are reasonably stated.

We identified that the Council had not initially adequately disclosed the material uncertainty highlighted within the Valuers' Report. We agreed additional wording to enhance the disclosure within the financial statements.

Our audit opinion includes an emphasis of matter paragraph which draws attention to the material uncertainty over property valuations included within the valuers report and we will require additional disclosure in the financial statements regarding this matter, as a result of Covid-19. Our opinion is not modified in respect of this matter.

Other risk

Further details on procedures/work performed

We reviewed the adequacy of the scope of the work of the valuer and reviewed their professional capabilities. This, in conjunction with the review performed by our property valuation team, provides us with assurance over the work performed by the valuer.

We performed testing to ensure that the base data provided by the Council to the valuers to aid in their valuations, such as floor areas and rental agreements were consistent with the underlying records. We did not identify any issues in this testing.

We instructed our property valuation team to review a sample of the valuations performed by the Council across PPE and Investment Properties. The review focused on whether the valuations were based on reasonable and supportable assumptions. The property valuation team identified that the valuation of the single asset, with a value of £5.9 million, within land and buildings that was valued by the Valuer in 2019/20 was valued outside the reasonable range of £5.3 million to £5.6 million. We were able to verify that this was the only significant asset of this type within land and buildings and that the valuation of the investment properties reviewed by our property valuation team were all within a reasonable range. Our valuation team concluded that the majority of the assumptions used by the valuer were supportable, however, there was no allowance made for voids, which we would expect for a property of this type. We considered the impact of the overstatement of the valuation on other similar properties within land and buildings and concluded that the remaining properties would not be materially impacted. Therefore, we treated this as an isolated error in the valuation and this resulted in a judgemental overstatement of land and buildings of £308,300.

Our testing identified that the asset above was the only significant asset from land and buildings that was formally valued in 2019/20, with an asset value of £5.9 million compared to the total land and buildings valuation of £37.7 million.

Our property valuation team highlighted that the Council valued the majority of their assets at 1 April 2019 each year and then perform an indexation process to amend the valuation of assets to 31 March 2020 based on a market review performed by the external valuer. However, some assets were revalued at 31 March 2020.

We tested the accounting treatment of assets not formally revalued in year and challenged the Council on their application of their indexation methodology. Our testing of the indexation did not identify any issues.

We tested the valuation of the HRA properties, ensuring that the valuers had used the standard Beacon methodology and testing a sample of the assets valued in year to corroborative evidence. We tested that the Council had revalued the other assets within each Beacon in line with the key assets valued by the valuer. We did not identify any issues in our testing.

We verified that the accounting entries included in the financial statements reflected the valuation and indexation movements and that the financial statements agreed with the underlying fixed asset register.

Areas of Audit Focus

Other risk

Further details on procedures/work performed

Recommendation 2

The Council should implement a formal process for the cyclical valuation of assets to ensure that a representative sample of assets in PPE are valued each year to ensure that the cyclical valuations are performed in line with CIPFA's Code of Practice on Local Authority Accounting and to provide corroborative evidence of the market review obtained from the valuer for the indexation of the assets not revalued in the year, which provides assurance over the material accuracy of the entire population.

Management Response:

This is a recommendation that the Council would look to consider and take forward but would need to be a progressive change over several years.

Responsible Officer:

Chief Accountant

Other risk

Going Concern Disclosure

What is the risk?

Covid-19 has created a number of financial pressures throughout Local Government. There is currently not a clear statement of financial support from MHCLG that covers all financial consequences of Covid-19.

There have been a number of media stories in both the national press and trade publications raising the possibilities of an increase in chief financial officers using their s114 powers. This could be under s114(3), insufficient resources to fund likely expenditure.

CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 sets out that organisations that can only be discontinued under statutory prescription shall prepare their accounts on a going concern basis.

However, International Auditing Standard 570 Going Concern, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report. We are obliged to report on such matters within the section of our audit report 'Conclusions relating to Going Concern'.
To do this, the auditor must review management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements.

What did we do?

In light of the unprecedented nature of Covid-19, its impact on the funding of public sector entities and uncertainty over the form and extent of government support, we sought a documented and detailed consideration to support management's assertion regarding the going concern basis. Our audit procedures to review these included consideration of:

- Current and developing environment;
- Liquidity (operational and funding);
- Mitigating factors;
- Management information and forecasting; and
- Sensitivities and stress testing.

Due to the impact of Covid-19, we also consulted internally with our risk department over the level of disclosure.

What are our conclusions?

We have reviewed management's going concern assessment in the draft financial statements. We noted that this disclosure was very limited and requested that management provide an enhanced disclosure and supporting evidence to reflect the impact of Covid-19. Our work included stress testing of assumptions and cash flow forecasts and ensuring the updated going concern disclosure within the financial statements was consistent with management's going concern assessment and that there is no material uncertainty which requires disclosure.

We complied with our internal consultation processes in relation to going concern and concluded that the revised disclosure was sufficient and that the going concern assessment covered all relevant aspects.

03 Audit Report

Draft audit report

Our opinion on the financial statements is included below.

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ADUR DISTRICT COUNCIL

Opinion

We have audited the financial statements of Adur District Council for the year ended 31 March 2020 under the Local Audit and Accountability Act 2014. The financial statements comprise the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Balance Sheet, Cash Flow Statement and related notes 1 to 41; the Housing Revenue Account Comprehesive Income and Expenditure Statement, the Statement of Movement on the HRA Balance and the related notes 1 to 12 and the Collection Fund and the related notes 1 to 5.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

In our opinion the financial statements:

- give a true and fair view of the financial position of Adur District Council as at 31 March 2020 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – Property, Plant and Equipment and Investment Property valuation

We draw attention to Note 4 Assumptions made about the future and other sources of estimation uncertainty, Note 12 Property, plant and equipment and Note 14 Investment Properties of the financial statements, which describe the valuation uncertainty the Council is facing as a result of COVID-19 in relation to property valuations. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

Draft audit report

Our opinion on the financial statements

- the Chief Financial Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the Statement of Accounts 2019-20, other than the financial statements and our auditor's report thereon. The Chief Financial Officer is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General in April 2020, we are satisfied that, in all significant respects, Adur District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Draft audit report

Our opinion on the financial statements

Responsibility of the Chief Financial Officer

As explained more fully in the Statement of the Chief Financial Officer Responsibilities set out on page 29, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Chief Financial Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, as to whether Adur District Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Adur District Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, Adur District Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Draft audit report

Our opinion on the financial statements

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Certificate

We certify that we have completed the audit of the accounts of Adur District Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the members of Adur District Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Adur District Council and Adur District Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Helen Thompson (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Southampton

04 Audit Differences

Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as "known" or "judgemental". Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences

We highlight the following misstatements greater than £1.0 million which have been corrected by management that were identified during the course of our audit:

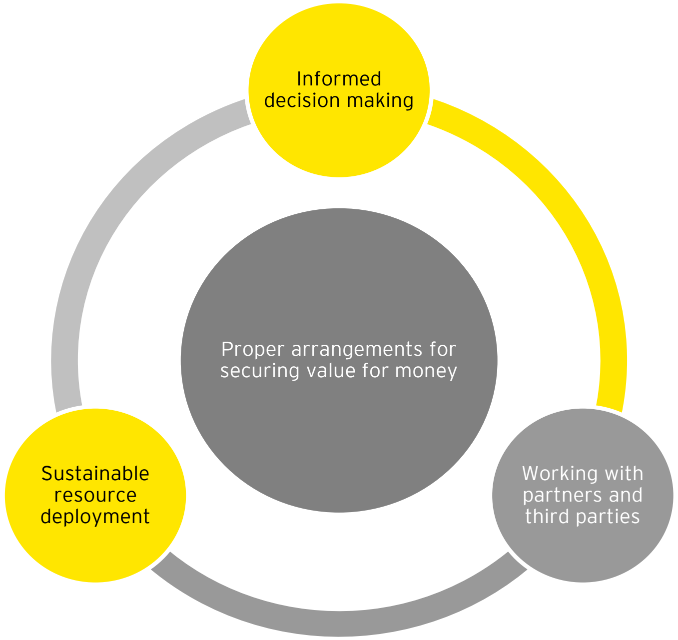
- £4.25 million error in the cashflow statement

In addition we highlight the following misstatements to the financial statements which were not corrected by management. We request that these uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by the Joint Governance Committee and provided within the Letter of Representation:

- Our internal valuers assessed that one asset was valued outside a reasonable range by the valuer. This resulted in a judgemental overstatement of the asset of £308,300.

05 Value for Money Risks

Value for Money



Background

We are required to consider whether the Council has put in place ‘proper arrangements’ to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2019/20 this is based on the overall evaluation criterion:

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

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

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

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

Impact of Covid-19 on our value for money assessment

On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 value for money assessment in the light of covid-19.

This clarified that in undertaking the 2019/20 value for money assessment auditors should consider local authorities’ response to Covid-19 only as far as it relates to the 2019-20 financial year; only where clear evidence comes to the auditor’s attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019-20 VFM arrangements conclusion.

Overall conclusion

We identified one significant risk around these arrangements. The table on the next page presents our findings in response to the risk in our audit planning report. We therefore expect having no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

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

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The table below presents the findings of our work in response to the risks areas in our audit planning report.

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
The Council will not be able to plan its finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions. The Council continues to face significant financial challenges over the coming years. We concluded last year that the Council's Medium Term Financial Plan was sound and we noted that plans were in place to deliver the 2019/20 budget. In the 2019/20 budget, the Council originally identified a budget gap of £10.3 million over the next 4 years to 2023/24. It has identified £4.3 million of savings to mitigate this gap, however, this leaves £6 million of savings yet to be identified. At 31 March 2019, the Council had £18.1 million of usable revenue reserves. This included the General Fund reserve of £519,000 which is just above the minimum level set by the Section 151 Officer. These reserves would not be sufficient to cover any shortfall in savings were they not to be achieved and leaves little resilience to meet unexpected issues.	Deploy resources in a sustainable manner	We have: ▪ Used the PSAA's value for money profile tool to assess Council spending against similar councils. ▪ Reviewed, assessed and challenged the key assumptions used by the Council to create the medium term financial strategy. ▪ Reviewed the outturn position against budget for 2019/20 and the Council's financial position at 31 March 2020. ▪ Reviewed the Council's monitoring of savings required in service budgets. We also • Reviewed the Council's strategy for purchasing commercial property. • Considered the financial and governance procedures in place regarding this strategy. • Considered whether the Council has obtained appropriate professional advice regarding purchases made within the strategy. In summary, we remain satisfied that the MTFS has been prudently updated in the light of the current economic climate and that the assumptions underpinning it remain reasonable. However, there is still significant uncertainty over future funding from central government. Therefore, the Council needs to continue to seek out methods to generate savings without impacting on services and retaining a sustainable financial position. Our detailed findings are set out on the following pages.

Significant risk

What are our findings?

Review of the PSAA's value for money profile tool to assess Council spending against similar councils
We reviewed the PSAA's value for money profile tools which compared the Council to its nearest statistical neighbours. This highlighted several areas where the Council's expenditure is significantly higher or lower than other similar councils. Many of these areas are where the Council's reportedly higher spending results from the specific nature or arrangements at the Council, such as its size (which typically means higher cost per head, as one of the smallest authorities) or partnership working arrangements which result in low administration costs.

Further, there are unique demographic and geographical influences on these factors. Spend on Housing Services per head continues to be significantly higher than average, for example, while net spend on Housing Benefit administration continues to be significant below the average. Each of these specific areas are known to the Council and areas of specific focus. The fact these figures are higher than statistical neighbours does not indicate any weaknesses in the Council's proper arrangements to achieve economy, efficiency and effectiveness.

Reviewed, assessed and challenged the key assumptions used by the Council to create the medium term financial strategy
The Council set a balanced budget for 2020/2021 and planning is underway for 2021/22. The Council has updated the Medium Term Financial Strategy (MTFS) for the impacts of Covid-19. We ascertained that all the key assumptions used in creating the 2020/21 annual budget and beyond in the MTFS appear to be reasonable and justified. There are sound internal and external justifications behind the changes in the assumptions for the future years (in inflation and Council Tax for example) and the Council appears to have conservatively estimated savings over the 5-year period of the MTFS.

The Council is facing, and will continue to face, significant financial challenges. The Council carries very low reserves for an organisation of its size, although it is meeting the minimum stated General Fund reserve (6% of revenue expenditure) with a General Fund balance of £1,597,000. When combined with earmarked revenue reserves of £1,392,000, the Council has total available revenue reserves of £2,989,000 as at 31 March 2020.

We recognise that the financial challenge to the Council remains, and further savings requirements will need to be made in order for the Council to build up reserves.

The Council can clearly articulate the impact of Covid-19 on its financial position and has savings plans in place to mitigate the additional pressure on budgets. However, the low reserve levels held by the Council have created risk during the pandemic when it was unclear how much government funding would be received. The subsequent announcements have relieved this pressure in the short term.

Reviewed the outturn position against budget for 2019/20 and the Council's financial position at 31 March 2020.
The financial outturn for the General Fund shows that the Council has again contained expenditure within the original budget levels despite facing a range of additional costs that were not part of the original budget. The Council has reported an underspend of £613,424 against a revenue budget of £8,658,000 and capital spend of £60,269,978 against a revised budget of £71,972,440.

Significant risk

What are our findings?

Reviewed the Council's monitoring of savings required in service budgets
Based on previous experience of the Council's budget process, whereby the savings required have been detailed in the budget book and through budget monitoring procedures down to service or activity level, we have concluded that the saving requirements will be appropriately identified and monitored.

The Council appears to be prioritising savings items and giving these savings appropriate consideration at Committee level when making plans. They have forecast significant additional income from commercial properties and have earmarked funds to help them achieve this.

Reviewed the Council's strategy for purchasing commercial property.
The Council has continued to invest in property, a strategy originally established during 2017/18 and has purchased significant commercial property, some of which is outside its boundary. Significant purchases (£43.4m) were made in 2019/20 and more options are being evaluated. The Council has continued to borrow to invest in properties.

The Council's strategy appears to be consistent across all main areas (investment, treasury, and commercial) – investment and commercial goals are aimed towards facilitating investment in commercial properties. Treasury management makes plans for this and works to balance the need to invest in properties that will generate future income, with the need to implement short term savings.

The Council has sought appropriate sufficient financial advice from third parties who are well qualified to issue it, including both external financial advice and treasury management support.

Considered the financial and governance procedures in place regarding this strategy.
The Council appears to have a clear plan for risk management and oversight in place to prevent risk. Importantly there is a risk response plan in place for when risks are identified. The governance procedures in place to minimise risks associated with the individual property purchases appear to be robust – there are set timetables for updates to the committees; and committee members appear to be engaged and questioning about the purchase plans.

To manage long term strategic risk, the Council has a standardised prescriptive procedure in place for identifying, categorising and managing risks. This helps departments to be more aware of the risks that they face and to be better prepared to manage them if they arise.

Financial risk management is predominantly based around ensuring the Council has sufficient funds to support itself on any occasions when spend is higher than anticipated. The Council is also working on building up their reserves over the next five years to support this.

Areas of Audit Focus

Significant risk

What are our findings?
Considered whether the Council has obtained appropriate professional advice regarding purchases made within the strategy. The Council commissioned a report on the commercial investment plan by a private sector property consultancy firm in the prior year. The Council has used the advice of the consultancy firm in areas such as planning the size of the fund and the level of revenue retention to maintain, which has been incorporated into budgets. This report has helped guide the Council in both financial planning and financial due diligence. The background information allows the Council to check that figures and expectations in the strategy are robust while the recommendations provided help shape future financial plans. With respect to property purchases throughout the year, the Council has received external support from estate agents and property surveyors. This helps the Council with the valuation of the property and the anticipated return on investment, as well as evaluating the physical condition of the proposed purchase. The surveyor's report also includes legal due diligence, for example checks on the legal title, tenure and service charges and existing contracts.

06 Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2019/20 with the audited financial statements

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Statement of Accounts 2019/20 and published with the financial statements is consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

We have no matters to report to the Council in relation to this work.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Council to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Council, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

Other matters

We have no other matters to report.

07 Assessment of Control Environment

Assessment of Control Environment

Financial controls

Under ISA (UK&I) 265 it is mandatory to communicate significant deficiencies in internal control in writing to any audit client. Unless the audit team has used the 'Management Letter template' to communicate significant deficiencies, it is mandatory to use this section if there are any.

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware. We have also raised two recommendations for improvement relating to the Council's processes for the valuation of its long term physical assets which are set out in Section 2 of this report.

08 Independence

Independence

Confirmation and analysis of Audit fees

We confirm there are no changes in our assessment of independence since our confirmation in our audit planning board report dated March 2020.

We complied with the APB Ethical Standards. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Joint Governance Committee

We confirm we have undertaken non-audit work outside of the Statement of responsibilities of auditors and audited bodies as issued by the Public Sector Audit Appointments Ltd. We have adopted the necessary safeguards in our completion of this work

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Council, and its directors and senior management and its affiliates, including all services provided by us and our network to your Council, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2019 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Our fees do not yet include the scale fee review which is currently underway with management and PSAA to agree whether the scale fees need to be rebased to properly account for the increased audit and quality requirements as well as increased regulatory challenge on the depth and quality of assurance provided by audit suppliers. There is now greater pressure on firms to deliver higher quality audits by requiring auditors to demonstrate greater professional scepticism when carrying out their work. This has resulted in auditors needing to exercise greater challenge to the areas where management makes judgements or relies upon advisers, for example, in relation to estimates and related assumptions within the accounts. Discussions remain ongoing.

As part of our reporting on our independence, we set out below a summary of the fees you have paid us in the year ended 31 March 2020.

Description	Estimated Fee 2019/20 £	Scale Fee 2019/20 £	Final Fee 2018/19 £
Total Fee – Code work (1)	37,054	37,054	37,054
Change in financial management system	10,500	n/a	n/a
Value for money risk	3,000	n/a	3,000
Prior year adjustment	n/a	n/a	335
Additional Covid -19 related costs (2)	TBC	n/a	n/a
Total audit	TBC	37,054	37,054
Other non-audit services not covered above (Housing Benefits)	TBC	n/a	29,506
Total other non-audit services	TBC	n/a	29,506

All fees exclude VAT

Note:

(1) We outlined in our audit plan the basis on which the scale fees are set by PSAA. We also outlined a combination of factors which mean that we do not believe the existing scale fees provide a clear link with both a public sector organisation's risk and complexity and therefore it endangers the sustainability of Local Audit in the future.

Based on these factors, and in light of requests from PSAA to provide further detailed analysis we have estimated the impact on the Council, which has been shared with management but we have not reached agreement on that rebasing.

(2) We will hold discussions with officers regarding the additional fee for the work required in relation to Covid-19.

All additional fees will be subject to approval by PSAA.

Other communications

EY Transparency Report 2020
Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2020: https://www.ey.com/en_uk/who-we-are/transparency-report-2020

09 Appendices

Appendix A

Required communications with the Joint Governance Committee

There are certain communications that we must provide to the audit committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Terms of engagement	Confirmation by the Joint Governance Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report to Joint Governance Committee in March 2020
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report to Joint Governance Committee in March 2020
Significant findings from the audit	▸ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▸ Significant difficulties, if any, encountered during the audit ▸ Significant matters, if any, arising from the audit that were discussed with management ▸ Written representations that we are seeking ▸ Expected modifications to the audit report ▸ Other matters if any, significant to the oversight of the financial reporting process	Audit results report to November 2020 Joint Governance Committee and final audit results report circulated to members in December 2020

Appendix A

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▸ Whether the events or conditions constitute a material uncertainty ▸ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▸ The adequacy of related disclosures in the financial statements	No conditions or events were identified, either individually or together to raise any doubt about Adur District Council's ability to continue for the 12 months from the date of our report.
Misstatements	▸ Uncorrected misstatements and their effect on our audit opinion ▸ The effect of uncorrected misstatements related to prior periods ▸ A request that any uncorrected misstatement be corrected ▸ Material misstatements corrected by management	Audit results report to November 2020 Joint Governance Committee and final audit results report circulated to members in December 2020
Subsequent events	▸ Enquiry of the Joint Governance Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	November 2020 Joint Governance Committee
Fraud	▸ Enquiries of the Joint Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Council ▸ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▸ Unless all of those charged with governance are involved in managing the Council, any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. ▸ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▸ Any other matters related to fraud, relevant to Joint Governance Committee responsibility.	Audit results report to November 2020 Joint Governance Committee and final audit results report circulated to members in December 2020 No matters to report.

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		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Related parties	Significant matters arising during the audit in connection with the Council's related parties including, when applicable: ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the Council	Audit results report to November 2020 Joint Governance Committee and final audit results report circulated to members in December 2020 No matters to report.
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.	Audit planning report to Joint Governance Committee in March 2020 and Audit results report to November 2020 Joint Governance Committee and final audit results report circulated to members in December 2020

Appendix A

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
External confirmations	▸ Management's refusal for us to request confirmations ▸ Inability to obtain relevant and reliable audit evidence from other procedures.	Audit results report to November 2020 Joint Governance Committee and final audit results report circulated to members in December 2020 No matters to report.
Consideration of laws and regulations	▸ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▸ Enquiry of the Joint Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Joint Governance Committee may be aware of	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations.
Significant deficiencies in internal controls identified during the audit	▸ Significant deficiencies in internal controls identified during the audit.	Audit results report to November 2020 Joint Governance Committee and final audit results report circulated to members in December 2020 and Annual Audit Letter. No matters to report.

Appendix A

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Written representations we are requesting from management and/or those charged with governance	▸ Written representations we are requesting from management and/or those charged with governance	Audit results report to November 2020 Joint Governance Committee and final audit results report circulated to members in December 2020
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	▸ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report to November 2020 Joint Governance Committee and final audit results report circulated to members in December 2020 No matters to report.
Auditors report	▸ Any circumstances identified that affect the form and content of our auditor's report	Audit results report to November 2020 Joint Governance Committee and final audit results report circulated to members in December 2020
Fee Reporting	▸ Breakdown of fee information when the audit planning report is agreed ▸ Breakdown of fee information at the completion of the audit ▸ Any non-audit work	Audit planning report to Joint Governance Committee in March 2020 and Audit results report to November 2020 Joint Governance Committee and final audit results report circulated to members in December 2020

Appendix B

Management representation letter

Management Rep Letter

Ernst & Young LLP

Grosvenor House,

Grosvenor Square,

Southampton SO15 2BE,

United Kingdom

This letter of representations is provided in connection with your audit of the financial statements of Adur District Council ("the Council") for the year ended 31 March 2020. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Council financial position of Adur District Council as of 31 March 2020 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with [the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, that are free from material misstatement, whether due to fraud or error.
5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because [specify reasons for not correcting misstatement].

B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have disclosed to you, and provided you full access to information and any internal investigations relating to, all instances of identified or suspected non-compliance with law and regulations, including fraud, known to us that may have affected the Council (regardless of the source or form and including, without limitation, allegations by "whistleblowers") including non-compliance

Management representation letter

Management Rep Letter

matters:

- involving financial statements;
- related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
- related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;
- involving management, or employees who have significant roles in internal controls, or others; or
- in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
   - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
   - Additional information that you have requested from us for the purpose of the audit; and
   - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the financial statements[, including those related to the COVID-19 pandemic
3. We have made available to you all minutes of the meetings of the Council, Executive, Joint Governance and Joint Strategic Committees held through the year to the most recent meeting on the following date: 1 December 2020.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
7. From the date of our last management representation letter through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants) , to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in Note 38 to the financial statements all guarantees that we have given to third parties.

E. Subsequent Events

1. There have been no events subsequent to period end, including events related to the COVID-19 pandemic, which require adjustment of or disclosure in the financial statements or notes thereto.

Appendix B

Management representation letter

Management Rep Letter

F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report.
2. We confirm that the content contained within the other information is consistent with the financial statements.

G. Going Concern

1. Note 3 to the financial statements discloses all the matters of which we are aware that are relevant to the Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

H. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of land and buildings and investment property, in the calculation of the NDR appeals provision, in generating the IAS19 pension disclosures and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

I. Estimates

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
2. We confirm that the significant assumptions used in making the NDR appeals provision, valuation of assets and IAS19 disclosure estimates appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete ,including the effects of the COVID-19 pandemic on the NDR appeals provision, valuation of assets and IAS19 disclosure and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events, including due to the COVID-19 pandemic

J. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Signed:

Name: Sarah Gobey

Position: Chief Financial Officer

Date:

Signed on behalf of Adur District Council

I confirm that this letter has been discussed and agreed by the Joint Governance Committee.

Name: Councillor Boram

Position: Chairman, Joint Governance Committee

Date:

Accounting and regulatory update

Accounting update

Since the date of our last report to the Joint Governance Committee, there have been a number of exposure drafts, discussion papers and other projects issued. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures	Impact on Adur District Council
IFRS 16	▸ The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of Local Authority Financial Statements has been deferred until 1 April 2021. The Council will therefore no longer be required to undertake an impact assessment, and disclosure of the impact of the standard in the financial statements does not now need to be financially quantified in 2019/20.	IFRS 16 – leases introduces a number of significant changes which go beyond accounting technicalities. For example, the changes have the potential to impact on procurement processes as more information becomes available on the real cost of leases. The key accounting impact is that assets and liabilities in relation to significant lease arrangements previously accounted for as operating leases will need to be recognised on the balance sheet. In particular, full compliance with the revised standard for 2021/22 is likely to require a detailed review of existing lease and other contract documentation prior to 1 April 2021 in order to identify: ▸ all leases which need to be accounted for ▸ the costs and lease term which apply to the lease ▸ the value of the asset and liability to be recognised as at 1 April 2021 where a lease has previously been accounted for as an operating lease. We will discuss progress made in preparing for the implementation of IFRS 16 – leases with the finance team over the course of our 2020/21 audit.

Appendix C

Regulatory update

Since the date of our last report to the Joint Governance Committee, there have been a number of regulatory developments. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures	Impact on Adur District Council
Code of Audit Practice 2020	▸ The updated Code of Audit Practice issued by the National Audit Office has introduced some significant changes to the requirements regarding auditors' work on the value for money conclusion, which will be applicable from 2020/21.	▸ The NAO are currently updating the Auditor Guidance Notes which will set out how the new Code of Audit Practice should be applied when carrying out value for money work. As such, the impact remains to be confirmed. ▸ Further updates will be provided when possible.
Going Concern - ISA (UK) 570 (Revised September 2019)	▸ The standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, however EY expects to early-adopt the revised standard for all of our audits of periods ending on or after 30 June 2020. ▸ This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after.	▸ Practice Note 10, which sets out how the auditing standards are applied in a public sector context, is currently being revised, including in light of the updated standard for Going Concern. As such, the impact is not clear at this stage. ▸ Further updates will be provided when possible.
Independence	▸ The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and will be effective from 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to companies that are UK Public Interest Entities (PIEs) . This prohibition will also extend to any UK parent and apply to all worldwide subsidiaries. A narrow list of permitted services will continue to be allowed.	▸ We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under the FRC Revised Ethical Standard 2019 which will be effective from 15 March 2020. Non-audit services which are in progress as at 15 March 2020 and are permitted under the existing ethical standard will be allowed to continue under the existing engagement terms until completed. We will work with you to ensure orderly completion of the services or where required, transition to another service provider within mutually agreed timescales.

