



ADUR & WORTHING
COUNCILS

15 March 2021

Joint Governance Committee

Date:	23 March 2021
Time:	6.30 pm
Venue:	Remote Meeting via Zoom

Committee Membership:

Adur District Council: Councillors; Kevin Boram (Adur Chairman), Andy McGregor (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 26 January 2021, 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 19 March 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 - 70)

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

7. 2021/22 Internal Audit Plan (Pages 71 - 76)

To consider a report from the Acting Head of Internal Audit, copies attached as item 7.

8. Audit enquiries to those charged with Governance (Pages 77 - 88)

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

9. Strategic Property Investment Fund 2021 - Annual Commercial Property Investment Strategy 2021/22 (Pages 89 - 134)

To consider a report by the Director for the Economy, copy attached as item 9.

10. LGA Model Code of Conduct and arrangements for dealing with breaches of the Members' Code of Conduct (Pages 135 - 174)

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 Senior Democratic Services Officer 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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ADUR & WORTHING
COUNCILS

Joint Governance Committee
23 March 2021
Agenda Item 6

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 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.

A further report was presented to members at the 26th January committee advising that the Adur District Council financial statements for 2019/20 were complete but the Worthing Borough Council audit was still to be finalised. A further update report was to be presented at the next committee meeting.

1.3 The following appendices have been attached to this report:

- (i) **Appendix 1** Worthing Borough Council Letter of Representation
- (ii) **Appendix 2** Independent Auditors Report to the Members of Worthing Borough Council
- (iii) **Appendix 3** Worthing Borough Council Audit Results Report 2019/20

Recommendations

2.1 The Joint Governance Committee is recommended to:

- Note the revision within the Worthing Borough Council financial statements 2019/20 of the signature dates for the Statement of Responsibilities and Annual Governance Statement to the audit completion date of 8th February 2021.
- Note the amended letter of representation for Worthing Borough Council in appendix 1.
- Note the Independent Auditors Report to the Members of Worthing Borough Council for the 2019/20 financial statements in appendix 2.
- Note the final Audit Results Report 2019/20 for Worthing Borough Council in appendix 3.

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 Worthing Borough Council financial statements 2019/20 was completed and an unqualified audit opinion signed on 8th February 2021. There was one unadjusted error identified in relation to the value of pension liabilities, the accounts were not adjusted as the error is not material. The error relates to the asset values used by the actuary in their pension calculations which were understated by £208,000, the pension liabilities on the balance sheet are overstated and the pension reserve understated. This error is referenced in pages 7 and 18 of the Audit Results Report.
- 4.2 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 Worthing Borough Council at appendix 1 has been updated for this amendment and section A(5) has been updated to reference the unadjusted error mentioned at 4.1 of this report.

5. Financial Implications

- 5.1 There are no financial implications that result from this report. The financial position as set out in the Worthing Borough 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 8th February 2021. The final audited accounts for Worthing Boprough Council 2019/20 are available on the Council website;
<https://www.adur-worthing.gov.uk/about-the-councils/finance/statement-of-accounts/>

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).
- 6.2 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/ukxi/2015/234/pdfs/ukxi_20150234_en.pdf

CIPFA Code of Practice on Local Authority Accounting in United Kingdom 2019/20 – 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.



To:

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

Date: 8 February 2021
Service: Finance
Tel: 01903 221221
Email: Sarah.gobey@adur-worthing.gov.uk

Worthing Borough 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 Worthing Borough 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 Worthing Borough 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 effect of the unadjusted audit difference, detailed in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented is immaterial to the financial statements taken as a whole.

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

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: 24 November 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:



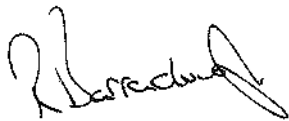
Name: Sarah Gobey

Position: Chief Financial Officer

Date: 08/02/21

Signed on behalf of Worthing Borough Council

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



Name: Councillor Roy Barraclough

Position: Chairman, Joint Governance Committee

Date: 08/02/21

Communication schedule for uncorrected misstatements

Entity: Worthing Borough Council

Period Ended: 31-Mar-2020

Currency: £

Uncorrected misstatements			Analysis of misstatements Debit/(Credit)							Income statement effect of the current period		Income statement effect of the prior period	
No.	W/P ref.	Account (Note 1)	Assets Current	Assets Non-current	Liabilities Current	Liabilities Non-current	Equity components	Effect on the current period OCI	Debit/(Credit)	Non taxable	Prior period Debit/(Credit)	Non taxable	
		(misstatements are recorded as journal entries with a description)	Debit/(Credit) (Note 2)	Debit/(Credit) (Note 2)	Debit/(Credit) (Note 2)	Debit/(Credit) (Note 2)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)				