EY | Assurance | Tax | Transactions | Consultancy

About EY

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ED None

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Joint Governance Committee
26 January 2021
Agenda Item 7

ADUR & WORTHING COUNCILS

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.

1.4 An update on Priority 1 recommendations outstanding past the agreed implementation dates.

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 the Joint Governance Committee (Committee) which details the Internal Audit Section's performance against the Annual Internal Audit Plan as well as a summary of work carried out in the period. Internal Audit Services to the Council's, including the role of the Head of Internal Audit is outsourced to Mazars LLP.

4. Issues for Consideration

4.1 Covid-19

As reported within our previous progress reports to the Committee, Internal Audit continued to operate post the Covid-19 lockdown restrictions from 23 March 2020, but the progression of work from both the 2019/20 and 2020/21 plans was impacted. Our work re-commenced in July 2020 but due to the nature of remote auditing and our reliance on Council staff providing information, there have been some delays in the completion of audits. At the time of drafting this report, we are in the third national lockdown, however there has been no additional impact on delivery of work to date.

4.2 Internal Audit Performance - 2020/21

Further to 4.1, at 31st December 2020, 235.4 (48.74%) of the plan days had been delivered. Attached as **Appendix 1** is a summary of the current status of audits in the plan. Two audits from the 2019/20 plan are also still in progress due to delays in receipt of information.

Internal Audit attends monthly meetings with the Chief Financial Officer (CFO) and is in regular contact with her in respect of progress against the plan.

4.3 Final Reports

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 internal 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 used for the Council's 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	There is a basically sound system but 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.

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

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

Since our report to the Committee in September 2020, five reports have been finalised (two from the 2019/20 plan and three from the 2020/21 plan). The two reports from 2019/20 were both given a Limited Assurance opinion (Homelessness Reduction Act Compliance and Management of the Commercial Property Portfolio). Three P1 recommendations were raised within the Limited Assurance final report on Management of the Commercial Property Portfolio.

A summary of the final reports issued since our last report to this Committee, including the key issues raised, is attached as **Appendix 2**. Details of the Priority 1 and Priority 2 recommendations raised within these reports have also been circulated to Members prior to the meeting in a separate briefing note.

4.4 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 three years is shown in the tables below:

Status of recommendations 2017/18

	Total Due	Imp	%	Carried Over (Not Impl'd)	%	Overdue	%	Overdue & No Response	%	Total % NOT Impl'd	Not Due	Total
P1	37	34	**91.9%**	0	**0%**	3	8.1%	0	0%	**8.1%**	0	37
P2	86	70	**81.4%**	6	**7%**	10	11.6%	0	0%	**18.6%**	0	86
P3	27	22	**81.5%**	2	**7.4%**	3	11.1%	0	0%	**18.5%**	0	27
Other	1	0	**0%**	0	**0%**	1	100%	0	0%	**100%**	0	1
Total	**151**	**126**	**83.4%**	**8**	**5.3%**	**17**	**11.3%**	**0**	**0%**	**16.6%**	**0**	**151**

Status of recommendations 2018/19

	Total Due	Imp	%	Carried Over (Not Impl'd)	%	Overdue	%	Overdue & No Response	%	Total % NOT Impl'd	Not Due	Total
P1	17	13	**76.5%**	0	**0%**	3	**17.6%**	1	**5.9%**	**23.5%**	1	18
P2	102	91	**89.2%**	0	**0%**	9	**8.8%**	2	**2%**	**10.8%**	14	116
P3	37	34	**91.9%**	0	**0%**	3	**8.1%**	0	**0%**	**8.1%**	5	42
Total	**156**	**138**	**88.5%**	**0**	**0%**	**15**	**9.6%**	**3**	**1.9%**	**11.5%**	**20**	**176**

Status of recommendations 2019/20

	Total Due	Imp	%	Carried Over (Not Impl'd)	%	Overdue	%	Overdue & No Response	%	Total % NOT Impl'd	FU Not Due	Total
P1	12	6	**50%**	0	**0%**	4	33.3%	2	16.7%	**50%**	2	14
P2	57	44	**77.2%**	0	**0%**	7	12.2%	6	10.6%	**22.8%**	14	71
P3	13	13	**100%**	0	**0%**	0	0%	0	0%	**0%**	1	14
Total	**82**	**63**	**76.8%**	**0**	**0%**	**11**	**13.4%**	**8**	**9.8%**	**23.2%**	**17**	**99**

Attached as **Appendices 3, 4 & 5,** are tables which summarise the outstanding recommendations made in final audit reports from audits contained in the 2017/18, 2018/19 and 2019/20 Audit Plans. The shaded boxes indicate where changes have occurred since our last report.

We are also continuing to follow up on 7 recommendations (all Priority 2) which remain outstanding from audits contained in the 2016/17 Audit Plan.

We have also highlighted in **Appendix 6** those Priority 1 recommendations which remain outstanding after the agreed implementation dates.

There are 13 outstanding Priority 1 recommendations detailed within this report compared to 9 reported to the Committee on 22 September 2020.

5. Engagement and Communication

5.1 Internal Audit attends monthly meetings with the CFO on progress against the plan. Issues arising and potential plan changes are discussed both at these meetings and whenever necessary. This has included specific discussions in relation to the Covid-19 situation and impact on Internal Audit work.

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

Officer Contact Details:

Dave Phillips, Acting Head of Internal Audit (Mazars LLP)
Town Hall, Worthing
dave.phillips@mazars.co.uk

Sustainability & Risk Assessment

1. Economic

1.1 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.

Status of 2020/21 Internal Audit Plan

Appendix 1

	Audit	Field Work complete	Draft Issued	Final Issued	Assurance level	1	2	3	Total	P1 issues
2	Env Serv - Review of Procurement arrangements	Y	UR							
2	Rent Collection and Recovery	Y	Y	Y	Satisfactory	0	1	1	**2**	No P1 recs.
2	Covid-19 Governance	Y	UR							
2	Food Depot	Y	Y	Y	Satisfactory	0	0	2	**2**	No P1 recs.
3	Building Control	Y	UR							
3	Leaseholder Services	WIP								
3	Elections & Referendums	Y	UR							
3	Budget Monitoring	Y	Y	Y	Full	0	0	0	**0**	
3	Community Grants	WIP								
3	Revenues & Benefits additional discounts	Y	UR							
3	Environmental Services - Stores	Y	Y							
3	Adur Promotions Service	Y	Y							
3	Incident & Problem Management	Y	Y							
3	Theatres - Procurement & Contract Management	WIP								
3	Housing – Contracts Fact Find	WIP								
3	Project Management	Y	UR							
4	Disabled Facilities Grants	P								
4	Governance of Property Purchases & Disposals									
4	Supply of Affordable Housing									
4	Out of Hours Service	P								
4	Risk Management	P								
4	Payroll	P								
4	Key Controls Compliance	P								
4	Cyber Security									
4	GDPR compliance									

Key:

WIP – Work in progress

P – Audit has been planned

UR – work is under review

<u>Key issues from finalised audits</u>

Appendix 2

Audit (Plan Year)	Assurance Level & Number of Issues	Summary of key issues raised
Management of the Commercial Property Portfolio (19/20)	**Limited** (Three Priority 1, Four Priority 2 and One Priority 3 recommendations)	The Priority 1 recommendations raised were for: - The need for background & identity checks for new lessees - Timely completion of lease renewals; and - Timely completion of rent reviews
Homelessness Reduction Act Compliance (19/20)	**Limited** (Three Priority 2 and two Priority 3 recommendations)	No Priority 1 recommendations raised.
Rent Collection & Arrears (20/21)	**Satisfactory** (One Priority 2 and One Priority 3 recommendations)	No Priority 1 recommendations raised.
Food Depot (20/21)	**Satisfactory** (Two Priority 3 recommendations)	No Priority 1 recommendations raised.
Budget Monitoring	**Full** (No recommendations)	No recommendations raised.

Status of outstanding audit recommendations 2017/18

APPENDIX 3

	Joint Audit	Final Report Date	Assurance level	Total No of Recs	Number of agreed recs completed	1	2	3	Other	% of recs completed	Recs carried over into next audit	%of recs carried over	Number of recs outstanding	1	2	3	Other	% of recs outstanding	Comments
Director for Communities																			
Housing																			
Rent Collection and Collection of Arrears	ADC	Jan-18	Satisfactory	2	1	0	1	0	0	50%			1	0	0	1	0	50%	**Update provided in Dec 20 that more time was needed to test - deadine revised to 31/3/21**
Leaseholder Charges	ADC	Mar-18	No	39	**33**	**12**	**18**	**3**	**0**	**85%**			**6**	**3**	**3**	0	0	**15%**	**6 recs still outstanding are being progressed deadlines revised to 31/1/21 to allow for current actions to be completed. New audit of processes started 30 November 20.**
Gas Safety Inspections	ADC	Jul-18	Limited	16	14	3	11	0	0	88%			2	0	2	0	0	13%	**Updates had been provided in respect of the 2 outstanding recs and deadlines revised to 30/11/20 - no update provided due to staff changes - owners revised.**
Housing Repairs	ADC	Feb-19	Limited	2	2	0	2	0	0	100%									Outstanding recommendations from this audit have been superceeded by an 18/19 audit of the Housing Repairs process through Matsoft
Handyman Service	*	Jan-18	Limited	1	1	1	**0**	**0**	0	100%									COMPLETE - Decision taken to discontinue service therefore all other recs no longer applicable.
Wellbeing																			
Contract Management audit - Voluntary &	*	Feb-18	Satisfactory	1	1	0	1	0	0	100%									COMPLETE
Director of Digital & Resources																			
Finance																			
Budget Management	*	Dec-17	Satisfactory	1	1	0	1	0	0	100%									COMPLETE
General Ledger	*	Mar-18	Satisfactory	5	4	0	2	2	0	80%	1	20%							COMPLETE
Capital Accounting	*	Apr-18	Satisfactory	1	1	0	1	0	0	100%									COMPLETE
Treasury Management	*	Dec-17	Satisfactory	2	2	0	1	1	0	100%									COMPLETE
Compliance with IR35 - Tax legislation	*	Feb-19	Limited	6	2	1	1	0	0	33%			4	0	3	1	0	67%	**Plans made to implement recs were impacted by Covid-19 deadlines were revised to 31/10/20 - update requested 5/11 & 11/1**
Creditors	*	Feb-18	Satisfactory	2	2	0	0	2	0	100%									COMPLETE
Debtors	*	Feb-18	Satisfactory	2	2	0	2	0	0	100%									COMPLETE
Payroll	*	Apr-18	Satisfactory	4	3	1	1	1	0	75%	1	25%							1 outstanding recommendation re-raised in 18/19 audit
Cashiering	*	Mar-18	Satisfactory	2	2	0	1	1	0	100%									COMPLETE
Legal																			
Corporate Governance & Ethical Standards	*	Jan-18	Satisfactory	2	2	0	2	0	0	100%									COMPLETE
Design & Digital																			
Compliance with the Data Protection Act	*	Apr-18	Satisfactory	9	9	1	7	1	0	100%									COMPLETE
Risk Management	*	Apr-18	Satisfactory	4	2	0	2	0	0	50%	2	50%							2 outstandings recommendations re-raised in 18/19 audit
People																			
Human Resources	*	Feb-18	Limited	6	6	3	3	0	0	100%									COMPLETE
Revenues & Benefits																			
Revenues (Council Tax & NDR)	*	Jul-18	Satisfactory	4							4	100%							Recommendations re-iterated in 18/19 audit
Benefits	*	Feb-18	Satisfactory	2	2	0	2	0	0	100%									COMPLETE
Computer Audits																			
Firewall & Cyber Security	*	Oct-17	Satisfactory	5	5	0	1	4	0	100%									COMPLETE
GDPR Readiness Gap Anaylsis	*	Apr-18	Limited	16	16	9	5	2	0	100%									COMPLETE
Revs & Bens - Academy application	*	Jan-19	Limited	4	4	2	1	1	0	100%									COMPLETE
Mats - Application Audit	*	Oct-19	Satisfactory	6	**3**	**0**	**2**	**1**	**0**	**50%**			**3**	0	**2**	**1**	0	50%	**Deadlines have been revised for the 3 outstanding recs to 31/1/21 & 31/3/21**
Review of Technology Strategy	*	Apr-18	No opinion given	1									1	0	0	0	1	100%	**update provided confirmed Draft Strategy to TIB 9/3/2021 Final 20/4/2021**
Contract Audits																			
Procurement Compliance	*	Sep-18	Satisfactory	6	6	1	2	3	0	100%									COMPLETE
				151	**126**	**34**	**70**	**22**	**0**	**83%**	**8**		**17**	**3**	**10**	**3**	**1**		

Status of outstanding audit recommendations 2018/19

APPENDIX 4

	Joint Audit	Final Report Date	Assurance level	Total No of Recs	Number of agreed recs completed	1	2	3	Other	% of recs completed	Number of recs outstanding	1	2	3	Other	% of recs outstanding	Comments
Director for Communities																	
Adur Worthing Contract Services																	
Waste Management	*	Mar-19	Satisfactory	7	7	0	4	3	0	100%							COMPLETE
Environment																	
Bereavement Services	*	Nov-18	Satisfactory	4	2	1	1	0	0	50%	2	0	2	0	0	50%	**Update provided for 1 rec confirmed progress and deadline revised to 31/1 - updated requested for the other outstanding rec 11/1.**
Housing																	
Building Services - Stocks & Stores	ADC	Oct-19	Limited	8	**6**	**1**	**5**	**0**	**0**	**75%**	**2**	**2**	0	0	0	**25%**	**Detailed updates provided through App and in a review meeting. 2 P1 recs still oustanding but being addressed - deadlines revised to 31/3/21**
Right to Buy	ADC	Jul-18	Satisfactory	3	3	0	2	1	0	100%							COMPLETE
Rent Collection and Collection of Arrears	ADC	May-19	Satisfactory	4	4	1	2	1	0	100%							COMPLETE
Housing Repairs - Matsoft processes	ADC	Mar-20	Limited	30	6	3	3	0	0	20%	24	2	17	5	0	80%	**4 recs now overdue - deadline revised for one and update requested for other 3. Remaining 20 recs will be followed up when due**
Wellbeing																	
Food Safety & Registration for Businesses	*	May-19	Limited	11	11	0	9	2	0	100%							COMPLETE
Air & Water Quality	*	Mar-19	Satisfactory	4	3	0	3	0	0	75%	1	0	1	0	0	25%	**The recommendation owner has confirmed Covid-19 has impacted on implementation - revised deadline of 31/1/21 set**
Director of Digital & Resources																	
Business & Technical Services																	
Business Travel - Vehicles	*	Jan-19	Satisfactory	8	8	1	4	3	0	100%							COMPLETE
Health & Safety	*	Jun-19	Satisfactory	2	2	0	2	0	0	100%							COMPLETE
Customer Contact																	
NSL Contract Management	*	Sep-18	Full														No Follow up due as no recommendations made
Customer & Digital Services																	
Risk Management	*	May-19	Satisfactory	7	6	0	5	1	0	86%	1	0	1	0	0	14%	**Deadline for o/s rec revised to 30/6/21**
Compliance with the Freedom of Information Act	*	Mar-19	Limited	9	9	2	7	0	0	100%							COMPLETE
Finance																	
General Ledger	*	May-19	Satisfactory	3	3	0	2	1	0	100%							COMPLETE
Capital & Fixed Asset Accounting	*	Mar-19	Full														No Follow up due as no recommendations made
Treasury Management	*	Nov-18	Full														No Follow up due as no recommendations made
Creditors	*	Nov-18	Satisfactory														New system implemented and currently being audited - therefore closed this audit
Debtors	*	Dec-18	Satisfactory														New system implemented and currently being audited - therefore closed this audit
Payroll	*	May-19	Satisfactory	1	1	0	1	0	0	100%							COMPLETE
Cashiering	*	Nov-18	Satisfactory	1	1	0	1	0	0	100%							COMPLETE
Legal																	
Corporate Governance	*	Mar-19	Satisfactory	9	**5**	**0**	**4**	**1**	**0**	**56%**	**4**	1	**0**	3	0	**44%**	**Update provided on P1 rec & deadline revised to 30/4/21. update on other o/s recs requested 7/9, 20/10 & 11/1.**
Revenues & Benefits																	
Revenues (Council Tax & NDR)	*	Mar-19	Satisfactory	3	3	1	1	1	0	100%							COMPLETE
Benefits	*	Feb-19	Satisfactory	4	4	1	0	3	0	100%							COMPLETE

Director for Economy																	
Culture																	
Theatres Box Office	WBC	Feb-19	Satisfactory	8	8	0	2	6	0	100%							COMPLETE
Place & Investment																	
Asset Management	*	Mar-20	Limited	4	**4**	**1**	**3**	**0**	**0**	**100%**							**COMPLETE**
Planning & Development																	
Place & Economy	*	Sep-18	Satisfactory	8	8	0	6	2	0	100%							COMPLETE
Development Management	*	Feb-19	Satisfactory	7	6	0	6	0	0	86%	1	0	1	0	0	14%	deadline for remaining rec revised to April 21 to allow process to be completed at year end
Computer Audits																	
Data Centre Access Procedure	*	Jul-19	Limited	11	**9**	**1**	**8**	**0**	**0**	**82%**	**2**	0	**2**	0	0	18%	**Update provided through App confirmed deadlines extended to 31/3/21 & 30/9/21.**
Content Management (Website- Internet)	*	May-20	Limited	9	**8**	**0**	**5**	**3**	**0**	**89%**	**1**	0	**1**	**0**	0	**11%**	**One remaining rec is overdue and deadline extended to 31/3/21**
Contract Audits																	
Construction - Adur Civic Centre Phase 1	*	DRAFT															
Fire Doors	ADC	DRAFT															
Car Parks - LED lighting replacement	WBC	Jan-19	Satisfactory	5	5	0	1	4	0	100%							COMPLETE
Cross Service Audits																	
Emergency Planning	*	Nov-18	Satisfactory	3	3	0	2	1	0	100%							COMPLETE
Energy Management	*	Aug-19	Satisfactory	3	**3**	**0**	**2**	**1**	**0**	**100%**							**COMPLETE**
				176	**138**	**13**	**91**	**34**	**0**	**78%**	**38**	**5**	**25**	**8**	**0**		

Status of outstanding audit recommendations 2019/20

APPENDIX 5

	Joint Audit	Final Report Date	Assurance level	Total No of Recs	1	2	3	Other	Number of agreed recs completed	1	2	3	Other	% of recs completed	Number of recs outstanding	1	2	3	Other	Percentage of recs outstanding	Comments
Director for Communities																					
Housing																					
Tenancy Management	ADC only																				
Rent in Advance	*	Mar-20	Limited	11	1	9	1	0	**4**	**0**	**3**	**1**	**0**	**36%**	**7**	1	**6**	**0**	0	**64%**	**6 recs now overdue. No recent updates provided including P1. Update requested 20/10, 6/11 & 11/1**
Regulatory Compliance	ADC only	Aug-20	Limited	8	2	6	0	0							8	2	6	0	0	100%	**4 recs now overdue, update provided and deadlines revised.**
Homeless Reduction Act compliance	*	**Sep-20**	**Limited**	**5**	**0**	**3**	**2**	**0**	**5**	**0**	**3**	**2**	**0**	**100%**							**COMPLETE**
Allocations	*	Dec-19	Satisfactory	2	0	1	1	0	2	0	1	1	0	100%							COMPLETE
Wellbeing																					
Management of Community Buildings	*	DRAFT																			
Director of Digital & Resources																					
Revenues & Benefits																					
Revenues & Benefits	*	Feb-20	Satisfactory	1	0	0	1	0	**1**	**0**	**0**	**1**	**0**	**100%**							**COMPLETE**
Financial Services																					
General Ledger	*																				
Exchequer (Creditors & Debtors)	*																				
Cashiering	*	Feb-20	Satisfactory	1	0	1	0	0	1	0	1	0	0	100%							COMPLETE
Budget Development	*	Oct-19	Satisfactory	1	0	1	0	0	**1**	**0**	**1**	**0**	**0**	**100%**							**COMPLETE**
VAT Arrangements	*	Oct-19	Satisfactory	1	0	0	1	0	1	0	0	1	0	100%							COMPLETE
Customer & Digital Services																					
Management of Call Centre volumes	*	Aug-19	Satisfactory	1	0	1	0	0	1	0	1	0	0	100%							COMPLETE
Risk Management	*	Apr-20	Satisfactory	4	0	4	0	0	**3**	**0**	**3**	**0**	**0**	**75%**	**1**	0	**1**	0	0	**25%**	**3 Recs have been actioned & the deadline for the remaining one extended to 30/6/21**
Legal Services																					
Corporate Governance	*	Jan-20	Satisfactory	1	0	0	1	0	1	0	0	1	0	100%							COMPLETE
Decision Making	*	Sep-19	Satisfactory	1	0	1	0	0							1	0	1	0		100%	**Rec was due on 31/10/19 - update requested 7/9, 20/10 & 11/1**
Human Resources																					
Data input & accuracy	*	Feb-20	Limited	10	1	8	1	0	10	1	8	1	0	100%							COMPLETE
Apprenticeships	*	Apr-20	Satisfactory	5	0	5	0	0	**4**	**0**	**4**	**0**	**0**	**80%**	**1**	0	**1**	0	0	20%	Rec will be followed up through the App when due
Business & Technical Services																					
Asbestos Management (non Housing)	*	Jul-20	Satisfactory	1	0	1	0	0	**1**	**0**	**1**	**0**	**0**	**100%**							**COMPLETE**
Business Continuity	*																				
Building Maintenance Compliance (non Housing)	*	Jul-20	Limited	9	4	5	0	0	**6**	**2**	**4**	**0**	**0**	**67%**	**3**	**2**	**1**	0	0	**33%**	**Outstanding 3 recs now overdue. Updates provided for all and deadlines extended.**
Director for Economy																					
Planning & Development																					
Land Charges	*	DRAFT																			
Planning Enforcement	*	Jan-20	Limited	9	0	8	1	0	**8**	**0**	**7**	**1**	**0**	**89%**	**1**	0	1	0	0	**11%**	**Update provided for outstanding rec - deadline revised to 26/2/21**
Major Projects & Investment																					
Management of Major Projects	*																				
Management of the Commercial Property Portfolio	*	**Oct-20**	**Limited**	**8**	**3**	**4**	**1**	**0**	**2**	**0**	**1**	**1**	**0**	**25%**	**6**	**3**	**3**	**0**	**0**	**75%**	**P1 rec overdue - update provided 12/1 and deadline extended to 31/3/21 - Other recs to be followed up through App when due**
COMPUTER AUDITS																					
Network Architecture and Resilience	*	Jun-20	Limited	7	0	4	3	0	**4**	**0**	**2**	**2**	**0**	**57%**	**3**	0	**2**	**1**	0	**43%**	**update provided confirmed 4 actioned other recs will be followed up through the App when due**
Account Security	*	Aug-20	Limited	6	0	6	0	0	1	0	1	0	0	17%	5	0	5	0	0	83%	**One rec due has an update and deadline extended - other recs will be updated through the App when due**
GDPR Compliance	*	Apr-20	Limited	6	3	3	0	0	6	3	3	0	0	100%							COMPLETE
CONTRACT AUDITS																					
Management of Capital Programme	*																				
Contract audit - Concrete Repairs Grafton Car Park	WBC only																				
Procurement & Contract Management - Housing	*																				
CROSS SERVICE REVIEWS																					
Councils preparedness for EU exit	*	Dec-19	Satisfactory	1	0	0	1	0	1	0	0	1	0	100%							COMPLETE
				99	**14**	**71**	**14**	**0**	**63**	**6**	**44**	**13**	**0**		**36**	**8**	**27**	**1**	**0**		

Outstanding Priority 1 Recommendations **APPENDIX 6**

Leaseholder Service Charges (2017-18 Final Report issued March 2018)

Recommendation (Reference & content)	Findings and Risk as outlined in Final Audit Report	Agreed Action, Comments & Original Implementation deadline	Follow Up Comments	Proposed Completion Date
3.1 The Council should document a Leasehold Management Policy, which outlines the legislative framework (and timescales) within which it is required to operate for the various leasehold functions and services that it provides. The policy should: • Outline any local policy decisions in respect of the management of leaseholders, recovery of charges etc. and detail how these requirements will be achieved; • Clearly state how the Council will deal with major repair costs, including outlining the statutory processes that have to be completed and the timescales to ensure the recovery of costs (e.g. invoice or issue S20B notice within 18 months of cost being incurred; and • State at what level the cost of repairs will be pursued (e.g. minor costs above the £250 legislative rate may not be cost effective for the Council to pursue where there are only a few leaseholders, but if there were several then the costs and effort would be worth it). Once documented, the Policy should be approved by the relevant senior management, member and committee.	There is currently no approved documented policy for Leasehold Management. Where an up to date documented and approved policy does not exist, there is a risk that the Council's objectives and/or responsibilities are not known and may not therefore be achieved.	An overarching policy will be developed. This will be supported by a set of detailed policies and procedures. Work has already begun on identifying those that are required and this will be used as an action plan to ensure all required actions are completed. Deadline - 30th September 2018	Update provided by Interim Leasehold Manager confirmed that a policy was drafted but that the process of consultation and approval needed to be agreed and then completed. Update provided by Housing Operations Manager on 4th March 2020 confirmed:- The Repairs policy has been rejected on the grounds of a lack of consultation. A clearer consultation strategy will be needed as part of the process of approving this policy. The aim will be to define this in March 2020. The policy may not be approved therefore until after the local election in May 2020. The target for this needs to be revised to May/June 2020. Updated provided by Interim Leasehold Manager on 3rd April 2020 confirmed:- Policy drafted. Consultation vehicle or forum for leaseholders needs to be set up in line with AH resident engagement strategy. Not practical to progress during Covid situation. Deadline extended. Update provided by Interim Leasehold Manager on 31st July 20 stated "Adur Informal Cabinet agreed in July that draft policy could go forward to JSC	31st January 2021

Recommendation (Reference & content)	Findings and Risk as outlined in Final Audit Report	Agreed Action, Comments & Original Implementation deadline	Follow Up Comments	Proposed Completion Date
			September and then to leaseholder consultation. Not clear if will have to go back to members hence precautionary backstop revised deadline". Update provided on 9th September 20 stated "Draft policy updated after Adur Informal Cabinet; report going to JSC October". Update provided by Interim Leasehold Manager on 6th November stated "Approved JSC October, proceeding with consultation with leaseholders and will then come back to JSC".	
3.32 The Council's Policy in respect of options available to leaseholders for payment of major works should be reviewed, approved by ADC Executive and then consistently applied.	On 15 June 2010, the ADC Cabinet decided the payment option arrangements for leaseholders, this includes the provision of ten year loans. Furthermore, on 13 July 2010 the ADC Cabinet decided additional deferred payment arrangements for works costing more than £5,000 in any financial year. We have not identified any other reports/decisions which revise the decisions taken by the ADC Cabinet in June/July 2010 therefore these decisions would appear to be the most recent and therefore constitute the current policy. These policy decisions are not, however accurately reflected in the current Leaseholders Handbook which states "If you are not able to pay for the cost of major works in full at the time of invoicing, then we offer an interest free loan up to five years depending on the size of the bill and individual circumstances. In this case you will pay in monthly instalments by either direct debit or payment card".	The arrangements will be reviewed with Finance and Legal. Deadline - 31st March 2019	As above. Update provide by Housing Operations Manager on 4th March 2020 confirmed:- The Leasehold Manager is drafting options for payment for leaseholders. Once this is completed sign off by Finance will be needed. Finance has been consulted as part of the process of drawing up these options. Update provided on 29th June 2020 confirmed this recommendation is being processed in line with other recommendations and the deadline has been revised. Update provided on 9th September 2020 confirmed that the updated policy with be presented to Informal Cabinet in Oct/Nov – deadline revised.	31st January 2021

Recommendation (Reference & content)	Findings and Risk as outlined in Final Audit Report	Agreed Action, Comments & Original Implementation deadline	Follow Up Comments	Proposed Completion Date
	The policy decisions were also not detailed correctly in the Paying for Major Works information that was sent to leaseholders in March 2017 with their invoices. The differences being: • The interest added column on the Paying for Major works information states 5.4% for all works costing more than £500 yet this is not what is detailed in the decision by Cabinet. • The Cabinet decision in June 2010 states that "for loans exceeding £1,500, a Land Registry charge would be taken out" the Land Registry requirement on the Paying for Major Works information states N/A for works costing £1,500-£5,000. • The Cabinet decision in July 2010 states the administration fee for deferred payments as £100 yet the Paying for Major Work information states £90. Our walkthrough of a loan arranged in 2015 has shown that he was advised that the charges added to the loan for £10,998 would be 4.4% interest (reviewed annually), £50 admin fee, £40 Land Registry fee and £295 legal costs. This contradicts the Cabinet's decision which states an administration fee of £90 and a Land Registry fee of £50. Furthermore, the reports to the ADC Cabinet in 2010 made no mention of legal costs (nor did the information sent to leaseholders in 2017). The amounts actually invoiced to this leaseholder were £1209.59 interest (so no annual review), £295 legal costs and £40 Land Registry		Update provided by Interim Leasehold Manager on 30th November stated “we are in discussion with Boom about their managing MW extended payment/"loan" arrangements. Waiting for their proposal. will then go to members”.	

Recommendation (Reference & content)	Findings and Risk as outlined in Final Audit Report	Agreed Action, Comments & Original Implementation deadline	Follow Up Comments	Proposed Completion Date
	fee (so no admin fee and incorrect LR fee). We have further confirmed that as a result of invoices sent in February 2017, one leaseholder requested to pay their major works costs (£3,072.49) over a period of 24 months. The email sent to this leaseholder confirms that no interest has been added and that monthly standing order payments should be arranged by the leaseholder. The policy requires DD payments and there is no mention of admin or Land Registry costs that the policy requires and no evidence can be seen on HMS/I@W to confirm that costs have been invoiced. Where approved policies are not known or accurately and consistently applied, there is an increased risk that loans are incorrectly arranged or that incorrect fees are charged. This may result in financial loss to the Council.			
3.33 Once the Major Works Payment Policy has been decided the Council should review how implementing payment loans/arrangements will for major works will be achieved. An agreed process, which reflects policy requirements should be effected to ensure that any future loans/arrangements are correctly actioned. Legal Services and Finance should be involved in any discussions to ensure that all legal and financial requirements are met. The agreed process should be formalised in a documented procedure which details the forms that need to be completed, by whom and when and	Proper arrangements are required to ensure that the Council effects payment arrangements correctly and in line with any policy and legal requirements. We found some procedures and forms (including a Service Charge Loan Application Form) on the N Drive and emails between the Finance and Leasehold teams going back several years. Our examination of this information suggests that the information provided by the leaseholder on the loan application form would seem to be the primary source for calculation of affordability. Any payment arrangements were effected by Finance until April 2016,	This will be reviewed with Finance and Legal. Deadline - 31st March 2019	As above.	31st January 2021

Recommendation (Reference & content)	Findings and Risk as outlined in Final Audit Report	Agreed Action, Comments & Original Implementation deadline	Follow Up Comments	Proposed Completion Date
how supporting information/ documentation should be retained.	when the arrangements transferred to the Adur Homes Leasehold Team. We were advised by the Leasehold Officers that they are very unsure regarding the procedures to be followed, whether they are up-to-date, lines of responsibility etc. They also had queries regarding: • how instalments and interest would be applied to Owner Accounts; • monitoring; • how the Council would legally stand in recovering any arrears of interest etc. if charges were not made against properties; and • their ability to calculate interest on loans and setting-up loan/instalment agreements with interest; We have noted elsewhere in the audit inconsistencies with arranging loan agreements and lack of supporting information which would suggest that current arrangements are not effective. Where a defined process for effecting payment arrangements does not exist, there is an increased risk that arrangements are not correctly made or that legal requirements are not satisfied and this may impact on the Council's ability to recover all relevant costs leading to possible financial loss.			

Corporate Governance 2018/19 (Final Report issued March 2019)

Recommendation **(Reference & content)**	**Findings and Risk as outlined in Final Audit Report**	**Agreed Action, Comments & Original Implementation deadline**	**Follow Up Comments**	**Proposed Completion Date**
3.8 Mandatory training in respect of governance (such as ethics and risk management) should be provided to all staff when they start at the Councils, as a refresher on a tri-annual basis and when any legislative changes occur. The Monitoring Officer should consult with Human Resources (HR) through the People Working Group or by other means in order to highlight issues and gaps in officer awareness, and identify satisfactory means by which relevant staff could have these areas matched to their training plans.	There is currently no mandatory governance training provided to staff and there is no longer centralised induction training provided where such issues may be raised. Whilst we noted that HR are currently in the process of reviewing training provision, including at time of induction, through the People Working Group, the group did not that time have any representation from Legal/Democratic Services. During the audit we noted a number of areas in which officers expressed reservations about wider staff awareness of core governance requirements including: • The need to register and publish notice of key and exempt decisions at least 28 days in advance; and • The need to inform the Monitoring Officer of any sub-delegations of duty. Where officers are unfamiliar with governance requirements, there is a risk that constitutional and/or statutory responsibilities will not be met which could result in unlawful or mismanaged decisions and actions.	Governance and Decision Making Training has been offered on 3 separate occasions to all Senior Managers, Heads of Service & Directors during the last 6 months. This included training about key and exempt decisions. Training on Scheme of Delegations to Officers is being undertaken on a one to one basis with each Head of Service and their managers and there is a rolling programme being undertaken to review all sub delegations and publish the register of sub- delegations. It is anticipated this will be completed by December 2019. Training on ethics should be completed by line managers at induction time with reference to the Officer Code of Conduct and Protocol for Relationships which form part of the constitution and are available to all staff on the website. Deadline - 31st December 2019	Update provide by Monitoring Officer on 24th February 2020 confirmed that "induction training is being developed. It is anticipated that this will cover ethics, officer code of conduct, risk management, officer scheme of delegations, committee structure, decision making and key and decisions, exempt information and access to information. It is anticipated that a cycle of the training being delivered every 6 months to new starters will commence this summer". Deadline has been revised to allow for first cycle of training to be conducted. Update provided by Monitoring Officer on 6th November 2020 confirmed Governance and decision making training (28 day notice, publication of decisions etc) was completed in October 2019 and sub delegation training was conducted with every head of service by the end of 2019. Induction training on governance matters is not yet in place. The deadline has therefore been extended to allow for the completion of this training.	30st April 2021

Building Services – Stocks & Stores 2018/19 (Final Issued October 2019)

Recommendation (Reference & content)	Findings and Risk as outlined in Final Audit Report	Agreed Action, Comments & Original Implementation deadline	Follow Up Comments	Proposed Completion Date
3.2 Adur Homes should develop a policy that defines, amongst others: - How Building Services will procure materials (i.e. through the use of one contracted supplier and/or the use of local suppliers); - The quality standards expected when purchasing materials; - Levels of stock to be held; - Considerations to be made when purchasing (i.e. whether purchasing more costly LED lights will reduce Operative and overhead costs in the long term); - Any specific brands to be prioritised when purchasing, considering any historic use of these and the lower cost and time implications in replacing these; and - When and/or how the Service will stock vans (i.e. Operatives are only given the supplies to do each job and/or there will be a minimum stock level of certain types of incidentals such as nails, screws or other materials that they keep on each van). Where standards are established, they should be documented and reviewed on an annual basis. Management should then monitor to ensure that standards are met.	Maintaining a Policy on how equipment and materials are procured, standards required and van stocking etc. will assist management ensure that materials and equipment is purchased and used in line with both service and Council objectives (such as the Sustainable Procurement Strategy). We confirmed that at present, Building Services do not have any contract arrangement with a particular supplier for the provision of materials and equipment. Furthermore, there is no documented policy in place defining how the Service will procure its materials, standards required, stock levels, or how it will stock its vans. Where there is no written policy in place determining how materials are purchased etc, there is an increased risk that irregular and/or inadequate purchasing/stocking occurs leading to poor value for money, non-compliance with Council objectives, inefficiencies and possible financial loss.	The proposed direction of travel is to outsource the management of stocks and stores and a suitable point in the future. The need to create some interim policy/procedure or guidance is accepted so that the stocks and stores can be managed in the interim in order to improve our scrutiny and compliance. Deadline - 31st March 2020	Update provided on the 7th July 2020 by the Housing Operations Manager confirmed "There have been a few decisions made about this matter both within Adur Homes and with a wider procurement group. An in principle decision has been made to outsource the bulk of our stores purchasing in a potential 3 - 5 year contract. The two decisions remaining will be: • How we run down our existing stock and manage risk • The level of threshold stores that we will retain' somewhere between £3K - £10k. We are significantly adrift of audit timelines at present. The main cause of this has been the delay in appointment of the new Repairs Modernisation Manager post and the impact of Covid". Update provided on 9th Sept 20 states that:- Adur Homes are working with procurement on creating a 2 - 3 year framework contract for procuring future stocks and stores. A preferred framework	31st March 2021

			had been identified (PFH) and a provisional timetable for moving across from the current arrangement to the new one. As well as the procurement exercise there will be a need to follow internal governance arrangements. It is anticipated that the new Framework will be in place from January 2021 onwards. This will address the following issues highlighted in the audit in due course. - How Building Services will procure materials - The quality standards - Considerations to be made when purchasing - Levels of stock to be held; - When and/or how the Service will stock vans Procedural guidance will be developed in parallel with the above under the headings indicated. These will show interim arrangements for the period October 2020 - January 2021 and then future arrangements from January 2021 onwards. Updated provided on 27th October 2020 confirmed that arrangements will not be in place until the procurement has been completed. Deadline extended.	
3.3 The Building Services Team should ensure value for money is sought when purchasing materials.	The Council's Contract Standing Orders requires that where purchases are less than £25,000, it is best practice for a minimum of two written quotes to be obtained.	Agreed - The proposed direction of travel is to outsource the management of stocks and stores and a suitable point in the future. In the interim the intention is to	As above	31st March 2021

	In the absence of a Building Services Procurement Policy or any contract arrangement, we tested 10 recent purchases of materials and noted that, in all cases: - The value of the purchase was under £1,000; and - There was no evidence to support value for money was sought in the forms of quotes being obtained. Where quotes are not obtained, there is a risk that Contract Standing Order requirements are not being complied with and that the Council is not achieving value for money.	improve our scrutiny and compliance.		

Rent in Advance/Rent Deposit Scheme 2018/19 (Final Issued March 2020)

Recommendation (Reference & content)	Findings and Risk as outlined in Final Audit Report	Agreed Action, Comments & Original Implementation deadline	Follow Up Comments	Proposed Completion Date
3.3 Every form used in the Rent in Advance/Rent Deposit (RiA/RD) process which is used to collect the personal data of the client (and/or their family members) needs to be reviewed and a relevant privacy notice added. Furthermore, where personal data is collected and recorded within forms and the Councils are relying on a client's consent to process the information then the relevant consent(s) need to be obtained. The Housing Needs Manager should liaise with the Councils' Senior Information Governance Officer (SIGO) in order to effect this.	The Data Protection Act (DPA) 2018 and General Data Protection Regulation (GDPR) contain specific requirements that the Councils must comply with when collecting and processing a client's personal data, including obtaining consent and providing privacy notices. From our examination of the 'In Principle Financial Assistance Approval' and 'Vulnerability & Suitability' forms we noted that neither contain any details about consent or a privacy notice. As some of the information required to be provided in the 'Vulnerability & Suitability' form can relate to disabilities or illnesses, the personal information being provided is considered sensitive personal data and is therefore subject to more rigorous requirements under the DPA 2018. Furthermore, as sensitive personal	These forms are part of the homelessness prevention process and are therefore covered by the consents given when a homelessness application is made. The Homeless application form also includes the link to the Councils privacy notice which specifically relates to homelessness related processes. **Audit Comment** – Advice sought from the Councils SIGO has confirmed a privacy notice link is required on all forms which are used to collect personal data and that depending on the process, consent information may also be required. Therefore we recommend that the SIGO is contacted in order to review the process and confirm whether	No update yet provided.	None set yet.

Recommendation (Reference & content)	Findings and Risk as outlined in Final Audit Report	Agreed Action, Comments & Original Implementation deadline	Follow Up Comments	Proposed Completion Date
	information relating to any other residents in the same dwelling as the client is also being requested, separate privacy notices for these other residents will also be required. Where the required consent and privacy notices are not contained on forms, the Council is in breach of the DPA 2018 and GDPR and should the ICO investigate this the Council may face significant fines.	consents are required within these forms. Housing Needs Manager – Agreed Deadline – 30th June 2020		

Housing Repairs – Matsoft Processes 2019/20 - (Final Issued March 2020)

Recommendation (Reference & content)	Findings and Risk as outlined in Final Audit Report	Agreed Action, Comments & Original Implementation deadline	Follow Up Comments	Proposed Completion Date
3.17 1) Adur Homes should review the arrangements in place for the contractors used to provide repair works, and where necessary, arrange for contract procurement exercises to be undertaken. 2) Furthermore, regular meetings should be held with contractors to whom Adur Homes regularly allocate repair works and action points arising from each meeting should be documented. The Dashboard information on pending jobs should be used in contract management meetings	The Council's Contract Standing Orders require that where spend over certain levels occurs, specific procurement processes are followed in order that contracts are in place for the provision of services. Regular contract monitoring meetings help to ensure that the performance of contractors is discussed and dealt with in a timely manner. It was established from discussions with the Contracts Compliance Manager that, for many of the contractors used by the Repairs service, there is no contract or Service Level Agreement (SLA) in place and regular contract monitoring meetings do not take place. We also noted his concerns that where arrangements are not in place that the Council has limited means of ensuring a job is completed in time, see example in recommendation 3.8 where a job has been waiting completion by a	Agreed. There has been a recent meeting with Procurement and Directors to look at the Contracts Register and create a programme to review contractors used in order to get contracts and Service Level Agreements (SLAs) in place. For each contractor used the review should look at and consider spend, value for money and current service. Deadline – 30th November 2020	None yet provided	None yet set

Recommendation (Reference & content)	Findings and Risk as outlined in Final Audit Report	Agreed Action, Comments & Original Implementation deadline	Follow Up Comments	Proposed Completion Date
	specific contactor since June 2018. The recommendation in relation to contract monitoring meetings was also raised in the 2017/18 Housing Repairs audit report. Where contracts are not in place for companies providing regular repairs works, there is a risk that the Council is failing to comply within its' Contract Standing Orders. Where there is no contract in place with a works supplier there is a risk that the Council has no means of enforcing that contractors complete works in the required timescales and this may lead to poor customer service. Where there are no regular monitoring meetings, there is a risk of inadequate control over the performance of contractors.			

Building Maintenance Compliance (Housing) 2018/19 (Final Issued July 2020)

Recommendation (Reference & content)	Findings and Risk as outlined in Final Audit Report	Agreed Action, Comments & Original Implementation deadline	Follow Up Comments	Proposed Completion Date
3.4 Roles and responsibilities in respect of ensuring regulatory compliance for Council buildings should be defined and communicated to the relevant Council teams and officers. This should confirm which properties are managed by the Estates Team and which ones are deemed to be Corporate Buildings and therefore managed by the Technical Services Team. This could be defined within each of the Policies recommended above or encompassed into a separate	Premises Health and Safety is a complex issue, with at least 16 different legislative requirements being in place; therefore, monitoring of compliance with these requirements requires a high level of knowledge. The Councils need to ensure compliance with regulatory requirements is achieved for all of their buildings and documenting the roles and responsibilities for this will assist in ensuring that staff know and are aware of their responsibilities. At present and in practice, there is an expectation that the Technical Services	This is a programmed project with Digital to deliver an in-house compliance / asset management system. Delays have occurred due to other work commitments relating to COVID19. Need to consider service responsibilities for lease, compliance and other regulatory issues which may change depending on the status of the property. The project was awaiting a dedicated project manager to lead on the client relationship and development of the application. There is a	Update provided by the Safety & Resilience Manager on 9th September 2020 stated "We are currently in discovery phase to procure / design new compliance software. The ownership of assets will form part of this work. Demos have been undertaken with noticeable apathy for feedback hence this has made the selection process more complex. Next steps to agree at the Digital Board a way forward.	31st January 2021

Recommendation (Reference & content)	Findings and Risk as outlined in Final Audit Report	Agreed Action, Comments & Original Implementation deadline	Follow Up Comments	Proposed Completion Date
document. Furthermore, consideration should be given to the development of a central record of Council buildings whereby responsibilities and compliance information is recorded and can therefore be accessed by relevant staff to give a complete picture of regulatory compliance for Council buildings. A reconciliation exercise would need to be undertaken between Estates and Technical Services to ensure all Council properties are captured and compliance arrangements defined.	Team are responsible for Corporate Buildings and those properties owned by the Councils that are not under a full repair lease (i.e. Southwick Community Centre and Lancing Leisure Centre), with the Estates Team being responsible for properties which have been let under a full repair lease and those under a multi-leased arrangement with Savills where service charges are raised. However, through discussions with both teams during the audit, it is clear that communications could be improved and assurances obtained from both sides that compliance is being achieved. There was no centralised way of monitoring overall compliance and ensuring all properties are being covered by either Estates or Technical Services. Where roles and responsibilities are not adequately defined and communicated to the relevant officers and there is no means of confirming overall compliance, there is an increased risk that regulatory compliance is not adequately managed and this may lead to the health and safety of staff and others being put at risk.	requirement to re-engage with the Head of Service to prioritise recruitment. Safety & Resilience Manager Deadline – 31st October 2020	Update provided by the Safety & Resilience Manager on 12th October 2020 stated "This work is still being undertaken. A gap analysis is being prepared by the Contracts and Compliance officer to determine all compliance activity. Asset lists are being worked on to clarify ownership responsibilities. Demos of a compliance system have carried out however , there has been disappointing participation from service areas and therefore feedback has not been forthcoming. The matter has been raised with Head of Service and Director".	
3.8 The different recommendations raised by Contractors during their inspections and/or maintenance visits should be prioritised in order to allow issues to be addressed as soon as practical depending on the significance of these.	Prioritising rectification works will assist management in ensuring that works orders are raised and works are performed in a timely manner. The Councils will then be ensuring that any actions which may impact on the health and safety of staff and the public, particularly in relation to fire safety, are being addressed promptly. From our testing on a sample of ten rectifications actioned by the Councils, we noted one case where issues raised by the contractor on 17 June 2019 were	Agreed. The compliance application will plug any gaps in process. Senior Building Surveyor (Facilities & Maintenance) Deadline – 31st October 2020	Update provided by Senior Building Surveyor on 8th October 2020 stated "The Council are currently in the process of appraising various compliance / asset management systems to see if it would be preferable to utilise one of these "off the shelf" systems rather than building our own compliance system. This will then enable the prioritisation and tracking of all recommended actions identified	31st March 2021

Recommendation (Reference & content)	Findings and Risk as outlined in Final Audit Report	Agreed Action, Comments & Original Implementation deadline	Follow Up Comments	Proposed Completion Date
	not raised in a works order until 12 August (45 days later). The contractor, Southern Fire Alarms, recommended the "Supply, install and commission 2 No batteries to the Sounder PSU, 1 No battery to the Autodialler PSU and 1 No Heat Detector to kitchen to replace faulty detector" at the Pavilion Theatre. Where issues identified from compliance checks are not prioritised or works orders are not raised in a timely manner, there is an increased risk that the Councils continue to be non-compliant with regulation and the health and/or safety of the public and staff is put at risk. Should incidents occur during the intervening period between safety issues being identified and the remedial works being contracted, there is a risk that the Council may not be able to demonstrate due diligence.		when service inspections/ reports are carried out. This will mean that we will be able to identify and monitor any due or outstanding actions to ensure they are dealt with within prioritised deadlines until they are confirmed as completed on the system. Update provided by Senior Building Surveyor on 17th December 2020 stated "we are still progressing the options for the Councils own MATs based compliance app against the off the shelf options to produce a compliance record system which will help monitor compliance checks and help us track items identified during compliance checks/servicing . We have had now had various companies demonstrate their systems to us and we are in the process of assessing these and getting approval for the direction we should be taking. The Covid situation has hampered this progress."	

Regulatory Compliance (Housing) – (Final Issued August 2020)

Recommendation (Reference & content)	Findings and Risk as outlined in Final Audit Report	Agreed Action, Comments & Original Implementation deadline	Follow Up Comments	Proposed Completion Date
3.4 Adur Homes should review when the last Asbestos management surveys were undertaken and urgently progress any outstanding ones. Furthermore, the	Section 4 of the CAR12 requires that every property has to have an asbestos management plan and that an asbestos register is retained. Asbestos surveys are	We have recently undertaken re-inspections on our blocks and this will continue to be done annually.	Update provided on 29/12/20 confirmed that "Adur Homes do not have anyone in position to progress this action at present,	31st March 2021

Recommendation (Reference & content)	Findings and Risk as outlined in Final Audit Report	Agreed Action, Comments & Original Implementation deadline	Follow Up Comments	Proposed Completion Date
outcomes of the surveys should be recorded and monitored, and a monitoring process should be effected to ensure that assessments are undertaken every 12 months.	required to be conducted every 12 months. An 'Asbestos Management Survey' spreadsheet exists to record where asbestos has previously been identified within housing properties. We tested a sample of ten properties to establish when the last asbestos survey had been completed and found that: • nine had not had a survey carried out within the last 12 months, (eight were last undertaken in 2017 with the remaining one in 2018), and • the outcomes of two surveys had not been recorded on the 'Asbestos Management Survey' spreadsheet. Where the Council does not carry out an asbestos survey every 12 months, the Council is in breach of the regulations and can face penalties. There is also a risk that residents health and safety is put at risk leading to potential lawsuits, financial penalties and reputational damage.	We are still lacking data for many of the dwellings and do not have an up to data asbestos register that can be viewed and edited onsite, Adur and Worthing Councils are in the process of purchasing an asbestos management system called Alphatracker which will store all of our asbestos surveys and data and will be able to be viewed and edited from site so that records remain up to date. Deadline - 1st December 2020	so this action deadline will need to be extended".	
3.7 Management should monitor and record the outcomes of inspections and/or maintenance visits to ensure any rectification needed is identified. Management should also ensure that any rectifying actions undertaken address the issues originally identified/raised. Where applicable, any documentation (inspection reports, new certificates etc) received which support the completion of rectification works should be retained. Rectification of recommended actions and/or issues identified should be performed in a timely manner and/or in line with established timescales (i.e. recommended by specialists or legislation).	Any issues identified during regulatory inspections should be remedied in a timely manner to ensure that staff and the public are safe and that Council is compliant with relevant legislation. Testing of the inspections required across 60 properties (for the six different key areas examined) found that: • Asbestos: Eight (out of ten) properties needed follow up works to be carried out as asbestos had been identified as part of the most recent inspections (2017/18) but no follow up works had been evidenced as carried out for these eight properties. • Electrical: Two (out of ten) properties tested included recommendations as a result of the most recent inspections undertaken. These were all 'C3' recommendations which are	Agreed, any actions arising from compliance inspections should be recorded and rectified in a timely manner. ● Asbestos: We have recently undertaken re-inspections of all sites which have asbestos identified in the 2017/18 reports, any actions required as a result of these inspections will be recorded and prioritised accordingly. Mark Whitfield is assisting us with reviewing the re-inspections as Adur Homes does not currently have a member of staff with P405 qualification. ● Electrical: Due to budget pressures we do not undertake C3	This action has been partially resolved, For **Gas** compliance we employ PCM to review LGSR certificates, installations and servicing. PCM raise issues directly with the gas servicing contractor (K&T) and provide Adur Homes with a monthly report which details any open issues. This data will also be reviewed in contract management meetings. For **Electrical** we have a process whereby the electrical contractor will submit a request for remedial works following an electrical test via our repairs system, this ensures that any instances of non-compliance are tracked and	31st March 2021

Recommendation (Reference & content)	Findings and Risk as outlined in Final Audit Report	Agreed Action, Comments & Original Implementation deadline	Follow Up Comments	Proposed Completion Date
	deemed to be 'best practice' and non-urgent. We confirmed that for one of the properties remedial actions were taken in December 2018 but for the remaining property no works had been undertaken. • Water/Legionella: All ten properties tested had recommendations raised as part of the most recent report obtained from Envirocure in January and February 2019 but none of these recommendations were acted upon until work notices were issued on 23 January 2020 for all properties. • Lifts: Two (out of ten) lifts tested where in need of further remedial actions. In one case this was undertaken 76 days from the report/inspection date. For the remaining case, there was no evidence of remedial works being undertaken. Both these cases were stair lifts and not passenger lifts. • Gas: In all ten cases inspections had been undertaken and none of the properties tested had any follow-up actions noted. • Fire: Seven (out of ten) properties had a Fire Risk Assessment completed within the last year, the reports were retained and results recorded. The other three were in progress. Where issues identified from compliance checks are not rectified in a timely manner and management do not monitor these to ensure that rectification occurs in a timely manner, there is an increased risk that the Council continues to be non-compliant and risks the health and/or safety of the public/staff.	recommendations unless the property is in an overall state whereby it requires a rewire due to other C1 and C2 failures. It is not a regulatory requirement for the Council to undertake C3 recommendations. ● Legionella and Lifts: All actions have now been completed, we are looking to increase staff resources in compliance so that each of the services has an assigned contract manager. Currently the Compliance Manager is responsible for all services within compliance which. A Compliance and asset management system would automate this and would highlight areas of noncompliance via regular reporting. We currently have to manage action lists across compliance manually which can lead to actions being missed due to time pressures and human error. ● FRA: There have been some minor delays with fire risk assessments but we are now on target o have all sites fire risk assessed within the required timescales (annual for Sheltered and Bi-annual for General needs). Maintenance Manager Deadline – 1st November 2020	resolved in a timely manner. This data will also be reviewed in contract management meetings. **Asbestos** - We use Functio Ltd to undertake reviews of asbestos management surveys, the outcomes of these are monitored in the asbestos task and finish group. We are aware that we need to undertake more monitoring of all surveys and are currently seeking to recruit a Housing Compliance and Fire Safety Officer to fulfil this duty. **Legionella** - Following water risk assessments and monthly sampling being undertaken, any defects or remediations are quoted via email, follow on jobs are then raised and are monitored via our repairs system. We are in the process of making our water service provider an online contractor so that defects can be raised and monitored on the compliance system which will ensure that defects are tracked and reported on by the 31st December 2020, this data will also be reviewed in contract management meetings. Can we extend the deadline until 31st January 2021 as we are in the process of recruiting to a post which if successful will enable us to carry out the additional asbestos monitoring. Update provided on 24th December stated "Recruitment of the Compliance	

Recommendation (Reference & content)	Findings and Risk as outlined in Final Audit Report	Agreed Action, Comments & Original Implementation deadline	Follow Up Comments	Proposed Completion Date
			Fire Safety Officer role has been completed and expected start date is 12th January 2021. The new recruit will need to undertake the relevant Asbestos training, before any asbestos monitoring can be carried out, so this action will also need to be extended".	