Factual misstatements:

		Understatement of the Pension Fund asset used by the actuaries in their calculations of £208,000 relating to Worthing Borough Council					208,000					
		Pension Fund long term liability										
		Pension Fund Reserve						(208,000)				

Total of uncorrected misstatements before income tax	0	0	0	208,000	(208,000)	0	0	0	0	0
Total of uncorrected misstatements	0	0	0	208,000	(208,000)	0	0	0	0	0
Financial statement amounts	19,485,000	252,304,000	(21,970,000)	(131,184,000)	(118,635,000)			(23,165,000)		(2,740,000)
Effect of uncorrected misstatements on F/S amounts	0.0%	0.0%	0.0%	-0.2%	0.2%			0.0%		0.0%
Memo: Total of non-taxable items (marked 'X' above)									0	0
Uncorrected misstatements before income tax								0.0%	0	0
Less: Tax effect of misstatements at current year marginal rate								0%	0	0
Uncorrected misstatements in income tax									0	0
Cumulative effect of uncorrected misstatements after tax but before turnaround								0.0%	0	0
Turnaround effect of prior period uncorrected misstatements										
								After tax	Memo: Before tax	
All factual and projected misstatements:								0	0	
Judgmental misstatements (Note 3):								0	0	
Cumulative effect of uncorrected misstatements, after turnaround effect								0.0%	0	
Current year income before tax									(23,165,000)	
Current year income after tax									(23,165,000)	

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WORTHING BOROUGH COUNCIL

Opinion

We have audited the financial statements of Worthing Borough 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 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 Worthing Borough 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, Worthing Borough 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 Worthing Borough 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 Worthing Borough 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, Worthing Borough 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 Worthing Borough 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 Worthing Borough 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
10 February 2021

**Worthing Borough
Council**
Audit results report
Year ended 31 March 2020

February 2021



Worthing Borough Council
Worthing Town Hall
Chapel Road
Worthing
West Sussex
BN11 1HA

Dear Joint Governance Committee Members

We are pleased to attach our final Audit Results Report.

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

10 February 2021

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.psa.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 has £488m worth of Level 3 assets as at 31st March 19. Although Worthing Borough Council only represents 2.93% of the fund this is still material at £14.3m 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 (EUUV) 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 management's 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.



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 £1.44 million (Audit Planning Report – £1.44m). This results in updated performance materiality, at 75% of overall materiality, of £1.08 million, and an updated threshold for reporting uncorrected misstatements of £72,000. 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 Worthing Borough Council's financial statements for the year ended 31 March 2020 and have performed the procedures outlined in our audit planning report

Audit differences

We identified one unadjusted audit difference in the draft financial statements which management has chosen not to adjust. We ask that it is corrected or a rationale as to why not corrected be approved by the Joint Governance Committee and included in the Letter of Representation. The aggregated impact of unadjusted audit differences is £208,000. We agree with management's assessment that the impact is not material.

There are two adjusted misclassification differences over our reporting threshold, which were identified by the client.

Details can be found in Section 4 Audit Differences.

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	<p>We concluded that the investment properties and assets within land and buildings valued on a similar basis are reasonably stated.</p> <p>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.</p>
Pensions liability valuation	We concluded that the net pension liability was fairly stated.
Valuation of land and buildings	<p>We concluded that the assets held in property, plant and equipment are reasonably stated.</p> <p>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.</p>
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.