Management of the Commercial Property Portfolio 2019/20 - (Final Issued October 2020)

Recommendation (Reference & content)	Findings and Risk as outlined in Final Audit Report	Agreed Action, Comments & Original Implementation deadline	Follow Up Comments	Proposed Completion Date
3.2 The Councils should ensure background checks are completed on all new tenants. Evidence of this should be maintained in a centralised location in order that both the Estates and Legal teams have access.	Undertaking and maintaining supporting evidence of background and identity checks will assist the Councils confirm that their properties are only let to bone-fide persons. During the audit we confirmed with both the PIM and Legal Services that background and identity checks are not being performed in respect of new tenants. Where background and identity checks are not completed on new tenants and the evidence held in a central location, there is a risk that Council properties may be let to persons whom the Council has no knowledge of. This may lead to inappropriate use of Council premises and/or loss of income if the new tenant has financial issues.	Where properties are marketed through appointed agents (RICS) Anti-Money Laundering checks are undertaken by the Councils' agents, however we propose that installation of a new process (and addition as part of the lease renewal process on the app) to check tenant identifications. Reference and learning will be undertaken from https://www.rics.org/globalassets/rics-website/media/upholding-professionalstandards/standards-of-conduct/countering-money-laundering-1st-edition-rics.pdf and a relevant whole team CPD to ensure that both officers are trained and understand both the process and risks associated. Work will also be undertaken to provide assurance that these checks are being undertaken and	Update provided on 12th January 2021 by Property & Investment Manager states "In relation to the AML requirements, significant progress has been made. The Principal Property Surveyor has met with Legal and Finance colleagues to put in place a new process. The Council must have an appointed AML officer, which is currently un-filled and following the most recent departure of the Head of Legal, information is awaiting from the Interim Head of Legal as to where this responsibility will sit. It is expected that this role will take responsibility for completing any required AML checks for property transactions. We will continue to work with legal colleagues to agree this process and work is underway but unavoidably delayed to-date".	31st March 2021

Recommendation (Reference & content)	Findings and Risk as outlined in Final Audit Report	Agreed Action, Comments & Original Implementation deadline	Follow Up Comments	Proposed Completion Date
		legal services consulted as part of the above. Deadline - 31st December 2020		

ADUR & WORTHING
COUNCILS

Joint Governance Committee
26 January 2021
Agenda Item 8

Joint Strategic Committee
9 February 2021
Agenda Item xx

Key Decision : No
Ward(s) Affected: All

JOINT TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2021/22 to 2023/24, ADUR DISTRICT COUNCIL AND WORTHING BOROUGH COUNCIL

REPORT BY THE DIRECTOR FOR DIGITAL, SUSTAINABILITY AND RESOURCES

EXECUTIVE SUMMARY

1. PURPOSE

1.1 This report asks Members to approve and adopt the contents of the Treasury Management Strategy Statement and Annual Investment Strategy for 2021/22 to 2023/24 for Adur and Worthing Councils, as required by regulations issued under the Local Government Act 2003.

2. RECOMMENDATIONS

2.1 The Joint Governance Committee is recommended to:

i) Note the report (including the Prudential Indicators and Limits, and MRP Statements) for 2021/22 to 2023/24, including the increase in the counterparty limit for the UK bank Handelsbanken from £3m to £4m for both Adur and Worthing Councils.

ii) Refer any comments or suggestions to the next meeting of the Joint Strategic Committee on 9 February 2021.

2.2 The Joint Strategic Committee is recommended to:

i) Approve and adopt the TMSS and AIS for 2021/22 to 2023/24, incorporating the Prudential Indicators and Limits, and MRP Statements, including the increase in the counterparty limit for the UK bank Handelsbanken from £3m to £4m for both Adur and Worthing Councils.

ii) Forward the Prudential Indicators and Limits, and MRP Statements of the report for approval by Worthing Council at its meeting on 23 February 2021, and by Adur Council at its meeting on 18 February 2021.

3. INTRODUCTION

3.1 Background

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

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

The contribution the treasury management function makes to the authority is critical as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day to day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury, (arising usually from capital expenditure), and are separate from the day to day treasury management activities.

CIPFA defines treasury management as:

"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

It will be important to keep the Treasury Management Strategy under review during the year due to the current economic climate. Government policy and guidance may need to change in light of the costs and challenges of Covid-19.

3.2 Reporting requirements

3.2.1 Capital Strategy

The CIPFA 2017 Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report which will provide the following:

- a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services

- an overview of how the associated risk is managed

- the implications for future financial sustainability

The aim of this capital strategy is to ensure that all elected members on the full Councils fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite. The Capital Strategy and the Commercial Property Strategy are reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through those reports. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset.

The capital strategy shows:

- The corporate governance arrangements for these types of activities;
- Any service objectives relating to the investments;
- The expected income, costs and resulting contribution;
- The debt related to the activity and the associated interest costs;
- The payback period (MRP policy);
- For non-loan type investments, the cost against the current market value;
- The risks associated with each activity.

Where a physical asset is being bought, details of market research, advisers used, (and their monitoring), ongoing costs and investment requirements and any credit information will be disclosed, including the ability to sell the asset and realise the investment cash.

Where the Councils have borrowed to fund any non-treasury investment, there should also be an explanation of why borrowing was required and why the MHCLG Investment Guidance and CIPFA Prudential Code have not been adhered to.

If any non-treasury investment sustains a loss during the final accounts and audit process, the strategy and revenue implications will be reported as part of the outturn report and the annual review of the Corporate Property Investment Portfolio.

To demonstrate the proportionality between the treasury operations and the non-treasury operation, high-level comparators are shown throughout this report.

3.2.2 **Treasury Management Reporting**

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

Prudential and treasury indicators and treasury strategy (this report), the first, and most important report is forward looking and covers:

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

A mid-year treasury management report – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and noting whether any policies require revision.

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

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

3.3 **Treasury Management Strategy for 2021/22**

The strategy for 2021/22 covers two main areas:

Capital programme financing

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

Treasury management (the management of the Councils' cash flow, investments and debt)

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

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

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

3.4 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. A briefing for members was provided by Link Asset Services in June 2019, but a planned session for 2020 has not taken place due to Covid-19. Training for members will be arranged as soon as possible.

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

3.5 Treasury management consultants

The Councils use Link Group, Treasury Solutions as the external treasury management advisors.

The Councils recognise that responsibility for treasury management decisions remains with the organisations at all times and will ensure that undue reliance is not placed upon our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

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

The scope of investments within the Councils' operations includes both conventional treasury investments, (the placing of residual cash from the Councils' functions), and commercial type investments in property. The Councils use appropriate specialist advisers in relation to the commercial activity.

4. THE CAPITAL PRUDENTIAL INDICATORS 2021/22 – 2023/24

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

4.1 **Capital expenditure**

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

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

ADUR DISTRICT COUNCIL

Capital expenditure	**2019/20 Actual**	**2020/21 Estimate**	**2021/22 Estimate**	**2022/23 Estimate**	**2023/24 Estimate**
	£m	**£m**	**£m**	**£m**	**£m**
Non-HRA	13.011	16.674	9.447	4.385	1.845
HRA	3.859	12.354	18.956	18.995	5.600
Strategic property purchases	43.400	23.488	20.000	0.000	0.000
TOTAL	**60.270**	**52.516**	**48.403**	**23.380**	**7.445**
Financed by:					
Capital receipts	0.795	1.248	1.799	0.021	0.004
Capital grants and contributions	12.230	10.257	1.425	0.963	0.375
Revenue Reserves & contributions	3.477	7.852	7.808	7.423	7.565
Net financing need for the year	**43.768**	**33.159**	**37.371**	**14.973**	**(0.499)**

The net financing need for strategic property purchases included in the above table against expenditure is shown below:

Adur DC property	**2019/20 Actual £m**	**2020/21 Estimate £m**	**2021/22 Estimate £m**	**2022/23 Estimate £m**	**2023/24 Estimate £m**
Capital Expenditure	43.400	23.488	20.000	0.000	0.000
Financing required	42.856	22.297	18.363		
Net financing need for the year	**43.768**	**33.159**	**37.371**		
Percentage of total net financing need	98%	67%	49%		

WORTHING BOROUGH COUNCIL

Capital expenditure	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
	£m	**£m**	**£m**	**£m**	**£m**
Non-HRA	14.439	19.944	16.550	9.842	5.271
Loan to GB Met	5.000	0.000	0.000	0.000	0.000
Strategic property purchases	45.047	47.428	0.000	0.000	0.000
TOTAL	**64.486**	**67.372**	**16.550**	**9.842**	**5.271**
Financed by:					
Capital receipts	2.247	1.842	0.000	0.012	0.000
Capital grants and contributions	2.471	7.971	5.468	1.433	0.750
Revenue Reserves & contributions	1.654	2.609	3.201	3.538	3.796
Net financing need for the year	**58.114**	**54.950**	**7.881**	**4.859**	**0.725**

Worthing BC strategic property	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimat e £m
Capital Expenditure	45.047	47.428	0.000	0.000	0.000
Financing required	44.655	46.370			
Net financing need for the year	**58.114**	**54.950**			
Percentage of total net financing need	77%	84%			

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

The second prudential indicator is the Councils' Capital Financing Requirement (CFR). The CFR is simply the total historical outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Councils' indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each asset's life, and so charges the economic consumption of capital assets as they are used. The CFR includes any other long term liabilities (e.g. finance leases). Whilst these increase the CFR, and therefore the Councils' borrowing requirement, these types of scheme include a borrowing facility and so the Councils are not required to separately borrow for these schemes. The Councils currently do not have any such schemes within the CFR. The Councils are asked to approve the CFR projections below:

ADUR DISTRICT COUNCIL

Capital Financing Requirement (£m)	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
CFR – non-HRA	25.906	31.196	37.066	38.989	38.882
CFR - HRA	60.294	65.866	79.004	94.099	95.798
CFR – strategic	80.818	103.115	121.478	119.433	117.342
Total CFR	**167.018**	**200.177**	**237.548**	**252.521**	**252.022**
Movement in CFR	43.768	33.159	37.371	14.973	(0.499)
Movement in CFR represented by					
Financing need for the year	45.159	35.381	40.170	18.455	3.125
Less: MRP/VRP and other financing movements	(1.391)	(2.222)	(2.799)	(3.482)	(3.624)
Movement in CFR	**43.768**	**33.159**	**37.371**	**14.973**	**(0.499)**

WORTHING BOROUGH COUNCIL

Capital Financing Requirement (£m)	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
CFR – non-HRA	57.436	66.016	75.856	82.716	85.482
CFR - strategic	71.352	117.722	115.763	113.762	111.721
Total CFR	**128.788**	**183.738**	**191.619**	**196.478**	**197.203**
Movement in CFR	**58.114**	**54.950**	**7.881**	**4.859**	**0.725**
Movement in CFR represented by					
Net financing need for the year (above)	59.571	57.160	10.869	8.251	4.437
Less: MRP/VRP and other financing movements	(1.457)	(2.210)	(2.988)	(3.392)	(3.712)
Movement in CFR	**58.114**	**54.950**	**7.881**	**4.859**	**0.725**

A key aspect of the regulatory and professional guidance is that elected members are aware of the size and scope of any commercial activity in relation to the Councils' overall financial position. The capital expenditure figures shown above demonstrate the scope of this activity and, by approving these figures, members consider the scale proportionate to the Councils' remaining activity.

4.3 **Minimum revenue provision (MRP) policy statement**

The Councils are required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although they are also allowed to undertake additional voluntary payments (voluntary revenue provision - VRP).

MHCLG regulations require the full Councils to approve an MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision.

For both Councils, the MRP relating to built assets under construction will be set aside once the asset is completed. If any finance leases are entered into, the repayments are applied as MRP.

The Councils are recommended to approve the following MRP Statements:

ADUR DISTRICT COUNCIL

For Adur District Council it was approved by the Joint Strategic Committee on 2nd June 2016 that for borrowing incurred before 1st April 2008, the MRP will be set aside in equal instalments over the life of the associated debt.

4.3.1 **General Fund**

For non-HRA capital expenditure after 1st April 2008 the MRP will be calculated as the annual amount required to repay borrowing based on the annuity method: equal annual payments of principal and interest are calculated, with the interest element reducing and the principal element increasing over the life of the asset as the principal is repaid. The interest is based on the rate available to the Council at the beginning of the year in which payments start and the MRP is calculated as the amount of principal, so that by the end of the asset's estimated life the principal is fully repaid (the Asset Life Method). The option remains to use additional revenue contributions or capital receipts to repay debt earlier.

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

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

It is proposed to use the same policy for 2021/22.

4.3.2 **<u>Housing Revenue Account</u>**
Unlike the General Fund, the HRA is not required to set aside funds to repay debt. There is a requirement for a charge for depreciation to be made but there are transitional arrangements in place. The Council’s MRP policy previously applied the financially prudent option of voluntary MRP for the repayment of HRA debt, to facilitate new borrowing in future for capital investment. However in order to provide additional capital funding to address the maintenance backlog identified by the condition survey, the payment of voluntary MRP was suspended for a period of 9 years from 2017/18 whilst the Council invests in its current housing stock and manages the impact of rent limitation.

WORTHING BOROUGH COUNCIL

4.3.3 Worthing had no debt prior to 1 April 2008. Worthing applies the same MRP policy as Adur for capital expenditure funded from borrowing from 1 April 2008. Worthing also has discretion in the application of MRP in respect of capital loans to approved Counterparties (currently Worthing Homes and GB Met College). It is proposed to retain this policy for 2020/21.

ADUR and WORTHING COUNCILS - VOLUNTARY REVENUE PROVISION

4.3.4 **MRP Overpayments** – A change introduced by the revised MHCLG MRP Guidance was the allowance that any charges made over the statutory MRP, which are designated as voluntary revenue provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayments made each year. Up until the 31st March 2021 Adur has a net VRP overpayment of £40k and Worthing has a cumulative net £630k VRP overpayment which will be reclaimed over the following 5 years.

5. BORROWING

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

5.1 **Current portfolio position**

The Councils' treasury portfolio positions at 31st March 2020 and at 31st December 2020 are shown below.

Adur District Council

	Principal at 31.03.20 £m	Actual 31.03.2020 %	Principal at 31.12.20 £m	Actual 31.12.2020 %
External Borrowing				
PWLB	(141.540)	87%	(136.543)	86%
Other Borrowing	(20.262)	13%	(22.934)	14%
Finance lease	(0.000)		(0.000)	100%
TOTAL BORROWING	**(161.802)**	100%	**(159.477)**	
Treasury Investments:				
Local Authority Property Fund	2.728	20%	2.728	13%
In-house:				
Banks	6.010	45%	9.000	43%
Building societies	1.000	7%	2.000	9%
Bonds	0.029	1%	0.029	1%
Local authorities	0.000	0%	2.000	9%
Money market funds	3.655	27%	5.330	25%
TOTAL INVESTMENTS	**13.422**	100%	**21.087**	100%
NET DEBT	**(148.380)**		**(138.390)**	

Worthing Borough Council

	Principal at 31.03.20 £m	Actual 31.03.2020 %	Principal at 31.12.20 £m	Actual 31.12.2020 %
External Borrowing				
PWLB	(111.071)	87%	(106.788)	79%
Other Borrowing	(17.000)	13%	(29.000)	21%
Finance lease	(0.000)		0.000	
TOTAL BORROWING	**(128.071)**	100%	**(135.788)**	100%

	Principal at 31.03.20 £m	Actual 31.03.2020 %	Principal at 31.12.20 £m	Actual 31.12.2020 %
Treasury Investments:				
Local Authority Property Fund	1.364	13%	1.364	5%
In-house:				
Banks	2.000	19%	8.000	32%
Building societies	0.000	0%	4.000	16%
Bonds	0.050	1%	0.050	1%
Local authorities	1.500	15%	2.500	10%
Money market funds	5.400	52%	9.000	36%
TOTAL INVESTMENTS	**10.314**	100%	**24.914**	100%
NET INVESTMENTS	**(117.757)**		**(110.874)**	

Worthing Borough Council has also made two loans which are categorised as capital rather than treasury investments:

- a £10m loan to Worthing Homes
- a £5m loan to GBMet College

The Councils' forward projections for borrowing are summarised below. The tables show the actual external debt against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

ADUR DISTRICT COUNCIL

Adur District Council External Debt £m	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Debt at 1 April	(116.167)	(161.802)	(194.961)	(232.332)	(247.305)
Expected change in Debt	(45.635)	(33.159)	(37.371)	(14.973)	0.499
Other long-term liabilities (OLTL)	0.000	0.000	0.000	0.000	0.000
Actual gross debt at 31 March	(161.802)	(194.961)	(232.332)	(247.305)	(246.806)
The Capital Financing Requirement	167.018	200.177	237.548	252.521	252.022
Under/(over) borrowing	5.216	5.216	5.216	5.216	5.216

Within the above figures the level of debt relating to commercial property is:

Adur District Council	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
External Debt for commercial activities / non-financial investments					
Actual debt at 31 March £m	(80.818)	(103.115)	(121.478)	(119.433)	(117.342)
Percentage of total external debt %	50%	53%	52%	48%	48%

Worthing Borough Council

Worthing BC External Debt £m	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Debt at 1 April	(67.250)	(128.071)	(183.021)	(190.902)	(195.761)
Expected change in Debt	(60.821)	(54.950)	(7.881)	(4.859)	(0.725)
Other long-term liabilities (OLTL)	0.000	0.000	0.000	0.000	0.000
Actual gross debt at 31 March	(128.071)	(183.021)	(190.902)	(195.761)	(196.486)
The Capital Financing Requirement	128.788	183.738	191.619	196.478	197.203
Under/(over) borrowing	0.717	0.717	0.717	0.717	0.717

Within the above figures the level of debt relating to commercial property is:

Worthing B C	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
External Debt for commercial activities / non-financial investments					
Actual debt at 31 March £m	(71.352)	(117.722)	(115.763)	(113.762)	(111.721)
Percentage of total external debt %	56%	64%	61%	58%	57%

Within the range of prudential indicators there are a number of key indicators to ensure that the Councils operate their activities within well-defined limits. One of these is that the Councils need to ensure that their gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2021/22 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

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

5.2 **Treasury Indicators: limits to borrowing activity**

The operational boundary - This is the limit which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

ADUR DISTRICT COUNCIL

Operational boundary £m	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Debt	195.0	233.0	248.0	247.0
Other long term liabilities	1.0	1.0	1.0	1.0
Total	**196.0**	**234.0**	**249.0**	**248.0**

WORTHING BOROUGH COUNCIL

Operational boundary £m	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Debt re Worthing Homes	10.0	10.0	10.0	10.0
Debt re GB Met	5.0	5.0	4.7	4.5
Other Debt	169.0	177.0	182.3	182.5
Other long term liabilities	1.0	1.0	1.0	1.0
Total	**185.0**	**193.0**	**198.0**	**198.0**

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

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

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

ADUR DISTRICT COUNCIL

Authorised limit £m	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Debt	204.0	238.0	251.0	251.0
Other long term liabilities	1.0	1.0	1.0	1.0
Total	**205.0**	**239.0**	**252.0**	**252.0**

WORTHING BOROUGH COUNCIL

Authorised limit £m	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Debt re Worthing Homes	10.0	10.0	10.0	10.0
Debt re GB Met	5.0	5.0	4.7	4.5
Other Debt	174.0	182.0	187.3	187.5
Other long term liabilities	1.0	1.0	1.0	1.0
Total	**190.0**	**198.0**	**203.0**	**203.0**

5.3 **Prospects for interest rates**

The Councils have appointed Link Group as their treasury advisor and part of their service is to assist the Councils to formulate a view on interest rates. The following table gives their central view based on the reduced PWLB rates of gilt yields plus 80bps:

Link Group Interest Rate View 9.11.20

These Link forecasts have been amended for the reduction in PWLB margins by 1.0% from 26.11.20

	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	0.80	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00
10 yr PWLB	1.10	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30
25 yr PWLB	1.50	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80
50 yr PWLB	1.30	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60

Additional information about interest rates is contained in Appendix E.

Borrowing for capital expenditure As Link's long-term forecast for Bank Rate is 2.00%, and all PWLB rates are under 2.00%, there is now value in borrowing from the PWLB for all types of capital expenditure for all maturity periods, especially as current rates are at historic lows. However, greater value can be obtained in borrowing for shorter maturity periods so the Council will assess its risk appetite in conjunction with budgetary pressures to reduce total interest costs. Longer-term borrowing could also be undertaken for the purpose of certainty.

While this authority will not be able to avoid borrowing to finance new capital expenditure and to replace maturing debt, there will be a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

5.4 **Borrowing Strategy**

The Councils are both currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt, as cash supporting the Councils' reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are currently low and counterparty risk is still an issue that needs to be considered.

Against this background and the risks within the economic forecast, caution will be adopted with the 2021/22 treasury operations. The Chief Financial Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL borrowing rates*, then borrowing will be postponed.

- *if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast,* perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

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

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

Where appropriate, the Councils will investigate the possibility of using "ethical" or "green" borrowing options eg "green bonds." Such borrowing is usually only available for significant amounts eg over £20m and takes time to arrange because the lender and the Council needs to undertake due diligence. However the new health hub may offer an opportunity to take advantage of this form of borrowing, if it is at lower rates than the PWLB.

Given the expected under borrowing position of the Councils, the borrowing strategy will give consideration to the most appropriate sources of funding from the following list:

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

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

iii) PWLB fixed rate loans for up to 50 years;

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

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

vi) Short term loans from other Councils where appropriate;

vii) Other forms of borrowing where appropriate eg green bonds or the Municipal Bonds Agency where these offer better value than the PWLB

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

5.7 **Policy on borrowing in advance of need**

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

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

5.8 **Debt rescheduling**

Rescheduling of current borrowing in our debt portfolio is unlikely to occur due to the penalties that would be incurred.

If rescheduling is done, it will be reported to the Councils at the earliest meeting following its action.

5.9 **New financial institutions as a source of borrowing**

Following the decision by the PWLB to reduce its rates to gilts + 80 basis points, its rates are now competitive again. However, consideration will also need to be given to sourcing funding at cheaper rates from the following:

- Local authorities (primarily shorter dated maturities)
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of spot or forward dates where the objective is to avoid a "cost of carry" or to achieve refinancing certainty over the next few years)
- Municipal Bonds Agency (possibly still a viable alternative depending on market circumstances prevailing at the time)

Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

6. ANNUAL INVESTMENT POLICY AND STRATEGY

6.1 Investment Policy – Management of risk

6.1.1 The MHCLG and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). The strategy and approach to managing risk for investing in non-financial investments, essentially the purchase of commercial property, is dealt with by the Commercial Property Investment Strategy which forms part of the Capital Strategy.

6.1.2 The Councils' investment policy has regard to the following:

- MHCLG's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2018

The Councils' investment priorities will be security first, portfolio liquidity second and then yield, (return). The Councils will aim to achieve the maximum yield on investments commensurate with proper levels of security and liquidity and with the Councils' risk appetite. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs. However, where appropriate (from an internal as well as external perspective), the Councils will also consider the value available in periods up to 12 months with high credit rated financial institutions, as well as wider range fund options.

6.1.3 The Chief Financial Officer, under delegated powers, will undertake the most appropriate form of investments in keeping with the investment objectives, income and risk management requirements, and Prudential Indicators. This report includes a proposal to increase the investment counterparty limit for Handelsbanken from £3m to £4m in line with other UK banks. As conditions in the financial markets remain uncertain, the other proposed maximum limits for

Specified and Unspecified Investments for 2021/22 are the same as for 2020/21. Counterparties' "sustainability", "ethical" or "climate change" policies will be reviewed to ensure that the Council invests funds appropriately.

6.1.4 Investment instruments identified for use in the financial year are listed in Appendix B under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set through the Councils' treasury management practices.

6.1.5 The guidance from the MHCLG and CIPFA places a high priority on the management of risk. The Councils have adopted a prudent approach to managing risk and define risk appetite by the following means: -

a) Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

b) **Other information**: ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Councils will engage with the advisors to maintain a monitor on market pricing such as **"credit default swaps"** and overlay that information on top of the credit ratings.

c) **Other information sources** used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

d) The Councils have defined the list of **types of investment instruments** that the treasury management team is authorised to use. There are two lists in Appendix B under the categories of 'specified' and 'non-specified' investments.

- **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity if originally they were classified as being non-specified investments solely due to the maturity period exceeding one year.
- **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

e) **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in Appendix B.

f) **Transaction limits** are set for each type of investment in Appendix B.

g) The Councils will set a limit for the amount of its investments which are invested for **longer than 365 days**, (see paragraph 6.9).

h) Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating** (see paragraph 6.4). The UK is excluded from this limit because it will be necessary to invest in UK banks and other institutions even if the sovereign rating is cut.

i) The Councils have engaged **external consultants**, (see paragraph 3.5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of the Councils in the context of the expected level of cash balances and need for liquidity throughout the year.

j) All investments will be denominated in **sterling**.

k) As a result of the change in accounting standards for 2020/21 under IFRS 9, the Councils will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the Ministry of Housing, Communities and Local Government, [MHCLG], concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31 March 2023. Consequently any fluctuations in the value of the Councils' investments in the Local Authorities' Property Fund will not be taken through the general fund for the period of the override).

6.1.6 However, the Councils will also pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 6.15). Regular monitoring of investment performance will be carried out during the year.

6.1.7 **Changes in investment limits from last year**

This report includes a proposed increase in the counterparty limit for the accounts with Handelsbanken from £3m to £4m in line with other UK banks. When Handelsbanken was approved originally, it was still registered as a Swedish bank, but is now registered as a UK bank.

6.2 Creditworthiness Policy

6.2.1 The primary principle governing the Councils' joint treasury management service investment criteria is the security of investments, although the yield or return on the investment is also a key consideration. After this main principle, the service will ensure that:

- It maintains a policy covering the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and

- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Councils' prudential indicators covering the maximum principal sums invested.

6.2.2 The Chief Financial Officer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to the Councils for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the service may use, rather than defining what types of investment instruments are to be used.

6.2.3 Credit rating information is supplied by Link Group, our treasury advisors, on all active counterparties that comply with our criteria. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of the longer term bias outside the central rating view) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating Watch applying to a counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

6.2.4 In accordance with the Code, Link Group's creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

6.2.5 The result is a series of colour coded bands for counterparties indicating the relative creditworthiness of each as they are categorised by durational bands. These bands are used by the Councils to form a view of the duration for investments by each counterparty. The Councils are satisfied that this service gives a robust level of analysis for determining the security of its investments. It is also a service which the Councils would not be able to replicate using its own in-house resources.

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

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

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

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

6.2.8 Accordingly, the Councils may exercise discretion to deviate from Link's suggested durational bands for counterparties where circumstances warrant a more flexible approach being taken.

The Councils' Minimum Investment Creditworthiness Criteria

6.3 The minimum credit ratings criteria used by the Councils generally will be a short term rating (Fitch or equivalents) of F1, and long term rating A-. There may be occasions when the counterparty ratings from one or more of the three Ratings Agencies are marginally lower than the minimum requirements of F1 Short term, A- Long term (or equivalent). Where this arises, the counterparties to which the ratings apply may still be used with discretion, but in these instances consideration will be given to the whole range of topical market information available, not just ratings.

The Councils include the top five **building society** names in the specified investments. It is recognised that they may carry a lower credit rating than the Councils' other counterparties, therefore the lending limits for the building societies shall be £2m each, excepting that for Nationwide (the top building society) the lending limit shall be £4m.

6.4 **Country Limits and Proposed Monitoring Arrangements**

Due care will be taken to consider the country, group and sector exposure of the Councils' investments.

The Councils have determined that they will only use approved counterparties from countries (other than the UK) with a minimum sovereign credit rating of *AA-* from Fitch Ratings (or equivalent from other agencies if Fitch does not provide one). The list of countries that qualify using these credit criteria as at the date of this report is reflected in the counterparty approved lending list shown at Appendix B. This list will be added to, or deducted from, by officers should ratings change, in accordance with this policy. No more than 25% of investments shall be placed in non-UK financial institutions for more than 7 days.

6.5 **Creditworthiness**

Although the credit rating agencies changed their outlook on many UK banks from Stable to Negative during the quarter ended 30.6.20 due to upcoming risks to banks' earnings and asset quality during the economic downturn caused by the pandemic, the majority of ratings were affirmed due to the continuing strong credit profiles of major financial institutions, including UK banks. However, during Q1 and Q2 2020, banks made provisions for expected credit losses and the rating changes reflected these provisions. As we move into future quarters, more information will emerge on actual levels of credit losses. (Quarterly earnings reports are normally announced in the second half of the month following the end of the quarter.) This has the potential to cause rating agencies to revisit their initial rating adjustments earlier in the current year. These adjustments could be negative or positive, although it should also be borne in mind that banks went into this pandemic with strong balance sheets. This is predominantly a result of regulatory changes imposed on banks following the Great Financial Crisis. Indeed, the Financial Policy Committee (FPC) report on 6th August revised down their expected credit losses for the UK banking sector to "somewhat less than £80bn". It stated that in its assessment, "banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC's central projection". The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC's projection, with unemployment rising to above 15%.

All three rating agencies have reviewed banks around the world with similar results in many countries of most banks being placed on Negative Outlook, but with a small number of actual downgrades.

CDS prices - Credit Default Swaps

Although bank CDS prices (these are credit derivative contracts that enable investors to swap credit risk and are therefore indicators of market risk) spiked upwards at the end of March / early April 2020 due to the heightened market uncertainty and ensuing liquidity crisis that affected financial markets, they have returned to more average levels since then. Nevertheless, prices are still elevated compared to end-February 2020. Pricing is likely to remain volatile as uncertainty continues. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. Link monitor CDS prices as part of their creditworthiness service to local authorities and the Councils have access to this information via its Link-provided Passport portal.

Investment Strategy

6.6 **In-house funds**

Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed. For cash flow balances, the Councils will seek to use notice accounts, money market funds and short-dated deposits to benefit from the compounding of interest.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.
- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

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

6.7 **Investment returns expectations**

Bank Rate is unlikely to rise from 0.10% for a considerable period. It is very difficult to say when it may start rising, so it may be best to assume that investment earnings from money market-related instruments will be sub 0.50% for the foreseeable future.

The suggested budgeted investment earnings rates for returns on investments (excluding the investments with the CCLA) placed for periods up to about three months during each financial year are as follows:

2020/21	0.10%
2021/22	0.10%
2022/23	0.10%
2023/24	0.10%
2024/25	0.25%
Later years	2.00%

The overall balance of risks to economic growth in the UK is probably skewed to the upside, but is subject to major uncertainty due to the virus and how quickly successful vaccines may become available and widely administered to the population. It may also be affected by Brexit.

There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, or a return of investor confidence in equities, could impact gilt yields, (and so PWLB rates), in the UK.

6.8 **Negative investment rates**

While the Bank of England said in August / September 2020 that it is unlikely to introduce a negative Bank Rate, at least in the next 6 -12 months, and in November omitted any mention of negative rates in the minutes of the meeting of the Monetary Policy Committee, some deposit accounts are already offering negative rates for shorter periods. As part of the response to the pandemic and lockdown, the Bank and the Government have provided financial markets and businesses with plentiful access to credit, either directly or through commercial banks. In addition, the Government has provided large sums of grants to local authorities to help deal with the COVID crisis; this has caused some local authorities to have sudden large increases in cash balances searching for an investment home, some of which was only very short term until those sums were able to be passed on.

As for money market funds (MMFs), yields have continued to drift lower. Some managers have already resorted to trimming fee levels to ensure that net yields for investors remain in positive territory where possible and practical. Investor cash flow uncertainty, and the need to maintain liquidity in these unprecedented times, has meant there is a surfeit of money swilling around at the very short end of the market. This has seen a number of market operators, now including the DMADF, offer nil or negative rates for very short term maturities. This is not universal, and MMFs are still offering a marginally positive return, as are a number of financial institutions for investments at the very short end of the yield curve.

Inter-local authority lending and borrowing rates have also declined due to the surge in the levels of cash seeking a short-term home at a time when many local authorities are probably having difficulties over accurately forecasting when disbursements of funds received will occur or when further large receipts will be received from the Government.

6.9 **Investment treasury indicator and limit** - total principal funds invested for greater than 365 days. These limits are set with regard to the Councils' liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

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

ADUR DISTRICT COUNCIL

MAXIMUM PROPORTION OF PRINCIPAL SUMS INVESTED > 365 DAYS			
	2021/22	**2022/23**	**2023/24**
Principal sums invested > 365 days	50%	50%	50%

WORTHING BOROUGH COUNCIL

MAXIMUM PROPORTION OF PRINCIPAL SUMS INVESTED > 365 DAYS			
	2021/22	**2022/23**	**2023/24**
Principal sums invested > 365 days	50%	50%	50%

Both Councils are currently holding investments in the Local Authorities' Property Fund and other small bonds (£50k for Worthing and £29k for Adur) which are expected to be invested for more than 365 days. Adur's other investments have less than 365 days to maturity. Worthing holds long term investments with Worthing Homes, GB Met College and Adur District Council.

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

6.11 The Councils' proposed investment activity for placing cash deposits in 2020/21 will be to use:

- AAA rated Money Market Funds with a Constant Net Asset Value (CNAV) or a Low Volatility Net Asset Value (LVNAV) under the new money market fund regulations
- other local authorities, parish councils etc.
- business reserve accounts and term deposits, primarily restricted to UK institutions that are rated at least A- long term.
- the top five building societies by asset size

Other Options for Longer Term Investments

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

a) **Supranational bonds greater than 1 year to maturity** eg European Reconstruction and Development Bank

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

c) **The Councils' own banker** (currently Lloyds) if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible.

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

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

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

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

h) **Property Investment Funds** for example the Local Authorities' Property Fund. The Councils will consult the Treasury Management Advisors and undertake appropriate due diligence before investment of this type is undertaken. Some of these funds are deemed capital expenditure – the Councils will seek guidance on the status of any fund considered for investment.

i) **Other local authorities**, parish councils etc.

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

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

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

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

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

6.15 **Investment risk benchmarking** – the Councils will subscribe to Link's Investment Benchmarking Club to review the investment performance and risk of the portfolios.

6.16 **End of year investment report** – at the end of the financial year the Councils will report on investment activity as part of the Annual Treasury Report.

6.17 **Local Authorities' Property Fund** – both Councils hold investments in the Fund (Adur DC - £3m and Worthing BC £1.5m). The treasury service receives regular reports and quarterly dividends. Representatives of the Fund gave a presentation on current and forecast performance to the Councils in September 2020.

7. OTHER MATTERS

7.1 **Balanced budget requirement** - the Councils comply with the provisions of S32 of the Local Government Finance Act 1992 to set a balanced budget.

8. ENGAGEMENT AND COMMUNICATION

8.1 The Adur and Worthing Councils' treasury management team provides treasury services to Mid Sussex District Council through a shared services arrangement (SSA). The SSA is provided under a Service Level Agreement that was renewed from 18th October 2019, and which defines the respective roles of the client and provider authorities for a period of three years.

8.2 Information and advice is supplied throughout the year by Link Group, the professional consultants for the Councils' shared treasury management service.

9. FINANCIAL IMPLICATIONS

9.1 This report has no quantifiable additional financial implications to those outlined above. Interest payable and interest receivable arising from treasury management operations, and annual revenue provisions for repayment of debt, form part of the revenue budget.

Finance Officer ………….. Date.

10. LEGAL IMPLICATIONS

10.1 The approval and adoption of the Treasury Management Strategy Statement, Annual Investment Strategy, Minimum Revenue Provision Policy and Prudential Indicators is required by regulations issued under the Local Government Act 2003.

Legal Officer: Date:

Background Papers

Joint Treasury Management Strategy Statement and Annual Investment Strategy Report 2020/21 to 22/23 – Adur Council 20 February 2020 and Worthing Council 18 February 2020

Annual Joint In-House Treasury Management Operations Report 1 April 2019 – 31 March 2020 for Adur District Council and Worthing Borough Council – Joint

Governance Committee, 30 July 2020 and Joint Strategic Committee, 8 September 2020

Overall Budget Estimates 2021/22 and Setting of 2021/22 Council Tax Report

Link Asset Services Ltd TMSS Template 2021/22

Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes (CIPFA, December 2017)

The Prudential Code for Capital Finance in Local Authorities (CIPFA, December 2017)

MHCLG Investment Guidance

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SUSTAINABILITY & RISK ASSESSMENT

1. ECONOMIC

The treasury management function ensures that the Councils have sufficient liquidity to finance their day to day operations. Borrowing is arranged as required to fund the capital programmes. Available funds are invested according to the specified criteria to ensure security of the funds, liquidity and, after these considerations, to maximise the rate of return.

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

4.1 The Councils' Treasury Management Strategy and Annual Investment Strategy place the security of investments as foremost in considering all treasury management dealing. By so doing it contributes towards the Council priorities contained in Platforms for our Places.

4.2 The operation of the treasury management function is as approved by the Councils' Treasury Management Strategy and Annual Investment Strategy 2021/22 - 2023/24, submitted and approved before the commencement of the 2021/22 financial year.

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

Appendix A

THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2021/22 – 2022/23

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

Adur District Council

Adur Capital expenditure	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
	£m	£m	£m	£m	£m
Non-HRA	13.011	16.674	9.447	4.385	1.845
HRA	3.859	12.354	18.956	18.995	5.600
Strategic property	43.400	23.488	20.000	0.000	0.000
TOTAL	**60.270**	**52.516**	**48.403**	**23.380**	**7.445**

Worthing Borough Council

Worthing Capital expenditure	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
	£m	£m	£m	£m	£m
Non-HRA	19.439	19.944	16.550	9.842	5.271
Strategic property	45.047	47.428	0.000	0.000	0.000
TOTAL	**64.486**	**67.372**	**16.550**	**9.842**	**5.271**

1.2 **Affordability prudential indicators**

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

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

Adur District Council

Adur	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
	%	%	%	%	%
Non-HRA	13.06	16.56	16.92	19.11	18.89
HRA	21.53	25.51	25.37	27.84	28.55
Strategic purchases	(16.16)	(17.08)	(14.77)	(14.81)	(14.94)
TOTAL	**18.43**	**24.99**	**27.52**	**32.14**	**32.50**

WORTHING BOROUGH COUNCIL

Worthing	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
	%	%	%	%	%
Non-HRA	6.91	10.02	8.66	10.85	11.25
Commercial activities	(10.42)	(11.69)	(12.16)	(14.17)	(16.10)
TOTAL	**(3.51)**	**(1.67)**	**(3.50)**	**(3.32)**	**(4.85)**

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

HRA Ratio

Adur	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
HRA debt £m	**(58.452)**	**(65.824)**	**(78.963)**	**(94.057)**	**(95.757)**
Number of HRA dwellings	**2542**	**2538**	**2549**	**2597**	**2646**
Debt per dwelling	**£23.0k**	**£25.9k**	**£31.0k**	**£36.2k**	**£36.2k**

1.3 **Maturity structure of borrowing**

These gross limits are set to reduce the Councils' exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits. Neither Council has any variable rate borrowing.

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

Adur District Council

Limits to maturity structure of fixed interest rate borrowing 2021/22		
	Lower Limit	**Upper Limit**
Under 12 months	0%	20%
12 months to 2 years	0%	30%
2 years to 5 years	0%	50%
5 years to 10 years	0%	70%
10 years to 20 years	0%	80%
20 years to 30 years	0%	60%
30 years to 40 years	0%	60%
40 years to 50 years	0%	45%

WORTHING BOROUGH COUNCIL

Limits to maturity structure of fixed interest rate borrowing 2021/22		
	Lower Limit	**Upper Limit**
Under 12 months	0%	35%
12 months to 2 years	0%	40%
2 years to 5 years	0%	75%
5 years to 10 years	0%	75%
10 years to 20 years	0%	75%
20 years to 30 years	0%	75%
30 years to 40 years	0%	75%
40 years to 50 years	0%	75%

APPENDIX B

TREASURY MANAGEMENT PRACTICE (TMP1) – CREDIT AND COUNTERPARTY RISK MANAGEMENT

The MHCLG issued Investment Guidance in 2018, and this forms the structure of the Councils' policy below. These guidelines do not apply to either trust funds or pension funds which operate under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires the Councils to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes, which will apply to all investment activity. In accordance with the Code, the Chief Financial Officer has produced its treasury management practices (TMPs). This part, TMP 1(1), covering investment counterparty policy requires approval each year.

Annual investment strategy - The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of the annual treasury strategy for the following year, covering the identification and approval of following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments;
- The principles to be used to determine the maximum periods for which funds can be committed;
- Specified investments that the Councils will use. These are high security (i.e. high credit rating, although this is defined by the Councils, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year;
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the Councils is:

Strategy guidelines – The main strategy guidelines are contained in the body of the treasury strategy statement.

SPECIFIED AND NON SPECIFIED INVESTMENTS

Specified Investments identified for use by the Councils

These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Councils have the right to be repaid within 12 months if they wish. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

- The Uk Government (such as the Debt Management Account deposit facility, UK treasury bills or a gilt* with less than one year to maturity)
- Supranational bonds of less than one year's duration*
- A local authority, housing association, parish council or community council
- Pooled investment vehicles (such as money market funds) that have been awarded a AAA rating by Standard and Poor's, Moody's and/or Fitch rating agencies
- A body that is considered of a high credit quality (such as a bank or building society). This covers bodies with a minimum Short Term rating of F1 (or the equivalent) as rated by Standard and Poor's, Moody's and/or Fitch rating agencies.
- *Certificates of deposit with banks and building societies

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

Within these bodies, and in accordance with the Code, the Councils have set additional criteria to set the time and amount of monies which will be invested in these bodies - see Annexes 1 and 2.

Non-Specified Investments identified for use by the Councils

These are any other type of investment (ie not defined as specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out in Annexes 1 and 2.

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

Long-term investments (over 365 days): minimum: A- (Fitch) or equivalent
Or
Short-term investments (365 days or less): minimum: F1 (Fitch) or equivalent

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

Where appropriate the Ring Fenced entities of banks will be used.

ADUR DISTRICT COUNCIL - SPECIFIED AND NON SPECIFIED INVESTMENTS

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

Instrument	Country and sovereign rating	Counterparty	Max'm exposure limit £m and/or %
Term Deposits	UK	DMADF, DMO	No limit
Term Deposits/ Call Accounts	UK	Other UK Local Authorities	£5m
Term Deposits/ Call Accounts	UK	Santander UK	£4m
Term Deposits/ Call Accounts	UK	Bank of Scotland/ Lloyds (RFB)	£4m
Term Deposits/ Call Accounts	UK	Barclays (RFB)	£4m
Term Deposits/ Call Accounts	UK	Clydesdale	£4m
Term Deposits/ Call Accounts	UK	HSBC (RFB)	£4m
Term Deposits/ Call Accounts	UK	Close Brothers Ltd	£4m
Term Deposits/ Call Accounts	UK	Royal Bank of Scotland/Nat West Group (RFB)	£4m
Term Deposits/ Call Accounts	Australia - AAA	National Australia Bank Ltd	£3m
Term Deposits/ Call Accounts	US - AAA	JP Morgan Chase Bank NA	£3m
Term Deposits/ Call Accounts	UK	Handelsbanken plc	£4m
Term Deposits/ Call Accounts	UK	Goldman Sachs International Bank	£3m
Gilts	UK	Debt Management Office (DMO)	£3m or 25% of funds

Instrument	Country and sovereign rating	Counterparty	Max'm exposure limit £m and/or %
Bonds	EU	European Investment Bank/ Council of Europe	£3m or 25% of funds
AAA rated Money Market Funds		Constant Net Asset Value or LVNAV MMFs	to manage liquidity, maximum £3m per fund
Other MMFs and CIS	UK	Collective Investment Schemes	25%
Term Deposits	UK	Nationwide BS	£4m
Term Deposits	UK	Yorkshire BS	£2m
Term Deposits	UK	Coventry BS	£2m
Term Deposits	UK	Skipton BS	£2m
Term Deposits	UK	Leeds BS	£2m
Share Capital	n/a	West Sussex Credit Union	£0.025m deferred shares
Share Capital	n/a	Local Capital Finance Co (Municipal Bonds Agency)	£0.05m

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

NB No more than 25% of funds shall be invested in Non-UK financial institutions whether by term deposits, call accounts or Money Market Funds, or any combination thereof, except that this limit may be breached for liquidity purposes for up to 1 week at any time.

NB Investments in AAA rated Money Market Funds are to be used for liquidity purposes - funds should be invested to achieve higher returns wherever possible.

APPENDIX B - ANNEX 1

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

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

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

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

	In-house use	Use by Fund Managers	Maximum Maturity	Maximum % of portfolio or £m	Capital Expenditure?
Non-guaranteed bonds and debt instruments (e.g. floating rate notes) issued by corporate bodies	√ (on advice from treasury advisor)	√	5 years	The higher of £2m or 10% of funds	Yes
Property Funds approved by HM Treasury and operated by managers regulated by the Financial Conduct Authority, such as the Local Authorities' Property Fund	√ (on advice from treasury advisor)	√	These funds do not have a defined maturity date	£3m	To be confirmed
Collective Investment Schemes (pooled funds) which do not meet the definition of collective investment schemes in SI 2004 No. 534 or SI 2007, No. 573.	√ (on advice from treasury advisor)	√	These funds do not have a defined maturity date	The higher of £2m or 20% of funds	Yes

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

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

3. The Council's own banker may also be used if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as possible.

WORTHING BOROUGH COUNCIL SPECIFIED AND NON SPECIFIED INVESTMENTS

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

Instrument	Country and sovereign rating	Counterparty	Max'm exposure limit £m and/or %
Term Deposits	UK	DMADF, DMO	No limit
Term Deposits/ Call Accounts	UK	Other UK Local Authorities	£5m
Term Deposits/ Call Accounts	UK	Santander UK	£4m
Term Deposits/ Call Accounts	UK	Bank of Scotland/ Lloyds (RFB)	£4m
Term Deposits/ Call Accounts	UK	Barclays (RFB)	£4m
Term Deposits/ Call Accounts	UK	Clydesdale	£4m
Term Deposits/ Call Accounts	UK	HSBC (RFB)	£4m
Term Deposits/ Call Accounts	UK	Close Brothers Ltd	£4m
Term Deposits/ Call Accounts	UK	Royal Bank of Scotland/Nat West Group (RFB)	£4m
Term Deposits/ Call Accounts	Australia - AAA	National Australia Bank Ltd	£3m
Term Deposits/ Call Accounts	US - AAA	JP Morgan Chase Bank NA	£3m
Term Deposits/ Call Accounts	UK	Handelsbanken plc	£4m
Term Deposits/ Call Accounts	UK	Goldman Sachs International Bank	£3m
Gilts	UK	Debt Management Office (DMO)	£3m or 25% of funds

Instrument	Country and sovereign rating	Counterparty	Max'm exposure limit £m and/or %
Bonds	EU	European Investment Bank/ Council of Europe	£3m or 25% of funds
AAA rated Money Market Funds		Constant Net Asset Value or LVNAV MMFs	£9m (the limit may be exceeded for up to 7 days), maximum £3m per fund
Other MMFs and CIS	UK	Collective Investment Schemes	25%
Term Deposits	UK	Nationwide BS	£4m
Term Deposits	UK	Yorkshire BS	£2m
Term Deposits	UK	Coventry BS	£2m
Term Deposits	UK	Skipton BS	£2m
Term Deposits	UK	Leeds BS	£2m
*Term Deposits	UK	Worthing Homes (10 year loan)	£10m
*Term Deposits	UK	GB Met (20 year loan)	£5m
Share Capital	n/a	West Sussex Credit Union	£0.05m deferred shares
Share Capital	n/a	Local Capital Finance Co (Municipal Bonds Agency)	£0.05m
Temporary Loans	n/a	Worthing Leisure Trust	£0.5m

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

NB No more than 25% of funds shall be invested in Non-UK financial institutions whether by term deposits, call accounts or Money Market Funds, or any combination thereof, except that this limit may be breached for liquidity purposes for up to 1 week at any time.

* These loans are for more than 1 year, therefore are "unspecified", but are included here as they have been approved by Council.

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

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

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

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

	In-house use	Use by Fund Managers	Maximum Maturity	Maximum % of portfolio or £m	Capital Expenditure?
Non-guaranteed bonds and debt instruments (e.g. floating rate notes) issued by corporate bodies	√ (on advice from treasury advisor)	√	5 years	The higher of £2m or 10% of funds	Yes
Property Funds approved by HM Treasury and operated by managers regulated by the Financial Conduct Authority, such as the Local Authorities' Property Fund	√ (on advice from treasury advisor)	√	These funds do not have a defined maturity date	£3m	To be confirmed
Collective Investment Schemes (pooled funds) which do not meet the definition of collective investment schemes in SI 2004 No. 534 or SI 2007, No. 573.	√ (on advice from treasury advisor)	√	These funds do not have a defined maturity date	The higher of £2m or 20% of funds	Yes

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

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

3. The Council's own banker may also be used if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as possible.

APPENDIX C

COUNTERPARTIES WHERE THE COUNCILS HAVE OPTED UP TO PROFESSIONAL INVESTOR STATUS

(i) **Money Market Funds**

Invesco
Federated Investors
CCLA
Black Rock

(ii) **Building Societies**

Skipton Building Society
Coventry Building Society
Leeds Building Society
Nationwide Building Society

(iii) **Brokers**

BGC (Sterling)
Tradition
ICAP
Imperial

(iv) **Other**

ICD (Portal used for money market fund investments)
Link Group

These arrangements will be regularly reviewed as appropriate.

APPENDIX D

TREASURY MANAGEMENT SCHEME OF DELEGATION

(i) **Full Council**

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

(ii) **Joint Strategic Committee**

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

(iii) **Joint Governance Committee**

Receiving and reviewing the following, and making recommendations to the Joint Strategic Committee

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

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

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

APPENDIX D

TREASURY MANAGEMENT SCHEME OF DELEGATION

The revised CIPFA Treasury Management and Prudential Codes have extended the functions of the S151 role in respect of non-financial investments

- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management
- ensuring that the capital strategy is prudent, sustainable and affordable in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authorities
- ensuring that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed

Prospects for interest rates

The Councils have appointed Link Group as their treasury advisor and part of their service is to assist the Councils to formulate a view on interest rates. The following table gives their central view based on the reduced PWLB rates of gilt yields plus 80bps:

Link Group Interest Rate View 9.11.20														
These Link forecasts have been amended for the reduction in PWLB margins by 1.0% from 26.11.20														
	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	0.80	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00
10 yr PWLB	1.10	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30
25 yr PWLB	1.50	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80
50 yr PWLB	1.30	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60

The coronavirus outbreak has done huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it left Bank Rate unchanged at its subsequent meetings to 5th November, although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. As shown in the forecast table above, no increase in Bank Rate is expected in the forecast table above as economic recovery is expected to be only gradual and, therefore, prolonged. These forecasts were based on an assumption that a Brexit trade deal would be agreed by 31.12.20: as this has now occurred, these forecasts do not need to be revised.