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

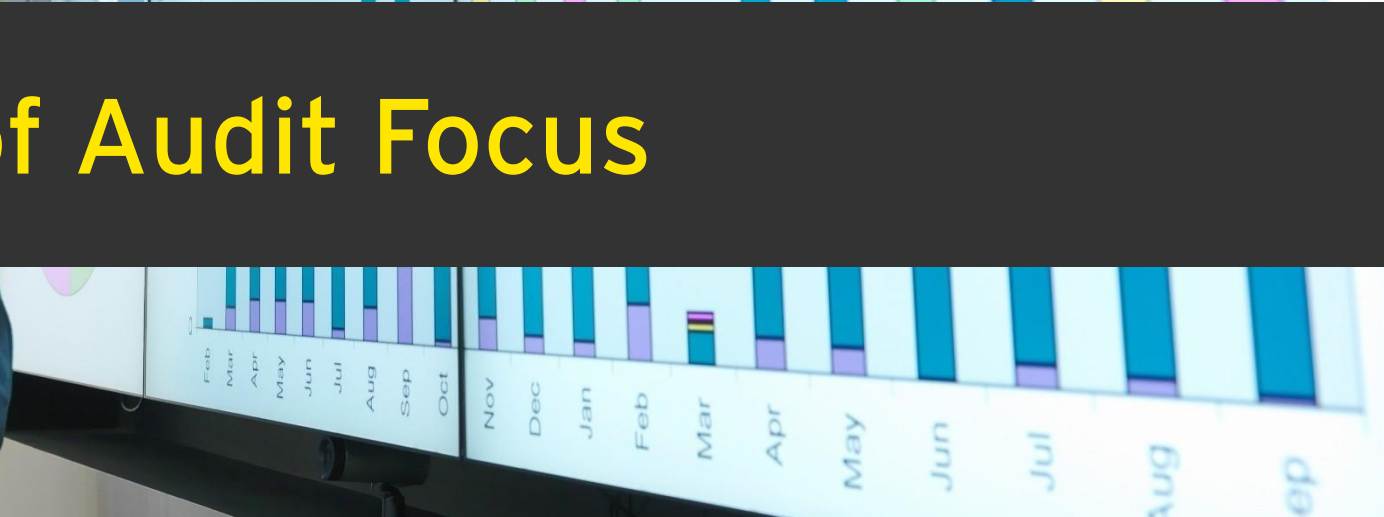
We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We have no matters to report as a result of this work.

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



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.

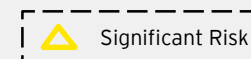
What are our conclusions?

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.





Areas of Audit Focus

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 £12.5 million and Investment Properties of £45.0 million.

The Council also incurred revenue expenditure funded by capital under statute of £1.8 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.





Areas of Audit Focus

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.

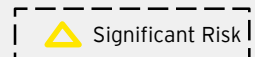
What did we do?

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

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 £74.5 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 Council's 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.





Areas of Audit Focus

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



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 Worthing Borough Council only represents 2.93% of the fund this is still material at £14.3m 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 £13.5 million.

We identified that the pension fund asset value at 31 March 2020 used by the actuary in their report was understated by £208,000.

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.



Areas of Audit Focus

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 Worthing Borough 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 Worthing Borough Council was £175,000, 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.



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 £109.5 million, £43.9 million of which is valued at Existing Use Value (EUV) with the remaining properties £65.6 million at Depreciated Replacement Cost (DRC).

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-19. We reviewed the adequacy of the disclosure of this in the Council's accounts.

What are our conclusions?

We concluded that the 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.



Areas of Audit Focus

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. We were able to verify that the valuation of the investment properties and property, plant and equipment reviewed by our property valuation team were all within a reasonable range. Our valuation team concluded that the assumptions used by the valuer were supportable.

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 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.

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 WORTHING BOROUGH COUNCIL

Opinion

We have audited the financial statements of Worthing Borough 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; 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 Worthing Borough 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 AGNO1, 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



Audit Report

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, Worthing Borough 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 Worthing Borough 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 Worthing Borough 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, Worthing Borough Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.



Audit Report

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 Worthing Borough 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 Worthing Borough 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 Worthing Borough Council and Worthing Borough 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 and unadjusted differences

We highlight the following misstatements greater than £1.08 million which have been identified and corrected by management during the course of our audit.

- £1.4 million misclassification misstatement between short term debtors and short term creditors
- £1.8 million misclassification misstatement in the Collection Fund between Precepts and the Surplus

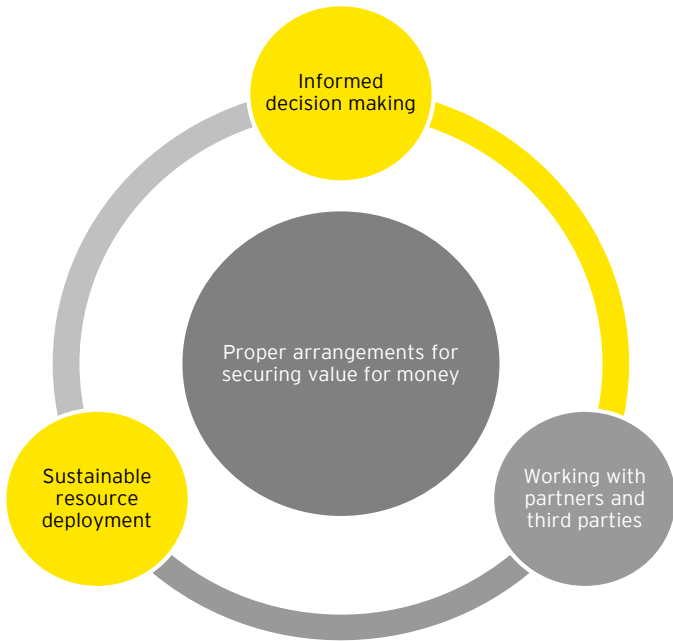
We identified one misstatement above our reporting threshold of £72,000 that management has chosen not to adjust. As reported on page 18, we identified that the pension fund asset value at 31 March 2020 used by the actuary in their report was understated by £208,000. The impact of this is that the pension fund liability is overstated by £208,000.