Gilt yields / PWLB rates

There was much speculation during the second half of 2019 that bond markets were in a bubble which was driving bond prices up and yields down to historically very low levels. The context for that was a heightened expectation that the US could have been heading for a recession in 2020. In addition, there were growing expectations of a downturn in world economic growth, especially due to fears around the impact of the trade war between the US and China, together with inflation generally at low levels in most countries and expected to remain subdued. Combined, these conditions were conducive to very low bond yields. While inflation targeting by the major central banks has been successful over the last thirty years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers. This means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. The consequence of this has been the gradual lowering of the overall level of interest rates and bond yields in financial markets over the last 30 years. Over the year prior to the coronavirus crisis, this has seen many bond yields up to 10 years turn negative in the Eurozone. In addition, there has, at times, been an inversion of bond yields in the US whereby 10 year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession. The other side of this coin is that bond prices are elevated as investors would be expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities.

Gilt yields had therefore already been on a generally falling trend up until the coronavirus crisis hit western economies during March 2020. After gilt yields spiked up during the financial crisis in March, we have seen these yields fall sharply to unprecedented lows as investors panicked during March in selling shares in anticipation of impending recessions in western economies, and moved cash into safe haven assets i.e. government bonds. However, major western central banks took rapid action to deal with excessive stress in financial markets during March, and started massive quantitative easing purchases of government bonds: this also acted to put downward pressure on government bond yields at a time when there has been a huge and quick expansion of government expenditure financed by issuing government bonds. Such unprecedented levels of issuance in “normal” times would have caused bond yields to rise sharply. Gilt yields and PWLB rates have been at remarkably low rates so far during 2020/21.

As the interest forecast table for PWLB certainty rates above shows, there is expected to be little upward movement in PWLB rates over the next two years as it will take economies, including the UK, a prolonged period to recover all the momentum they have lost in the sharp recession caused during the coronavirus shut down period. From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment, (as shown on 9th November when the first results of a successful COVID-19 vaccine trial were announced). Such volatility could occur at any time during the forecast period.

Investment and borrowing rates

Investment returns are likely to remain exceptionally low during 2021/22 with little increase in the following two years.

Borrowing interest rates fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England: indeed, gilt yields up to 6 years were negative during most of the first half of 20/21. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years. The unexpected increase of 100 bps in PWLB rates on top of the then current margin over gilt yields of 80 bps in October 2019, required an initial major rethink of local authority treasury management strategy and risk management. However, in March 2020, the Government started a consultation process for reviewing the margins over gilt rates for PWLB borrowing for different types of local authority capital expenditure. (Please note that Link has concerns over this approach, as the fundamental principle of local authority borrowing is that borrowing is a treasury management activity and individual sums that are borrowed are not linked to specific capital projects.) It also introduced the following rates for borrowing for different types of capital expenditure: -

- PWLB Standard Rate is gilt plus 200 basis points (G+200bps)
- PWLB Certainty Rate is gilt plus 180 basis points (G+180bps)
- PWLB HRA Standard Rate is gilt plus 100 basis points (G+100bps)
- PWLB HRA Certainty Rate is gilt plus 80bps (G+80bps)
- Local Infrastructure Rate is gilt plus 60bps (G+60bps)

As a consequence of these increases in margins, many local authorities decided to refrain from PWLB borrowing unless it was for HRA or local infrastructure financing, until such time as the review of margins was concluded.

On 25.11.20, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates; the standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three year capital programme. The new margins over gilt yields are as follows: -.

- PWLB Standard Rate is gilt plus 100 basis points (G+100bps)
- PWLB Certainty Rate is gilt plus 80 basis points (G+80bps)
- PWLB HRA Standard Rate is gilt plus 100 basis points (G+100bps)
- PWLB HRA Certainty Rate is gilt plus 80bps (G+80bps)
- Local Infrastructure Rate is gilt plus 60bps (G+60bps)

ECONOMIC BACKGROUND

UK. The key quarterly meeting of the Bank of England Monetary Policy Committee kept **Bank Rate** unchanged on 5th November. However, it revised its economic forecasts to take account of a second national lockdown from 5th November to 2nd December which is obviously going to put back economic recovery and do further damage to the economy. It therefore decided to do a further tranche of **quantitative easing (QE) of £150bn**, to start in January when the current programme of £300bn of QE announced in March to June, runs out. It did this so that “announcing further asset purchases now should support the economy and help to ensure the unavoidable near-term slowdown in activity was not amplified by a tightening in monetary conditions that could slow the return of inflation to the target”.

Its forecasts appeared, at the time, to be rather optimistic in terms of three areas:

- The economy would recover to reach its pre-pandemic level in Q1 2022
- The Bank also expected there to be excess demand in the economy by Q4 2022.
- CPI inflation was therefore projected to be a bit above its 2% target by the start of 2023 and the “inflation risks were judged to be balanced”.

Significantly, there was no mention of **negative interest rates** in the minutes or Monetary Policy Report, suggesting that the MPC remains some way from being persuaded of the case for such a policy, at least for the next 6 -12 months. However, rather than saying that it “stands ready to adjust monetary policy”, the MPC this time said that it will take “whatever additional action was necessary to achieve its remit”. The latter seems stronger and wider and may indicate the Bank’s willingness to embrace new tools.

One key addition to **the Bank’s forward guidance in August** was a new phrase in the policy statement, namely that “it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably". That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years' time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate. Our Bank Rate forecast currently shows no increase, (or decrease), through to quarter 1 2024 but there could well be no increase during the next five years due as it will take some years to eliminate spare capacity in the economy, and therefore for inflationary pressures to rise to cause the MPC concern. **Inflation** is expected to briefly peak at just over 2% towards the end of 2021, but this is a temporary short lived factor and so not a concern.

However, the minutes did contain several references to **downside risks**. The MPC reiterated that the "recovery would take time, and the risks around the GDP projection were judged to be skewed to the downside". It also said "the risk of a more persistent period of elevated unemployment remained material". Downside risks could well include severe restrictions remaining in place in some form during the rest of December and most of January too. **Upside risks** included the early roll out of effective vaccines.

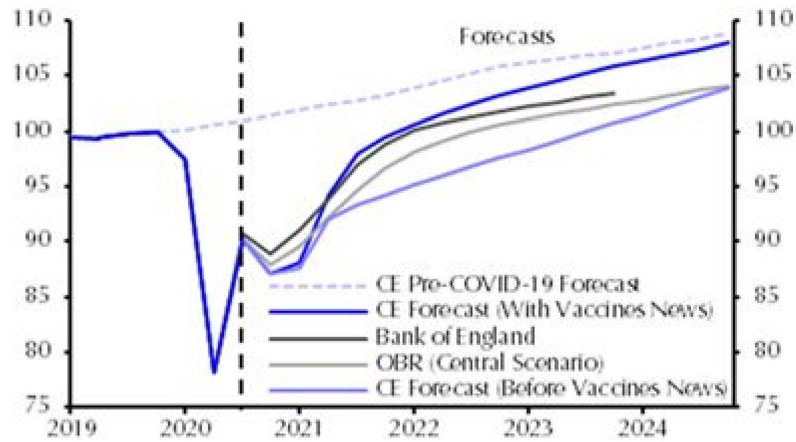
COVID-19 vaccines. we had been waiting expectantly for news that various COVID-19 vaccines would be cleared as being safe and effective for administering to the general public. The Pfizer announcement on 9th November was very encouraging as its 90% effectiveness was much higher than the 50-60% rate of effectiveness of flu vaccines which might otherwise have been expected. However, this vaccine has demanding cold storage requirements of minus 70C that impairs the speed of application to the general population. It has therefore been particularly welcome that the Oxford University/AstraZeneca vaccine has now also been approved which is much cheaper and only requires fridge temperatures for storage. The Government has 60m doses on order and is aiming to vaccinate at a rate of 2m people per week starting in January, though this rate is currently restricted by a bottleneck on vaccine production; (a new UK production facility is due to be completed in June).

These announcements, plus expected further announcements that other vaccines will be approved soon, have enormously boosted confidence that **life could largely return to normal during the second half of 2021**, with activity in the still-depressed sectors like restaurants, travel and hotels returning to their pre-pandemic levels; this would help to bring the unemployment rate down. With the household saving rate having been exceptionally high since the first lockdown in March, there is plenty of pent-up demand and purchasing power stored up for these services. A comprehensive roll-out of vaccines might take into late 2021 to fully complete; but if these vaccines prove to be highly effective, then there is a possibility that restrictions could begin to be eased, beginning possibly in Q2 2021, once vulnerable people and front-line workers have been vaccinated. At that point, there would be less reason to fear that hospitals could become overwhelmed any more. Effective vaccines would radically improve the economic outlook once they have been widely administered; it may allow GDP to rise to its pre-virus level a year earlier than otherwise and mean that the unemployment rate peaks at 7% in 2021 instead of 9%. **Public borrowing** was forecast in November by the Office for Budget Responsibility (the OBR) to reach £394bn in the current financial year, the highest ever peace time deficit and equivalent to 19% of GDP. In normal times, such an increase in total gilt issuance would lead to a rise in gilt yields, and so PWLB rates. However, the QE done by the Bank of England has depressed gilt yields to historic low levels, (as has similarly occurred with QE and debt issued in the US, the EU and Japan). This means that new UK debt being issued, and this is being done across the whole yield curve in all maturities, is locking in those historic low levels through until maturity. In addition, the UK has one of the longest average maturities for its entire debt portfolio, of any country in the world. Overall, this means that the total interest bill paid by the Government is manageable despite the huge increase in the total amount of debt. The OBR was also forecasting that the government will still be running a budget deficit of £102bn (3.9% of GDP) by 2025/26. However, initial impressions are that they have taken a pessimistic view of the impact that vaccines could make in the speed of economic recovery.

Overall, **the pace of recovery** was not expected to be in the form of a rapid V shape, but a more elongated and prolonged one. The initial recovery was sharp after quarter 1 saw growth at -3.0% followed by -18.8% in quarter 2 and then an upswing of +16.0% in quarter 3; this still left the economy 8.6% smaller than in Q4 2019. It is likely that the one month national lockdown that started on 5th November, will have caused a further contraction of 8% m/m in November so the economy may have then been 14% below its pre-crisis level.

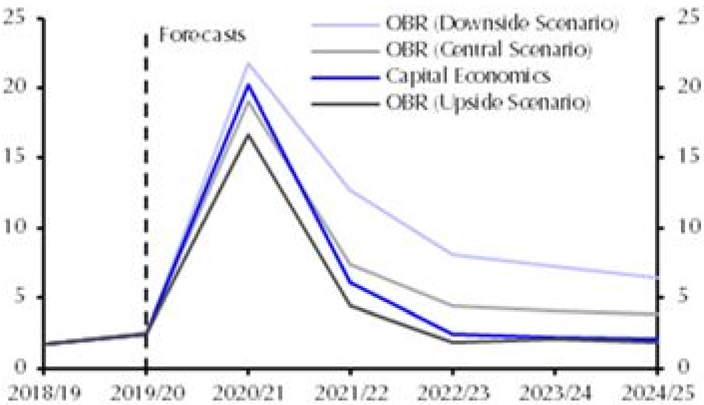
December 2020 / January 2021. Since then, there has been a rapid back tracking on easing restrictions due to the spread of a new mutation of the virus by the imposition of severe restrictions across all four nations. These restrictions were changed on January 5th to national lockdowns of various initial lengths in each of the four nations as the NHS was under extreme pressure. It is now likely that wide swathes of the UK will remain under severe restrictions for some months; this means that the near-term outlook for the economy is grim. However, the distribution of vaccines and the expected consequent removal of COVID-19 restrictions, should allow GDP to rebound rapidly in the second half of 2021 so that the economy could climb back to its pre-pandemic peak as soon as late in 2022. Provided that both monetary and fiscal policy are kept loose for a few years yet, then it is still possible that in the second half of this decade, the economy may be no smaller than it would have been if COVID-19 never happened. The significant caveat is that another mutation of COVID-19 does not appear that defeats the current batch of vaccines. However, now that science and technology have caught up with understanding this virus, new vaccines ought to be able to be developed more quickly to counter such a development and vaccine production facilities are being ramped up around the world.

Chart: Level of real GDP (Q4 2019 = 100)



This recovery of growth which eliminates the effects of the pandemic by about the middle of the decade would have major repercussions for public finances as it would be consistent with the **government deficit** falling to around 2.5% of GDP without any tax increases. This would be in line with the OBR's most optimistic forecast in the graph below, rather than their current central scenario which predicts a 4% deficit due to assuming much slower growth. However, Capital Economics forecasts assumed that there is a reasonable Brexit deal and also that politicians do not raise taxes or embark on major austerity measures and so, (perversely!), depress economic growth and recovery.

Chart: Public Sector Net Borrowing (As a % of GDP)



There will still be some **painful longer term adjustments** as e.g. office space and travel by planes, trains and buses may not recover to their previous level of use for several years, or possibly ever, even if vaccines are fully successful in overcoming the current virus. There is also likely to be a reversal of globalisation as this crisis has exposed how vulnerable long-distance supply chains are. On the other hand, digital services are one area that has already seen huge growth.

Brexit. While the UK has been gripped by the long running saga of whether or not a deal would be made by 31st December, the final agreement on December 24th, followed by ratification by Parliament and all 27 EU countries in the following week, has eliminated a significant downside risk for the UK economy. The initial agreement only covers trade so there is further work to be done on the services sector where temporary equivalence has been granted in both directions between the UK and EU; that now needs to be formalised on a permanent basis. As the forecasts in this report were based on an assumption of a Brexit agreement being reached, there is no need to amend these forecasts.

Monetary Policy Committee meeting of 17 December. All nine Committee members voted to keep interest rates on hold at +0.10% and the Quantitative Easing (QE) target at £895bn. The MPC commented that the successful rollout of vaccines had reduced the downsides risks to the economy it had highlighted in November. But this was caveated by it saying “Although all members agreed that this would reduce downside risks, they placed different weights on the degree to which this was also expected to lead to stronger GDP growth in the central case.” So, while the vaccine is a positive development, in the eyes of the MPC at least, the economy is far from out of the woods. As a result of these continued concerns, the MPC voted to extend the availability of the Term Funding Scheme with additional incentives for small and medium size enterprises for six months from 30th April until 31st October 2021. (The MPC had assumed that a Brexit deal would be agreed.)

- **Fiscal policy.** In the same week as the MPC meeting, the Chancellor made a series of announcements to provide further support to the economy: -

- An extension of the COVID-19 loan schemes from the end of January 2021 to the end of March.

- The furlough scheme was lengthened from the end of March to the end of April.

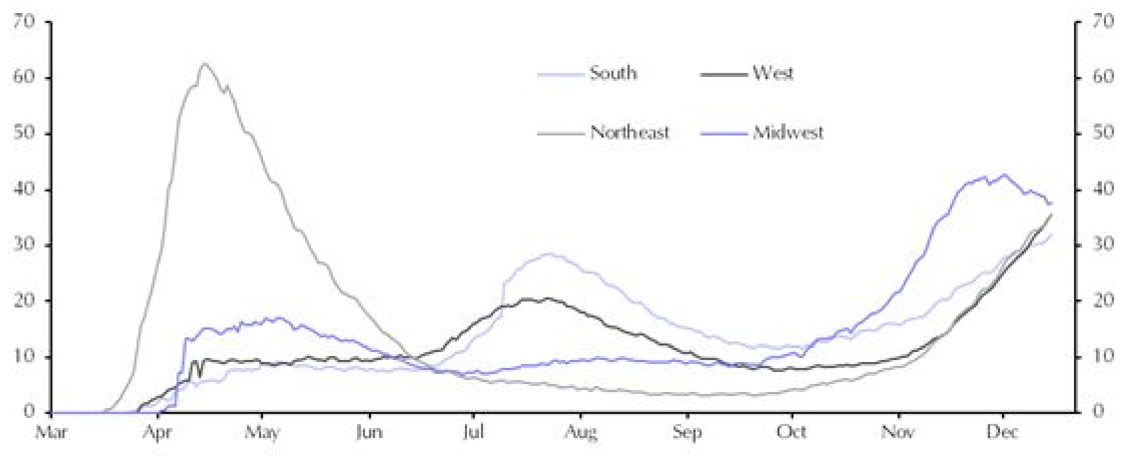
- The Budget on 3rd March 2021 will lay out the “next phase of the plan to tackle the virus and protect jobs”. This does not sound like tax rises are imminent, (which could hold back the speed of economic recovery).

- The **Financial Policy Committee** (FPC) report on 6th August revised down their expected credit losses for the banking sector to “somewhat less than £80bn”. It stated that in its assessment “banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC’s central projection”. The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC’s projection, with unemployment rising to above 15%.

US. The result of **the November elections** means that while the Democrats gained the presidency and a majority in the House of Representatives, it looks as if the Republicans could retain their slim majority in the Senate provided they keep hold of two key seats in Georgia in elections in early January. If those two seats do swing to the Democrats, they will then control both Houses and President Biden will consequently have a free hand to determine policy and to implement his election manifesto.

The economy had been recovering quite strongly from its contraction in 2020 of 10.2% due to the **pandemic** with GDP only 3.5% below its pre-pandemic level and the unemployment rate dropping below 7%. However, the rise in new cases during quarter 4, to the highest level since mid-August, suggests that the US could be in the early stages of a fourth wave. While the first wave in March and April was concentrated in the Northeast, and the second wave in the South and West, the third wave in the Midwest looks as if it now abating. However, it also looks as if the virus is rising again in the rest of the country. The latest upturn poses a threat that the recovery in the economy could stall. This is **the single biggest downside risk** to the shorter term outlook – a more widespread and severe wave of infections over the winter months, which is compounded by the impact of the regular flu season and, as a consequence, threatens to overwhelm health care facilities. Under those circumstances, states might feel it necessary to return to more draconian lockdowns.

COVID-19 hospitalisations per 100,000 population



The restrictions imposed to control its spread are once again weighing on the economy with employment growth slowing sharply in November and retail sales dropping back. The economy is set for further weakness in December and into the spring. However, a $900bn fiscal stimulus deal passed by Congress in late December will limit the downside through measures which included a second round of direct payments to households worth $600 per person and a three-month extension of enhanced unemployment insurance (including a $300 weekly top-up payment for all claimants). GDP growth is expected to rebound markedly from the second quarter of 2021 onwards, as vaccines are rolled out on a widespread basis and restrictions are loosened.

After Chair Jerome Powell unveiled the **Fed's adoption of a flexible average inflation target** in his Jackson Hole speech in late August 2020, the mid-September meeting of the Fed agreed by a majority to a toned down version of the new inflation target in his speech - that *"it would likely be appropriate to maintain the current target range until labour market conditions were judged to be consistent with the Committee's assessments of maximum employment and inflation had risen to 2% and was on track to moderately exceed 2% for some time."* This change was aimed to provide more stimulus for economic growth and higher levels of employment and to avoid the danger of getting caught in a deflationary "trap" like Japan. It is to be noted that inflation has actually been under-shooting the 2% target significantly for most of the last decade, (and this year), so financial markets took note that higher levels of inflation are likely to be in the pipeline; long-term bond yields duly rose after the meeting. The FOMC's updated economic and rate projections in mid-September showed that officials expect to leave the fed funds rate at near-zero until at least end-2023 and probably for another year or two beyond that. There is now some expectation that where the Fed has led in changing its inflation target, other major central banks will follow. The increase in tension over the last year between the US and China is likely to lead to a lack of momentum in progressing the initial positive moves to agree a phase one trade deal.

The Fed's meeting on **5 November** was unremarkable - but at a politically sensitive time around the elections. At its **16 December** meeting the Fed tweaked the guidance for its asset purchases in the statement issued after the conclusion of today's FOMC meeting, with the new language implying those purchases could continue for longer than previously believed. Nevertheless, with officials still projecting that inflation will only get back to 2.0% in 2023, the vast majority expect the fed funds rate to be still at near-zero until 2024 or later. Furthermore, the new rate forecast tables reveal that officials think the balance of risks surrounding that median inflation forecast are firmly skewed to the downside. The key message is still that policy will remain unusually accommodative – with near-zero rates and asset purchases – continuing for several more years. This is likely to result in keeping Treasury yields low – which will also have an influence on gilt yields in this country.

EU. In early December, the figures for Q3 GDP confirmed that the economy staged a rapid rebound from the first lockdowns. This provides grounds for optimism about growth prospects for next year. In Q2, GDP was 15% below its pre-pandemic level. But in Q3 the economy grew by 12.5% q/q leaving GDP down by "only" 4.4%. That was much better than had been expected earlier in the year. However, growth is likely to stagnate during Q4, and in Q1 of 2021, as a second wave of the virus has affected many countries:it is likely to hit hardest those countries more dependent on tourism. The €750bn fiscal support package eventually agreed by the EU after prolonged disagreement between various countries, is unlikely to provide significant support, and quickly enough, to make an appreciable difference in the worst affected countries.

With inflation expected to be unlikely to get much above 1% over the next two years, **the ECB** has been struggling to get inflation up to its 2% target. It is currently unlikely that it will cut its central rate even further into negative territory from -0.5%, although the ECB has stated that it retains this as a possible tool to use. The ECB's December meeting added a further €500bn to the PEPP scheme (purchase of government and other bonds), and extended the duration of the programme to March 2022 and re-investing maturities until December 2023. Three additional tranches of TLTRO (cheap loans to banks) were approved, indicating that support will last beyond the impact of the pandemic, implying indirect yield curve control for government bonds for some time ahead. The Bank's forecast for a return to pre-virus activity levels was pushed back to the end of 2021, but stronger growth is projected in 2022.

The total PEPP scheme of €1,850bn of QE which started in March 2020 is providing protection to the sovereign bond yields of weaker countries like Italy. There is therefore unlikely to be a euro crisis while the ECB is able to maintain this level of support.

However, as in the UK and the US, the advent of highly effective vaccines will be a game changer, although growth will struggle before quarter 2 of 2021.

China. After a concerted effort to get on top of the virus outbreak in Q1, economic recovery was strong in Q2 and then into Q3 and Q4; this has enabled China to recover all of the contraction in Q1. Policy makers have both quashed the virus and implemented a programme of monetary and fiscal support that has been particularly effective at stimulating short-term growth. At the same time, China's economy has benefited from the shift towards online spending by consumers in developed markets. These factors help to explain its comparative outperformance compared to western economies.

However, this was achieved by major central government funding of yet more infrastructure spending. After years of growth having been focused on this same area, any further spending in this area is likely to lead to increasingly weaker economic returns in the longer term. This could, therefore, lead to a further misallocation of resources which will weigh on growth in future years.

Japan. . A third round of stimulus in early December took total fresh fiscal spending this year in response to the virus close to 12% of pre-virus GDP. That's huge by past standards, and one of the largest national fiscal responses. The budget deficit is now likely to reach 16% of GDP this year. Coupled with Japan's relative success in containing the virus without draconian measures so far, and the likelihood of effective vaccines being available in the coming months, the government's latest fiscal arrow should help ensure a strong recovery and to get back to pre-virus levels by Q3 2021 – around the same time as the US and much sooner than the Eurozone.

World growth. World growth will have been in recession in 2020. Inflation is unlikely to be a problem for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.

Until recent years, world growth has been boosted by increasing **globalisation** i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last thirty years, which now accounts for nearly 20% of total world GDP, has unbalanced the world economy. The Chinese government has targeted achieving major world positions in specific key sectors and products, especially high tech areas and production of rare earth minerals used in high tech products. It is achieving this by massive financial support, (i.e. subsidies), to state owned firms, government directions to other firms, technology theft, restrictions on market access by foreign firms and informal targets for the domestic market share of Chinese producers in the selected sectors. This is regarded as being unfair competition that is putting western firms at an unfair disadvantage or even putting some out of business. It is also regarded with suspicion on the political front as China is an authoritarian country that is not averse to using economic and military power for political advantage. The current trade war between the US and China therefore needs to be seen against that backdrop. It is, therefore, likely that we are heading into a period where there will be a **reversal of world globalisation and a decoupling of western countries** from dependence on China to supply products. This is likely to produce a backdrop in the coming years of weak global growth and so weak inflation.

Summary

Central banks are, therefore, likely to support growth by maintaining loose monetary policy through keeping rates very low for longer. Governments could also help a quicker recovery by providing more fiscal support for their economies at a time when total debt is affordable due to the very low rates of interest. They will also need to avoid significant increases in taxation or austerity measures that depress demand in their economies.

If there is a huge surge in investor confidence as a result of successful vaccines which leads to a major switch out of government bonds into equities, which, in turn, causes government debt yields to rise, then there will be pressure on central banks to actively manage debt yields by further QE purchases of government debt; this would help to suppress the rise in debt yields and so keep the total interest bill on greatly expanded government debt portfolios within manageable parameters. It is also the main alternative to a programme of austerity.

INTEREST RATE FORECASTS

Brexit. The interest rate forecasts provided by Link in paragraph 3.3 were predicated on an assumption of a reasonable agreement being reached on trade negotiations between the UK and the EU by 31.12.20. There is therefore no need to revise these forecasts now that a trade deal has been agreed.

Brexit may reduce the economy's potential growth rate in the long run. However, much of that drag is now likely to be offset by an acceleration of productivity growth triggered by the digital revolution brought about by the COVID crisis.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably now skewed to the upside, but is still subject to some uncertainty due to the virus and the effect of any mutations, and how quick vaccines are in enabling a relaxation of restrictions.
- There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, could impact gilt yields, (and so PWLB rates), in the UK.

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

- **UK government** takes too much action too quickly to raise taxation or introduce austerity measures that depress demand in the economy.
- **UK - Bank of England** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the **Eurozone sovereign debt crisis.** The ECB has taken monetary policy action to support the bonds of EU states, with the positive impact most likely for "weaker" countries. In addition, the EU agreed a €750bn fiscal support package.

These actions will help shield weaker economic regions for the next tw0 or three years. However, in the case of Italy, the cost of the virus crisis has added to its already huge debt mountain and its slow economic growth will leave it vulnerable to markets returning to taking the view that its level of debt is unsupportable. There remains a sharp divide between northern EU countries favouring low debt to GDP and annual balanced budgets and southern countries who want to see jointly issued Eurobonds to finance economic recovery. This divide could undermine the unity of the EU in time to come.

- Weak capitalisation of some **European banks**, which could be undermined further depending on extent of credit losses resultant of the pandemic.
- **German minority government & general election in 2021.** In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. The CDU has done badly in subsequent state elections but the SPD has done particularly badly. Angela Merkel has stepped down from being the CDU party leader but she will remain as Chancellor until the general election in 2021. This then leaves a major question mark over who will be the major guiding hand and driver of EU unity when she steps down.
- **Other minority EU governments.** Austria, Sweden, Spain, Portugal, Netherlands, Ireland and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.
- **Austria, the Czech Republic, Poland and Hungary** now form a strongly anti-immigration bloc within the EU which had threatened to derail the 7 year EU budget until a compromise was thrashed out in late 2020. . There has also been a rise in anti-immigration sentiment in Germany and France.
- **Geopolitical risks,** for example in China, Iran or North Korea, but also in Europe and other Middle Eastern countries, which could lead to increasing safe haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates

- **UK -** a significant rise in inflationary pressures e.g. caused by a stronger than currently expected recovery in the UK economy after effective vaccines are administered quickly to the UK population, leading to a rapid resumption of normal life and return to full economic activity across all sectors of the economy.
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a rapid series of increases in Bank Rate to stifle inflation.

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Joint Governance Committee
26 January 2021
Agenda Item 9

Ward(s) Affected: N/A

Risk & Opportunity Management Update

Report by the Director for Digital, Sustainability & Resources

Executive Summary

1. Purpose

1.1 This report provides the latest updates on the management of the Councils' Risks and Opportunities.

2. Recommendations

2.1 That the progress in managing Risks and Opportunities be noted;

2.2 That the Committee consider if it would like any further information on any of the Risks and Opportunities; and

2.3 That the Committee agree to receive a further progress report in May 2021.

3. Context

3.1 The Committee receives regular update reports on the general management of the Councils' Risks and Opportunities to assist the Committee in its role monitoring the effective development and operation of risk management and corporate governance in the Councils. This report provides the Committee with the detail of the updates including information on the 'High/Red' Service Risks for each Directorate. The last report to the Committee was on 22 September 2020.

4. Issues for consideration

4.1 The Covid-19 pandemic continues to have a profound effect on local communities and businesses who have needed and continue to need the Councils' support. The pandemic has also had a direct impact on Council finances and operations. Council staff have continued to work remotely and the Councils have continued to provide a range of support for the homeless, others vulnerable and self isolating, local businesses and tenants. The impact of measures implemented to manage the pandemic have been visible in the fall in income for the Councils and additional cost pressures for the Councils. In particular this has affected housing needs and loss of income from car parks.

4.2 Reports continue to be provided to the Councils and the Joint Strategic Committee (JSC) on how the Councils have been responding to the pandemic and the 'Lockdowns' and managing the Councils finances. Relevant reports that should be read in conjunction with the information provided in this report are:-

- Platforms for our Places: Going further 6 month progress report July to December 2020 - Item 6 JSC December 2020
- 2nd Revenue Budget Monitoring report (Q2) - Item 7 JSC December 2020
- 2nd quarter Capital Investment Programme and Projects Monitoring 2020/21 - Item 8 JSC December 2020
- Towards a sustainable financial position - Budget update - Item 9 JSC December 2020

4.3 The restrictions to help control Covid-19 have changed how the Councils work and many members of staff have been working from home since the initial 'Lockdown' in March 2020. This change of working practice has been implemented successfully with little impact on service delivery. Lessons learnt from this have enabled the Councils to review how office based services will operate in the future and design a more flexible way of working that will achieve multiple benefits including annual revenue savings, further investment in buildings, office space and technologies, a flexible workforce and reduced carbon emissions. This approach was approved by JSC and Councils in December 2020.

4.4 During these challenging times the Councils continue to monitor and review the full RIsk and Opportunity registers. Corporate Risks and Opportunities (including Covid-19 effects) which reflect the aims and activities set out in ‘Platforms for our Places: Going Further’ are reported regularly to the Councils Leadership Team. The Joint Strategic Committee also received its regular annual summary report on the management of the Corporate Risks and Opportunities at its meeting on 1 December 2020 - Annual summary A revised Risk & Opportunity Management Strategy has also been approved by JSC to cover 2021- 2023 - Revised Risk & Opportunity Management Strategy 21/23 Service Risk registers are regularly updated in consultation with Directors, Heads of Service and Departmental Management Team meetings.

4.5 This report includes changes required to the Risks and Opportunities since the last report in September.

5. A Summary of the Risk and Opportunities Management updates

5.1 A summary of the main changes to the Risks and Opportunities since the last updates in September 2020 are included in the table attached as Appendix A to this report. The report also includes details of the mitigation measures in place for all ‘High/Red’ Risks (Corporate and Service), including Covid-19 impacts and these are attached at Appendix B to this report.

5.2 The number of ‘High’ Risks now reported is 8 Corporate and 10 Service (4 for Financial Services, 2 for Housing Services, 2 for Adur Homes, 1 for Major Projects & Investment and 1 for Leisure - There is no change in this from the previous report in September 2020. Updates on changes to the other Risks and Opportunities including any added or removed are included in Appendix A to this report and the regular review undertaken with Heads of Service and Directors has identified any key issues emerging to the delivery of the Services amidst the Covid-19 response. This work and the reviews continues to highlight the good practice being followed across the organisation and the importance of good risk and opportunity management to ensure the Councils monitor, communicate and respond to Risks and Opportunities and the importance of good risk and opportunity management during these difficult times to help the Councils continue to provide services, serve communities and assist in business continuity.

6. Engagement and Communication

6.1 The updates on Risks and Opportunities as contained in Appendices A and B have been produced in discussion with Heads of Service and Directors as part of the regular review process. The Councils Leadership Team, Organisational Leadership Group and relevant Officers have been consulted on the production and contents of this report.

7. Financial Implications

7.1 There are no direct financial implications as a result of this report but there are some financial implications connected with some of the Risks and Opportunities.

8. Legal Implications

8.1 There are no direct legal implications arising as a result of this report but there could be legal implications for the Councils if the risk events do occur. The Joint Governance Committee has the responsibility for monitoring the effective development and operation of risk and opportunity management.

Background Papers

Adur & Worthing Risk and Opportunity Management Strategy 2021-2023
Risk & Opportunity Management updates report to Joint Governance Committee on 22 September 2020

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Sustainability & Risk Assessment

1. Economic

Matter considered. The Risks and Opportunities are directly linked to the projects and work streams that have been in place to help deliver the commitments and activities contained in the Councils strategic vision ‘Platforms for our Places: Going Further’. Some of these will impact on the economic development of the areas if they occur

2. Social

2.1 Social Value

Matter considered. Some of the Risks and Opportunities may have an impact on the value that communities experience from social value/projects if the Risks and Opportunities occur.

2.2 Equality Issues

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

2.3 Community Safety Issues (Section 17)

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

2.4 Human Rights Issues

Matter considered and no direct issues identified.

3. Environmental

Matter considered. Some of the Risks and Opportunities may impact on environmental issues.

4. Governance

Matter considered. As part of good governance the Councils need to manage Risks and Opportunities. The Councils Risk and Opportunity Management Strategy sets out clear governance controls for the management of Risks and Opportunities and part of these include provision for the Service Risks and Opportunities to be considered three times a year by the Joint Governance Committee.

APPENDIX A

Joint Governance Committee - 26 January 2021 Updates on Risk and Opportunity Management

	September 2020 update	January 2021 update
Corporate Risks and Opportunities	11 Risks 5 Opportunities	11 Risks - No change 5 Opportunities - No change
Service Risks and Opportunities **Communities Directorate** Environment Housing *Housing *Adur Homes Wellbeing * - From December 2020 Housing RIsks and Opportunities have been split between Housing and Adur Homes. There has been no change in the overall numbers.	 3 Risks 9 Risks 2 Opportunities 6 Risks	 3 Risks - No change 4 Risks 2 Opportunities 5 Risks 6 Risks - No change
Digital, Sustainability & Resources Directorate Customer & Digital Financial Services Human Resources Legal Services Revenues & Benefits	 7 Risks 7 Risks 1 Opportunity 6 Risks 1 Risk 4 Risks	 6 Risks - Minus 1 6 RIsks - Minus 1 1 Opportunity - No change 6 Risks - No change 1 Risk - No change 4 Risks - No change

Economy Directorate Facilities & Technical Services Major Projects & Investment Place & Economy Planning & Development Leisure	 7 Risks 10 Risks 7 Risks 19 Risks 1 Opportunity 1 Risk	 7 Risks - No change 10 Risks - No change 7 Risks - No change 19 Risks - No change 1 Opportunity - No change 1 Risk - No change

High Risks on Service RIsk registers	**September 2020 update**	**January 2021 update**
*Housing * Adur Homes Financial Services Major Projects & Investment Leisure * - From December 2020 Risks and Opportunities split between Housing and Adur Homes. No change in overall number.	4 4 1 1	2* 2* 4 - No change 1 - No change 1 - No change

Risks where assessment score has increased since the last report	None.
Risks where assessment score has reduced since the previous report.	None.
New Risks/Opportunities added since last report	None.

Risks/Opportunities removed since last report.	**Customer & Digital -** Corporate Contact Centre Demand - Risk of high levels of failure demand and high volumes of transactional calls resulting in existing staff resources not being able to cope with demand. Lack of alternative channels (incl effective self serve) - Risk removed on the basis that the issues have been mitigated successfully. **Financial Services -** Risk that savings anticipated from reviews are not delivered - Risk to be removed because the issues are duplicated in other risks within this service area.

Joint Governance Committee - 26 January 2021

Corporate 'High' Risks

Risk	**Internal Controls**	**Risk Impact**	**Risk Likelihood**
Covid-19 Coronavirus disease (COVID-19) is an infectious disease caused by a newly discovered coronavirus. The Government, on the advice of medical experts, has introduced social distancing measures, emergency legislation and economic packages to mitigate the effects of the crisis. This will continue to affect the operations of the Councils to meet the demands of the response, normal business functions and subsequent recovery effort may last 12 months or more before we reach a stage of "relative normality". A future social and economic landscape will be significantly different and our ability to adapt will require careful consideration.	**January 2021 -** The Community Response continues to be developed to ensure good support is in place for our communities. A self isolation payment platform and system has been developed to support those instructed to self isolate and payments are being provided. An employment platform has been developed to provide information and advice for those that have lost their jobs as a result of Covid. The A&W Food Partnership continues to develop and the Councils have provided resources to help support this work . Relationships with Mutual Aid Groups continue to be developed and work is being planned to strengthen the prevention approach to this work. Various types of support are in place for the Councils' staff to help with their resilience at this difficult time, including regular meetings with their line manager, resilience training, enabling staff to work flexibly around caring responsibilities. The Employee Assistance Program is available to all Council staff (and their family living in the same household) and they can access a wide range of advice and support ranging from counselling, to financial, legal and childcare advice.	Major	Likely

<u>Council Finances</u> Council finances continue to be under pressure after several years of reducing income from central government. The Councils have set balanced budgets every year, and do not rely on reserves to do so. A recent LGA Peer Review also found that a series of plans and strategies are in place to address challenges going forward, although there remains a projected shortfall currently for 2020/21. The Councils' reserves position is in the lower quartile of SE Districts and the position needs improvement.	**January 2021 -** Government funding for Covid related pressures has now increased to an estimated £5.306m (Adur £1.463m, Worthing £3.843m) which will ensure that Councils will remain in a reasonable financial position for the remainder of the 2020/21 financial year. Cost impacts which affect future years are being built into the 2021/22 budget. The Councils are currently on track to set a balanced budget for 2021/22.	Major	Very Likely

<u>Welfare Reform</u> ‘Welfare Reform’ is used to cover a range of issues in particular: ● Changes to how benefits paid to those who are working to incentivise work. ● Changes to the maximum level of benefits paid to families and individuals who are not working ● Changes to how working age benefits are paid and a shift to one benefit package ‘Universal Credit’ (UC) ● Benefits being administered largely by central government as opposed to local government - UC administered by DWP vs Housing Benefit by local authorities. ● UC being paid monthly, to an individual person or family member, into a bank account. ● Benefits for young people and single people reduced ● Benefits for larger families reduced The impact of these changes are still working through the system but in areas where Universal credit has been rolled out fully the following effects have been reported. ● 5-6 weeks gap before UC is paid (in some cases longer) ● Local systems unable to track individuals in need, as the system is centralised and data is no longer available ● Housing costs not being met by the	**January 2021 -** There has been little change to the impact that the rollout of Universal Credit is having on the number (reduction) of live Housing Benefit claims but there has been an increase in the number of claims that are being received for Council Tax Support - average weekly volumes have been ● Throughout 2019/20: 40 ● April 2020: 103 ● May 2020: 85 ● June 2020: 71 ● July 2020: 54 ● August 2020: 51 ● September 2020: 46 ● October 2020: 51 ● November: 41 ● December: 41	Major	Very Likely

level of out of work benefits The impact for the Councils of this is potentially on two fronts, increased homelessness presentations and/or reduced rental income for Adur Homes. This is compounded by the year on year reduction in social rents by 1% which also reduces the financial income for Adur Homes. Recent agreements to cut budgets from WSCC lines - e.g the Local Assistance Network funding; Supported Housing and IPEH (Universal services) may also impact in these areas.			
<u>Economic uncertainty</u> Covid 19 will have a severe impact on the local economy. The impact on our town centres will be significant and key sectors such as hotels, restaurants and retailing will be particularly adversely affected. Some businesses will not survive and there will be an increase in unemployment. Resilience will be key and local councils will be expected to play a key role in supporting economic recovery. As part of this, many businesses will need to change their model of operation and the councils will need to respond to their changing needs in terms of factors such as regulation; infrastructure and logistics.	**January 2021 -** The Councils will need to respond quickly to support the interests of local business and the wider economy. A number of measures will be needed to ensure that the local economy develops the necessary resilience: Supporting the local economy where there are opportunities for growth. The digital and creative industries sector has been growing at a significant rate nationally. Understanding this sector and nurturing its growth in our local economy will continue to be important; Supporting our major businesses as they develop new business models; There will be an expectation that local authorities play a more central role and we have already seen this in the distribution of Government grants and processing of business rate relief requests. We will need to	Major	Likely

	partner with some of our major employers to secure access to public investment monies that do become available; Economic recovery will require local authorities to be agile and flexible in using their powers to respond at pace to support the economy. This is likely to mean that new and innovative approaches will be needed to overcome traditional barriers and traditional bureaucratic obstacles; A resilient local economy will demand affordable and high speed digital infrastructure 'on tap'. Publicly available digital access will help to support town centre recovery and the wider visitor economy. New ultrafast fibre is currently being installed across our area, the first towns in the south east, and a funded initiative to provide "Citizen WiFi" will also support the town centre and seafront, and those who cannot afford data plans. Supporting our town centres and helping create the right conditions for trade. In the short term this will include working to help ensure that our town centres and supporting infrastructure offer a safe environment for residents and visitors. This includes car parks; public spaces community facilities; civic buildings; seafront and cultural and leisure venues. We have also been co-ordinating the development of additional measures in our towns to help with Covid-safe practices including appointing 3 new information officers (using government funding) to provide guidance and engagement to businesses and groups around covid. A Safe Towns Group is still in operation to help co-ordinate actions to help support businesses to reopen safely including: ● Developing a new pavement policy - to make greater use of outdoor space, ● Developing a new #WelcomeBackAW campaign for local residents to the town centre ● Continuing with wise regulation to ensure businesses are		

	operating safely ● Providing information and guidance for businesses to enable them to reopen safely, including targeted advice and support ● Adapting practices within the PH&R Team to ensure businesses can adapt, e.g. online food safety assessments. ● Adding greater ‘on the ground’ capacity to assist businesses and, where needed individuals, to outline up to date covid safety guidance from Council officers (enabling a real-time response for businesses) Using our asset base wisely to provide opportunities for employment to support start up businesses and those with the opportunity to scale up; this includes providing grant funding. Launched a new Employment Support App (November 2020) to provide detailed and direct support for those in our communities that have / are facing redundancy or unemployment. Accelerating our programme of major development projects to support economic recovery; Accelerating the the digital infrastructure programme to ensure that local businesses are well placed to compete; Respond to changing patterns of consumer behaviour together with greater expectations around ethical supply chains and locally sourced products. The councils are well placed to support business through their procurement activity; Working with training and skills providers to assist people back into employment; The Councils commissioned a review of economic data during the pandemic in July 2020. The pandemic recovery will demand that we continue to closely monitor this data and trends to ensure that we can make timely and well informed decisions. An update report, which also		

	responds to the recent national lockdown (November 2020) is due. Respond to national and / or lockdown scenarios by adapting delivery into ‘covid response’, which includes the distribution of nationally funded covid business support grants (primarily focusing on those mandated to close).		
Housing supply Limited housing supply in all areas and all tenures is a key risk for the Councils in terms of both discharging its statutory duty to prevent homelessness and support those at risk, as well as placing critical budgetary pressures on the Councils. Managing this demand is challenging and places additional capacity pressures on the operational teams. Emergency/Temporary Accommodation - the lack of EA/TA supply at LHA rates means that the Councils are paying for costly B&B accommodation whilst assessing customers for statutory obligations. The lack of move on accommodation at LHA rates means there are blockages in TA The lack of suitable/affordable private sector rented accommodation is placing more pressure on the Councils in terms of demand and budgets. Planning applications are subject to an increasing level of scrutiny, including both the	**January 2021 -** Demand for emergency accommodation continues to increase, with more households presenting homeless currently due to eviction from friends and family and so the Councils have commissioned research to help us better understand where the end of the furlough scheme and potential job losses are most likely to fall within our communities to enable more proactive and preventative work with these individuals and families. In addition the Councils have: - Continued to ensure that anyone who is street homeless is made an offer of accommodation in order to continue working in the mode of ‘Everybody in’ - Scaled up the Opening Doors scheme in order to increase the supply of affordable rental accommodation and increase the use of the private rental market Due to COVID-19, the Councils are not able to use the traditional nightshelter arrangements to accommodate individuals sleeping on the streets this winter and so the Councils have worked with partners to create an alternative to the usual hostel arrangements for night shelters and winter SWEP in the event of cold weather. In addition extra capacity has been provided for the outreach team to help make sure that the members of the homeless community get the support they need to keep themselves and others safe. This will enable the outreach team to increase the time spent working on the streets with those furthest from services. The outreach team has also secured a town centre venue to provide a drop in facility to address the reduced access to existing day time services due to Covid-19 restrictions.	Major	Very Likely

level of affordable housing and the tenure mix.	The Councils have submitted a bid for financial assistance to support those sleeping rough this winter and individuals accommodated during the last COVID-19 outbreak through the government's Next Steps Accommodation Programme. Though the government has extended the ban on eviction, it is likely that increased evictions from both private sector and social landlords will begin to impact more from now. While we already anticipate evictions resulting from antisocial behaviour, it is likely that the end of the furlough period and a downturn in the economy may result in more evictions resulting from rent arrears. The Councils intend to engage with social landlords to reduce evictions especially due to rent arrears. A multiagency group, through the "Thrive Project" is currently exploring the best way to engage those in rent arrears and their landlords. Furthermore, the Housing Needs Team continues to work closely with the DWP and WSCC's Early Help service to identify vulnerable households at risk of losing their home so that the Councils can intervene jointly. The adopted Local Plan for Adur has identified key strategic housing sites and planning applications have been submitted to and or approved on the following sites which will deliver a significant level of housing and affordable housing to meet future housing needs: ● New Monks Farm (600 homes inc. 180 affordable homes) ● West Sompting (520 homes inc. 156 affordable homes) ● Western Harbour Arm (Free Wharf 540 inc. 162 affordable) To assist the delivery of these sites the Council has worked with the developers and has helped to secure over £20 million additional public sector funding from the LEP and Homes England. The Council has also contracted to sell the Civic Centre site to a Registered Provider to deliver 170 affordable homes on the site of the former Council offices.		

	The emerging Local Plan for Worthing is looking at allocating key green and brownfield sites to help increase the level of housing to help meet future housing needs. The Council has also been active to secure LEP and Homes England funding (over £15 million) to help deliver the following brownfield sites and ensure the delivery of affordable housing: ● Teville Gate ● Union Place ● Grafton In addition, in view of the Council's housing need Worthing Council has agreed to bring forward two greenfield sites in advance of the Local Plan (West Durrington (Phase II) and Fulbeck Avenue). These two sites have the potential to bring forward 400 new homes including 120 affordable homes. Worthing is also reviewing its Community Infrastructure Levy in view of concerns that it is affecting the delivery of affordable housing on brownfield sites.		
<u>IT Disaster recovery</u> Hosting applications locally carries increasing risks given the pace of technological change. As for most Councils, we have limited resilience in the team, and too much dependence on key personnel. Our data centre cannot be sufficiently protected from physical threats.	**January 2021 -** Good progress is being made on cloud migration work. Our document management system and our website were migrated to the cloud in November. We have moved to a supplier hosted (Software as a Service, SaaS) model for Environmental Health and licencing and work on a SaaS solution for HR and Payroll is underway with a go live date of March 2021. Work to migrate the Revenues and Benefits system to the cloud is underway and will be completed by October 2021. Recommendations for the data centre are being reviewed, as we will continue to need a data centre, allebit one with a much smaller footprint, in future.	Extreme	Moderate

Major Projects delivery Unlocking major development can be complex and take some time to deliver. The successful delivery of a major scheme will often depend on economic conditions over an extended period. .	**January 2021 -** **Covid-19 impact -** Covid19 impact will continue to add a degree of uncertainty to the property market but the extent of this is not known at this stage. Delivery of new homes including affordable homes, improving and supporting town centres, and providing employment opportunities are key priorities for our communities. The delayed delivery of significant development projects either by the public or private sector will result in the economic and social dividend from these projects being unrealised. The Councils have embarked on an ambitious programme of development that makes the best use of their existing assets and commits to forming effective partnerships with other landowners and investors. This will help to 'de-risk' projects and create the right conditions for development to take place. For example, Worthing Borough Council has entered into a Land Pooling Agreement to help de-risk the development of Union Place and secure access to the agencies and skills necessary to deliver. The Councils have made clear and unambiguous the importance of delivery to the development sector, and also indicated their willingness to work in partnership. A dedicated team has been established to manage the major projects and capital budgets adjusted to reflect the priority attached to this work. Regular monitoring of progress provides oversight and formal reporting to the relevant executive councillors; internal project groups and formal Committee meetings take place to oversee progress. Both Councils have used Local Growth Fund monies to deliver the necessary infrastructure to support development . The Councils have also played a pro-active role in supporting Coast to Capital in the development of a Strategic Economic Plan to ensure that their priorities for the development of major projects are represented and therefore, more likely to benefit from future public funding.	Major	Likely

	In 2020 a series of major milestones were reached on each of the major development projects. The challenge and the opportunity will be to maintain progress and delivery on the ground whilst adapting to changes in the wider economic landscape. **(As requested by the Joint Governance Committee, information relating to individual Major Project Risks has been included as part of this report and is contained at Appendix C).**		
<u>**Climate Emergency**</u> **Council response to the Climate Emergency needs to be threefold;** **1) Mitigating climate change** Through reducing greenhouse gas emissions from council activities, working towards the carbon neutral target made as part of the Climate Emergency Declaration, and through working towards 100% clean energy for Adur & Worthing under the UK100 Cities Pledge. **2) Adapting to climate change;** By working across the council services and estate and with local stakeholders and partners to provide environmental resilience across Adur and Worthing and the South East. Measures required include ● Addressing drought and heatwave planning, addressing urban heat island effect, increasing green infrastructure, addressing wildfire risk. ● Preparing for tidal and storm surges, heavy rainfall and wind events,	**January 2021 -** Record breaking global heating temperatures are continuing to be recorded. In July 2020 the Met Office published it's 6th 'State of the UK Climate' report. This confirmed consistent increasing warming temperatures in the UK with a new all-time record in 2019 (38.7° C) Cambridge, July; and a new winter record (21.2° C) London, February. **January 2021 -** **1) Mitigating climate change** ● 2 new Carbon Reduction officers have now been appointed and are working to deliver the councils Carbon Neutral 2030 target. ● Council carbon emissions were reported to JSC in November identifying a 13% decrease in emissions during the 2018-19 period, against a target average of 10%/year. ● Bid applications to the Public Sector Decarbonisation Scheme (PSDS), the Low Carbon Skills Fund have been submitted to deliver carbon reduction projects across the council estate, and are continuing to be submitted in 2021. Several applications so far have been successful, securing £1.8m ● The councils are involved in a SE Warmer Homes consortium which has received £3,100,500.00 to deliver Solid Wall Insulation & Low Carbon Heating measures in 300 homes. This allocation was under the Green Homes Grant Local Authority Delivery (LAD) 1A. ● Under the Solar Together Sussex scheme, over 700 households in A&W registered interest to have PV and/or	Major	Likely

addressing risk of coastal, surface and river flooding through sustainable drainage, natural flood management, coastal defences, flood resilience. ● Preparing for extreme cold events. **3) Preparing for more frequent extreme climate events and impacts** Through emergency planning and developing resilience in the short and long term, and the ability of the council to respond to crisis situations in conjunction with the emergency services and other partners. ● Preparing for risks of damage to properties and infrastructure as well as risk to public health and safety from extreme weather events. ● Developing resilience in local food, transport, energy and water systems and the built environment. ● Lobbying government for a more robust approach to the multiple threats of climate change.	battery storage installed in homes. ● A study for Adur & Worthing to become carbon neutral area-wide by 2050 has been produced by Anthesis. ● A Draft Climate Plan has been developed with community partners for further engagement/consultation and establishing closer working relationships on local climate action. ● The councils have completed a very successful and innovative online Climate Assembly working closely with DemSoc and an Advisory Group of local experts to deliver and hold an online Climate Assembly with 43 Assembly members Sept-Dec 2020. ● Significant progress has been made on developing a project to decarbonise heat on the Worthing Civic Quarter and across Worthing Town Centre. Consultants have completed techno-economic assessment and identified a viable scheme, stakeholders are engaged and several MoUs signed. Further £125K funding has been secured from BEIS to develop Outline Business Case, funding bid, and to engage with stakeholders on Heads of Terms. A further bid for £40K has also been submitted to undertake additional modelling for for an expanded scheme. ● A study has been completed to investigate solar PV opportunities on council owned land and building assets, This has resulted in the approval of a Solar Investment Strategy identifying sites for solar PV sufficient to meet the councils current electricity needs. ● Two pop up cycle lanes from the LCWIP routes were delivered in Worthing (A24) and Shoreham (A270) by WSCC under the EATF (Emergency Active Travel Fund) Tranche 1. Following objections by motorists WSCC decided to remove the schemes. The Shoreham scheme remains in place at least until January. The scheme has seen significant increase in cycling without the traffic flow impacts seen in other schemes. **2) Adapting to climate change;** ● The Strategic Flood Risk Assessment has been updated and found that the following number of sites are predicted to be at		

	risk of surface water flooding (Section 12): 41 development sites in A&W: due to climate change, 21 sites are predicted to be at risk of fluvial flooding and 18 sites are predicted to be at risk from tidal flooding in the future. ● Ongoing exploration of opportunities on council owned land, in and bordering Adur & Worthing for offsetting, biodiversity, rewilding and climate resilience schemes in particular New Salts Farm, Pad Farm, the Adur Estuary and Kelp restoration with external partners. ● Adur DC has approved project costs for coastal defence works at Kingston Beach ● Technical Services are assessing flood risk on/in vicinity of council owned land/buildings to identify opportunities for projects to improve climate resilience. ● Parks are planning to review opportunities for flood mitigation through an increase in permeable surfaces and rain gardens ● Ongoing collaboration with external partners to investigate restoration of kelp forests which could reduce storm surge and tidal influence on the shore line by 70%; and to investigate an Adur Estuary project to provide flood mitigation and multiple additional benefits. ● Emerging Worthing Local Plan includes a new chapter on climate adaptation. Adur Local Plan will need to be refreshed to improve its response to Climate Adaptation **3) Preparing for more frequent extreme climate events and impacts** ● Adverse weather impacts are considered by AWC Emergency Planning service based upon pan Sussex risks using the Nationa Risk Register of Civil Emergencies.The Sussex risks are in the public domain available to all via the Sussex Police register. November - Next Steps ● Subject to the outcome of PSDS and other funding bids, deliver carbon reduction schemes across the council estate. ● Continue development of the OBC for a Worthing Civic Quarter		

	heat network, and report to JSC Feb/March 2021 ahead of a funding bid to Heat Network Investment Programme April 2021. ● Report to JSC on a Solar Investment Strategy, Dec 2020 ● Work with the Warmer Homes consortium on an LAD1B funding ● Promote offers to residents under the Warmer Homes and LEAP energy schemes for households across A&W. ● Progress with partners/stakeholders development of large scale marine/kelp sequestration programme ● Progress investigations of an Adur Estuary sequestration flood mitigation project with external partners and AECOM. ● The SFRA for A&W recommends that in addition to development management policies through the Local Plans, the following strategic flood risk solutions could be investigated: ○ Catchment and floodplain restoration – allowing watercourses to return to a more naturalised state. ○ Flood storage areas – Upstream storage schemes ○ Sequential approach to site layout ○ Opening up culverts, weir removal, and river restoration; ○ The Regional Habitat Creation Programme; and ○ Green infrastructure. **Covid-19 impact -** Despite reductions in global carbon emissions of up to 30% during lockdown, these will have limited effect on averting climate change unless a green recovery is established as the world emerges from lockdown. Government has published (and announced further) grant funding towards the Green Recovery including the Emergency Active Travel Fund, Green Homes Grant, Public Sector Decarbonisation Fund. All of which AWC have applied to.		

Communities Directorate High Service
Risks and Projects

Housing

Risk	Potential Effect	Internal Controls	Risk Impact	Risk Likelihood
1. Rising costs of emergency and temporary accommodation	Increased pressure on general funds Councils have to spend money on expensive B&B type accommodation. **COVID-19 pressures** have been significant and there have been additional placements into emergency accommodation. This has put significant pressure on EA/TA budgets, which is likely to continue during and beyond the COVID-19 restrictions as moving placements on will present a challenge.	**January 2021 -** End to restrictions on evictions likely to put even more pressure on EA/TA budget and homelessness teams. Efforts continue to reduce the cost of nightly paid accommodation and prevent homelessness as early as possible. See also information included in the entry for the Corporate Housing supply risk referred to above. Opening Doors – scheme now has had a number of new landlords signing up, allowing households to either move households on from TA or to avoid going into TA. Significant TA placement has resulted from COVID-19 particularly single people. As part of the next steps, those unlikely to be owed long term housing obligation will be given advice and support to find alternative accommodation to reduce the number of households in TA.	Major	Very Likely

2. Overall Risk of increasing demand for housing advice and homelessness applications	Impact on front line service delivery for customer services in terms of Contact Centre and front line services from Portland House. Increased waiting time for housing advice and casework. Increased costs of temporary and emergency accommodation. Increased competition for limited affordable housing supply. Risk of not meeting legal obligations of the Homelessness Reduction Act 2017 **Covid-19 impact** has caused the demand to increase significantly.	End to restrictions on evictions likely to result in a significant increase in homeless presentations. Covid-19 impact continuing to cause demand to increase significantly. Triage system implemented to provide advice and guidance at the earliest opportunity to reduce presentations as homeless. Create more housing options for those at risk of homelessness via the housing solutions officer dedicated to seeking private sector accommodation Early identification of potentially vulnerable individuals and families to the development of multi agency pathways eg hospital discharge and care leavers. Better joint working with agencies to prevent crisis presentations. Improving Communication and digital offer to increase customer self service and understanding of alternatives with the aim to reduce administration and officer time processing applications. Working with partners across sussex in Sussex Home-Move Partnership to implement the new Home Connections System Better recording and case management. Improve the Housing Team performance.	Major	Very Likely

		Trialling different methods of assessing people's needs. Capacity of Portland House being assessed. Service redesign - This has created 3 additional officer posts to provide advice.		
Adur Homes 1. Compliance - Fire, Gas, electrical and water quality (Adur Homes)	1.Death/injury/illness. - Fire/safety related; - water borne disease (legionella) 2. Potential legal action and-or claims. - Legal action against accountable staff (up to Head of paid Service) - compensation and or other claims for injury etc 3. Financial risk -Of managing service failure and loss of accommodation 4. Reputational risk -see above 5. Loss of use of premises and personal impact to tenants as well as operational and financial risk to councils - see above 6. Court judgement relating to BSW case. Judge found in favour of contractor and Council requested to make a fee. Wider impact risk now because two other contracts awaiting adjudication.	**January 2021 -** **COVID-19 Impact** Contact has been made with most tenants isolating and gas safety inspections carried out. 99.61% of properties now have a valid Landlord Gas Safety certification with only 9 properties left overdue. New contract has been implemented. Efforts continue to gain access to these properties. Liaising with Legal on two of these properties which we have been unable to gain access to despite several efforts, which predates COVID-19. **Capital Investment works** Discussions with Southern Fire Doors has restarted on the Fire Safety Door project. Work has commenced on the Sheltered Housing Communal Alarm project with installation of the new system in Marsh House almost complete. The contract for fire safety remedial works to general needs blocks of flats had to be re-tendered to ensure compliance with regulations on consultation with Leaseholders. Tender documents have been reissued and	Extreme	Moderate

	1-5 Can result from a failure to comply with regulatory standards around Fire/Gas/Electrical and Water Safety and/or implement action plans agreed with WSFR and other bodies.	consultation with affected leaseholders has commenced. Fire safety remedial works to sheltered housing blocks have also been delayed because the Contractor is experiencing delay getting materials delivered on site. Both tenders are due to be renewed soon. Work to install Smoke Alarms in flats without adequate smoke alarms has restarted and is nearly complete. Fire Safety Policy reviewed and updated. Quarterly meetings being held with WSFRS. Water tanks are inspected and a plan in place to replace them when necessary.		
	180 properties identified as presenting a risk in the event of fire because they have inner rooms. An Inner Room is a room that is reached through another living area such as kitchen or living room. They pose a threat to life because a fire in the living area can seriously impede escape from the property.	To mitigate this risk, enhanced smoke detection devices have been fitted in all but 5 of these properties. The 5 not fitted with the device is because the tenants have refused access. Legal process being followed to gain access. All smoke detection devices are hardwired except in 3 properties which were fitted with a 10 year sealed battery device. This will be changed to a hardwired device as soon as possible. All properties have been accessed and graded from low to high based on the level of risk. Capital works, which will involve temporary decanting of the residents, will commence next financial year to rectify this		

		issue. Properties assessed as higher risk will be dealt with first. All residents will be assessed and those with higher risk e.g. mobility issues, offered alternative permanent accommodation.		
4. Housing Revenue Account - Financial sustainability as a result of Rent Reduction Policy and Rent collection levels - Impact on budget and service provision	1.Financial -Reduced ability to Invest in capital expenditure to maintain buildings and properties and new homes 2. Operational - Limited ability to deliver good quality services and meet customer need -Ability to cover day to day repairs and maintenance 3. Business Sustainability/failure -deficit budgets set for forthcoming years, any further uncertainty could result in business failure Background - Until 2020 the Government requires all social housing providers to reduce their rents by 1% each year. This creates a financial pressure over the next 3 years.(£0.68m in 2018/19 and by 2020/21 this will have increased to £1,944,000) Arrears level is running at 3.19% (£452,202). Good practice benchmark is 1%. Loss of income to the HRA. Use of reserves. **Covid-19 impact -** rent arrears are expected to be higher.	**January 2021 -** Some vacant posts put on hold and working to manage spend in maintenance and repairs. Contracts being prioritised for retendering. Some potential repairs are being considered for implementation through the Capital Improvements programme. A savings plan will be created to manage HRA. 30 year business plan shows the potential to outlive the issues highlighted if the service is able to raise rents post 2020 Reviewing what services we offer with the budget available. Prudent management of revenue budget The end of furlough scheme and the predicted downturn in the economy is likely to have a negative impact on rental income. AH Improvement Plan focuses on reducing rent arrears and is being monitored monthly by the Head of Service and Operations Manager.	Major	Likely

		Engagement with Wellbeing and Housing Solutions staff to promote budgeting and financial inclusion strategies. Income streams review taking place. Planning to increase rent by 2.7% in the next Financial Year and for next years there will be increases at CPI plus 1%.		

Digital & Resources Directorate High Service
Risks and Projects
Financial Services

Risk	**Potential Effect**	**Internal Controls**	**Impact**	**Likelihood**
1. Risk to overall financial position - Known areas of risk within the budget eg Income from demand led services, outcomes of job evaluation, Pay award higher than assumed.	1. Go over budget 2. Do not have resources to meet priorities. **Covid 19** will have a significant impact on the Council's budgets both in 2020/21 and in future years. Full extent of the impact is currently being assessed.	**January 2021 - Covid-19 -** The Councils have received substantial covid 19 funds towards the impact in 2020/21 which is mitigating this risk in the current year. Developing a new strategy to help address the financial implications of the Covid-19 emergency. As a result of Covid 19 pressures, enhanced budget controls implemented with all vacant posts being reviewed by Directors prior to recruitment, maximised the amount of underspend placed into the working balance at the year end to mitigate financial risks, all unnecessary spend is on hold until the	Major	Likely

		financial position is more secure. Council holds reserves to manage the risk of lost income. Where a service has been identified as being at risk a close monitoring regime is put in place. The enhanced monitoring for CLT for areas of commercial risk is continuing. Proactive control of discretionary spend implemented to help resolve areas of overspend within the budget. New budget management strategy in place to build reserves and to better manage risks.		

2.Future spending requirements are under-estimated - Budgets are insufficient to fund core costs leading to an overspend	Budgets are insufficient to fund core costs leading to an overspend. **Covid-19** having a significant impact on the future cost of services. Budgets are currently insufficient to fund costs and an overspend is expected for 2020/21.	**January 2021 -** Council is on track to set a balanced budget for 2021/22 including building in capacity to fund Covid 19 risks. Draft settlement received on the 17th December which confirms the previous assumptions. Awaiting final Local Government Settlement to confirm funding for 2021/22. Closely monitor progress through Budget/ Performance Monitoring. • Where issues are identified these are built into the budget for the following year. Proactive management of discretionary budgets to manage in year pressures. Annual savings and budget exercise undertaken to reset budget and deal with areas of high pressure. Staffing budgets are very carefully controlled. Rigorous process for establishing new posts. Other staffing controls – recruitment and selection. Controlling vacancy filling and monitoring against targets. Deferral of expenditure where possible to help mitigate the current financial position.	Major	Likely

3. Future resources from Government are less than assumed	Budget shortfall is understated leading to a greater level of savings. Particular issue in 21/22 Financial Year is likely due to fairer funding review.	**January 2021 -** Awaiting notification of the impact of CSR on the Councils via Local Government Settlement which is due shortly. Lobby Government for an appropriate resource distribution. • Take action to reduce the overall cost of services or increase income where possible. Government has moved to a 4 year settlement which gives the Councils greater certainty about grant levels. Councils have responded to new Business Rate retention scheme proposals. Councils have responded to the fairer funding review consultation. Councils have responded to the Local Government settlement consultation Councils have received a 1 year settlement for 2020/21. Awaiting the outcome of the Fairer funding review which has been delayed a further year due to **Covid 19** impacts. 1 year Comprehensive spending review is expected.	Major	Likely

4. General risk of not finding significant budget savings from both Councils.	Impact on ability to balance the budget to deliver the Corporate Priorities and priority services.	**January 2021 -** Sufficient savings have been identified to meet 2020/21 budget pressures. Introduced Medium Term Financial Plan Tracker to check savings over 3 years. Significant progress has been made in identifying savings for 2021/22. Risk is now for the 2022/23 budget round which is in progress.	Major	Likely

Economy Directorate High Service Risks -
Major Projects & Investment

Risk	**Potential Effect**	**Internal Controls**	**Impact**	**Likelihood**
Shoreham Airport - Impact on the local economy should the airport cease to operate. .	The airport's contribution to the area economy will end and it will diminish Shoreham's distinctive sense of place.	**January 2021 -** Existing operational airport land and historic commercial estate (one lease) and the new proposed industrial development land (a separate lease) have been purchased out of administration. Planning approval secured for business development on a site allocated in the Adur Local Plan to secure long term income streams necessary to improve the long-term financial stability of the airport operation. Council Place and Economy team have been offering specialist support to navigate the Government's business loan and grants	Major	Likely

		systems.		
Leisure				
Leisure provision - Covid-19	As a result of the Covid-19 pandemic, the local leisure providers cease trading or suffer severe financial impact which curtails their ability to provide a service.	**January 2021 -** November JSC approved delegated authority to the Director for the Economy to make a direct award of a new 5 year contract. An internal project team has reached an advanced stage in the development of a contractual agreement with South Downs Leisure Trust to operate the Adur Leisure facilities. Remains a significant Risk in view of the Pandemic.	Major	Likely

APPENDIX C

Joint Governance Committee - 26 January 2021

Major Projects Risks

Risk	Internal Controls	Risk Impact	Risk Likelihood	Risk assessment
Union Place, Worthing - Risk that the Council will be delayed in bringing the site forward as a mixed use development and planning permission will not be achieved.	Appointment of consultants to protect Council's position and financial safeguards to be put in place to manage or reduce the level of the risk. LEP funding drawn down and spent. Development partner (LCR) in agreement. Project Plan, resources and funding in place. Update reports to the Joint Strategic Committee. **January 2021 update -** Planning permission granted at Planning Committee awaiting signing of s106 agreement.	Minor	Unlikely	Low
. Decoy Farm - Risk that development will not proceed. Significant development costs and risk of losing funding	Report to Joint Strategic Committee setting out the procurement strategy and planned project timeline. Local Growth funding of £4.84 million secured to reduce the risk of the project and to ensure a viable redevelopment. Work completed to inform development proposals. Business case prepared and submitted to Coast to Capital. Funding drawn down. Deliverable development strategy in place. Commencement of testing and onsite works ensures that progress is being made and LEP funding will be secured in line with agreements. Tangible progress now visible on site.	Moderate	Unlikely	Medium

Development of former Civic Centre, Shoreham-by-Sea - Risk of a delay in the regeneration of the site to provide homes and jobs	Phase I - Management of construction. (Complete). Phase II - Project plan for bringing site to market. - Site advertised for disposal/development going through process. Disposal of site agreed to Hyde Group. Planning application anticipated in 2021 in order to complete sale early 2021.	Moderate	Unlikely	Medium
Redevelopment of Grafton site, Worthing - Risk that the development does not proceed in order to create new car parks and residential units	December 2020 - Report considered at JSC which approved next steps in project. Progress being made on resolving technical and title issues. Site will be marketed for development partner in latter part of 2020. Condition survey of car park undertaken and structural survey to inform car parking strategy. Purchase of retail units in Montague Street to give greater control of the retail units affected by the proposed redevelopment. Options appraisal of site undertaken to inform revised development brief for the site. Work to be undertaken to assess site constraints and the overall viability of the preferred development option. To continue to purchase additional retail units in Montague Street to secure the optimum redevelopment scheme. Work underway to address key development issues, party wall, rights to light, access act, procurement and parking. Wider town centre parking strategy produced and agreed by the Joint Strategic Committee.	Moderate	Moderate	Medium
Provision of flood defence walls on the Sussex Yacht Club site - Risk of further flooding if defence walls are not built	LEP funding secured (£3.5 million). Further gap funding (as necessary) agreed at July 2020 JSC meeting following procurement. Approval from JSC in January 2017 to purchase land to undertake flood defence works and to seek planning permission for demolition of buildings on site to construct flood defence walls.	Moderate	Rare	Low

	Purchase of land completed. Works commenced Summer 2019.			
Redevelopment of the Civic Centre car park site, Worthing - Risk that the redevelopment does not proceed or is delayed.	December 2020 - Out to tender for construction works. Expected start May 2021. August 2020 - Planning permission granted. Outline Business case produced in Autumn 2019. Meetings with relevant Health authorities/NHS to resolve issues around Head Lease and ensure overall business case is approved by the NHS Project Appraisal Unit. One Public Estate Bid through Greater Brighton Economic Board to secure investment into the project. Detailed feasibility studies and a 5 part business case using One Public Estate funding to access development options and to inform a new development brief for the site. Measures in place to fund proposal and appointments made to secure planning permission. Procurement strategy agreed and underway. Funding strategy agreed.	Moderate	Unlikely	Medium
Teville Gate redevelopment site, Worthing - Risk of delays in the development	LGF awarded (£5.6 million) to acquire and demolish Teville Gate House. Planning permission granted at Planning Committee on the 4 March 2020 subject to s106 agreement. Awaiting completion of s106 agreement. **January 2021 update -** November 2020 Joint Strategic Committee - members agreed in principle to enter into a joint venture with a housing association to secure the site and bring forward a residential led, mixed use development.	Major	Moderate	Medium
New Monks Farm/Shoreham Airport -		Moderate	Rare	Low

Risk of failing to deliver housing and employment as set out in the Local Plan if the development does not proceed.	April 2020 - Planning permission granted for both developments (27 Dec for Airport and 4 Feb 2020 for New Monks Farm). August 2020 - Construction work started on site and Cala Homes building the first few properties. **January 2021 update -** Construction works continue. New owners seeking interest in the commercial site. Planning approval secured for business development on a site allocated in the Adur Local Plan to secure long term income streams necessary to improve the long-term financial stability of the airport operation. The new owners of the airport have engaged with local agents and businesses to now take forward the approved employment floorspace (25,000 sqm).			
Shoreham Harbour regeneration - Risk that site is not developed and housing and employment envisaged by Local Plan is not delivered.	Taking a proactive stance dealing with high density planning applications and seeking external funding. Planning permission now granted for Kingston Wharf securing a further 255 homes and commercial floorspace. As a result a total of 795 dwellings already approved and an application for a further 200 expected therefore the level of development envisaged by the Local Plan has been reached. Work has started on 540 homes and the Hyde scheme starting in the New Year. **January 2021 update -** Resolution to grant permission at Kingston Wharf and applications expected for 3 other Western Harbour Arm sites.	Moderate	Rare	Low
West Sompting redevelopment - Risk of failing to meet Local Plan housing targets and deliver affordable housing if development does not proceed.	**January 2021 update -** Revised plans delayed to address highway concerns. Amended plans expected January 2021 and the application is now likely to go to Committee in March 2021.	Moderate	Moderate	Medium

Chatsmore Farm redevelopment - Risk to strategic gap and emerging Local Plan if development proceeds	**January 2021 update** - Over a 1000 letters of objection received to the planning application and application likely to go to Committee in March 2021. Local Plan has not allocated the site for development. Applicant likely to appeal if refused.	Major	Moderate	Medium

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Joint Governance Committee
26 January 2021
Agenda Item 10

ADUR & WORTHING
COUNCILS

Ward(s) Affected:All

Scheme of Officer Delegations

Report by the Monitoring Officer

Executive Summary

1. Purpose

1.1 It is important that Councils have appropriate officer delegations and committee delegations in place to ensure that decision making is made by the appropriate person or committee.

1.2 This report seeks to update the Councils' Scheme of Delegation to Officers in relation to planning matters.

1.3 Members are asked to approve the proposed changes to the Councils' Scheme of Delegation to Officers as set out in this report and recommend their adoption to each full Council

2. Recommendations

2.1 The Joint Governance Committee is asked to take into consideration the comments of the Adur Planning Committee and consider the proposed changes to the Scheme of Delegation to Officers and recommend its adoption as part of the Constitution to Adur District Council.

2.2 The Joint Governance Committee is asked to take into consideration the comments of the Worthing Planning Committee and consider the proposed changes to the Scheme of Delegation to Officers and recommend its adoption as part of the Constitution to Worthing Borough Council.

3. Context

3.1 The Councils have set out the powers granted to officers in the Scheme of Delegation to Officers which forms part of each council's Constitution.

3.2 The delegated powers allow officers to make decisions in accordance with the scheme whilst ensuring that members retain decision making where appropriate.

3.3 As part of the ongoing review of the Councils' practices and procedures, the Scheme of Delegation to Officers have been reviewed by officers and revised versions are proposed.

4. Issues for consideration

4..1 Paragraph 3.6.5 of the Scheme of Delegation to Officers provides the Head of Planning and Development with the authority to determine applications for planning permission. However the delegation shall not be exercised in the following circumstances:

● Applications requiring the Secretary of State to be notified under the Town and Country (Development Plans and Consultations) (Departures) Direction 2009;

● Applications for development requiring an environmental impact assessment but excluding applications for a screening or scoping opinion in connection with an environmental impact assessment;

● Applications comprising 'major' development within the meaning of the Town and Country Planning (General Permitted Development) Order;

● Applications for development which conflicts materially with the development plan;

● Applications materially affecting ancient monuments, and sites of special scientific interest;

● Applications made by, on behalf of, jointly with, or promoted by the Council, a Parish Council, West Sussex County Council, or any other Local Authority;

● Where the application has been made by a Member or an Officer; and

● Where a Member of the Council not more than 28 days after validation of an application requests otherwise.

4.2 It is considered by officers that three of these provisions do not facilitate good, agile, prudent decision making and that efficiency could be gained by making amendments whilst retaining sufficient balance and control.

4.3 It is therefore proposed that the provision of:

● "Applications comprising 'major' development within the meaning of the Town and Country Planning (General Permitted Development) Order", be amended to, "Applications comprising 'major' development within the meaning of the Town and Country Planning (General Permitted Development) Order, other than those where the proposed amendment is minor or non material. Members will be notified when minor amendments to major applications have been approved".

● It is further proposed that the provision of: "Where the application has been made by a Member or an Officer" is amended to "Where the application has been made by a Member of Adur District Council or Worthing Borough Council, or an Officer of either Council who is either the Chief Executive, a Chief Officer, Deputy Chief Officer, Planning Services Manager or Planning Policy Manager or work within the Planning and Development Section".

● It is further proposed that the provision of: "Where a Member of the Council, not more than 28 days after validation of an application, requests otherwise" be amended to "Where a Member of the Council not more than 28 days after validation of an application, requests otherwise, providing valid planning reasons".

4.4 These amendments would enable agile, streamlined decision making, whilst still ensuring independence and fairness in the Councils' procedures and processes.

4.5 Currently applications for minor amendments to major applications must be determined by the relevant planning committee. Such amendments by their nature are minor and include amendments where the scale or nature of the change does not result in a development that is substantially different from the one that has been approved. Non-material amendments are very small changes to planning permissions. The proposed changes will result in applications for minor and non-material amendments being dealt with faster and more efficiently but with the planning committees still determining major applications.

4.6 There are no proposed changes to the Scheme of Delegation to Officers in relation to planning applications made by members. However, the current provisions require all officer applications to be referred to the relevant planning committee for determination. This is regardless of who makes the application and their influence within the Councils. The proposed changes will require applications made by senior Council officers and officers working within the Planning department to be referred to the respective planning committee for determination. Applications made by other officers would be dealt with under officer delegated powers. These changes will ensure that the planning committee continues to determine any application from officers who have or may be seen to have influence in the decision making process.

4.7 The final change is to the members' call in provisions. Currently members can call in any planning application for determination within 28 days of the application being validated. The proposed amendment would permit a member to call in an application where there are planning reasons for this. This amendment would make the application process more efficient whilst allowing members to call in an application where there are valid planning issues to be considered.

4.8 This report recommends that members recommend to each full Council that the the three proposed amendments are made to the respective council constitutions. Members could decline to recommend the changes proposed. This course of action is not recommended as the current delegations create inefficiency and delay as well as taking up officer and committee resources unnecessarily. Members could recommend implementation of some but not all the amendments. This course of action is not recommended as inefficiencies will remain with planning committee agendas being clogged up with applications that could properly be dealt with by officers.

5. Engagement and Communication

5.1 Engagement and communication has taken place with both the Adur District Council Planning Committee and the Worthing Borough Council Planning Committee. Both Committees have received and considered this report and were invited to make comments, by way of consultation, to the Joint

Governance Committee. The Joint Governance Committee is recommended to take into account any comments from the Planning Committees before determining this matter.

5.2 Worthing Borough Council's Planning Committee did not make any comments in relation to the proposed amendments. Adur District Council's Planning Committee asked that members be notified when minor changes are made to major schemes. This amendment has been incorporated into the first proposed change outlined above.

5.3 Engagement and communication has also taken place with the Head of Planning and Development, Democratic Services Officers and Planning lawyers.

6. Financial Implications

6.1 There are no financial implications arising from this report.

7. Legal Implications

7.1 The Councils' governance arrangements are set out in their respective Constitutions; the Scheme of Officer Delegations form part of the Constitution. The authority of the Councils is sought to amend the Constitutions, other than in respect of minor or consequential amendments.

Background Papers

- Report to Worthing Borough Council's Planning Committee on 26th February 2020 and minutes of the meeting
- Report to Adur District Council's Planning Committee on 9th March 2020 and minutes of the meeting

- Adur District Council Constitution
- Worthing Borough Council Constitution
- Report to Joint Governance Committee on 22nd September 2020 and minutes of the meeting

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Sustainability & Risk Assessment

1. Economic

No issues identified.

2. Social

2.1 Social Value

No issues identified.

2.2 Equality Issues

No issues identified.

2.3 Community Safety Issues (Section 17)

No issues identified.

2.4 Human Rights Issues

The current requirement for all officer applications to be referred to the planning committee for a decision affects officers' rights to privacy and family life and the peaceful enjoyment of their property. The proposed changes balance the need to ensure that applications made by officers with influence on decision making are dealt with by the planning committee and applications made by other officers who have no influence on decision making which can properly be dealt with by officers.

3. Environmental

No issues identified.

4. Governance

Having a revised Scheme of Delegation to Officers ensures that the Councils have robust governance arrangements in place that are efficient whilst providing the necessary balance and control.

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