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?
<p>The Council will not be able to plan its finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.</p> <p>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.</p> <p>In the 2019/20 budget, the Council originally identified a budget gap of £14.9 million over the next 4 years to 2023/24. It has identified £7.6 million of savings to mitigate this gap, however, the leaves £6 million of savings yet to be identified.</p> <p>At 31 March 2019, the Council had £18.1 million of usable revenue reserves. This included the General Fund reserve of £869,000 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.</p>	<p>Deploy resources in a sustainable manner</p>	<p>We have:</p> <ul style="list-style-type: none"> ▪ 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. <p>We also</p> <ul style="list-style-type: none"> • 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. <p>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.</p> <p>Our detailed findings are set out on the following pages.</p>



Areas of Audit Focus

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 a number of 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 Authority, 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 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 £1,705,000. When combined with earmarked revenue reserves of £3,525,000, the Council has total available revenue reserves of £5,230,000 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 £982,248 against a revenue budget of £13,704,010 and capital spend of £64,486,000 against a revised budget of £66,390,000.



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.

Whilst the Council has updated the MTFS in the light of COVID-19 and continues to identify savings, there is a cumulative budget gap across the period to 2025/26 of £19.9 million. The Council has identified £15.5 million of savings to date; however, this leaves a remaining budget gap of £4.4 million.

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 have purchased significant commercial property, some of which is outside its boundary. Significant purchases (£45.0m) 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

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

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)	36,311	36,311	36,311
Change in financial management system	10,500	n/a	n/a
Value for money risk	3,000	n/a	3,000
Additional Covid -19 related costs (2)	TBC	n/a	n/a
Total audit	TBC	36,311	39,311
Other non-audit services not covered above (Housing Benefits)	TBC	n/a	14,910
Total other non-audit services	TBC	n/a	14,910

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




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	<ul style="list-style-type: none"> ▶ 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 February 2021

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ 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 Worthing Borough Council's ability to continue for the 12 months from the date of our report.
Misstatements	<ul style="list-style-type: none"> ▶ 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 February 2021
Subsequent events	<ul style="list-style-type: none"> ▶ 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	<ul style="list-style-type: none"> ▶ Enquiries of the Joint Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority ▶ 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 Authority, any identified or suspected fraud involving: <ol style="list-style-type: none"> 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. 	<p>Audit results report to November 2020 Joint Governance Committee and final audit results report circulated to members in February 2021</p> <p>No matters to report.</p>

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:</p> <ul style="list-style-type: none">▶ 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 Authority	<p>Audit results report to November 2020 Joint Governance Committee and final audit results report circulated to members in February 2021</p> <p>No matters to report.</p>
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none">▶ 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 <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	<p>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 February 2021</p>

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures. 	<p>Audit results report to November 2020 Joint Governance Committee and final audit results report circulated to members in February 2021</p> <p>No matters to report.</p>
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ 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 	<p>We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations.</p>
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. 	<p>Audit results report to November 2020 Joint Governance Committee and final audit results report circulated to members in February 2021 and Annual Audit Letter.</p> <p>No matters to report.</p>

		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	<ul style="list-style-type: none"> ▶ 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 February 2021
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> ▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	<p>Audit results report to November 2020 Joint Governance Committee and final audit results report circulated to members in February 2021</p> <p>No matters to report.</p>
Auditors report	<ul style="list-style-type: none"> ▶ Any circumstances identified that affect the form and content of our auditor's report 	Audit results report to November 2020 Joint Governance Committee
Fee Reporting	<ul style="list-style-type: none"> ▶ 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 February 2021

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 Worthing Borough 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 Worthing Borough 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 effect of the unadjusted audit difference, detailed in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented is immaterial to the financial statements taken as a whole.

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: February 2021.
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 35 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.

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 Worthing Borough Council

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

Name: Councillor Barraclough



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 Worthing Borough Council 
IFRS 16	<ul style="list-style-type: none"> ▶ The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of Local Authority Financial Statements has been deferred until 1 April 2022. 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. 	<p>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.</p> <p>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.</p> <p>In particular, full compliance with the revised standard for 2022/23 is likely to require a detailed review of existing lease and other contract documentation prior to 1 April 2022 in order to identify:</p> <ul style="list-style-type: none"> ▶ 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 2022 where a lease has previously been accounted for as an operating lease. <p>We will discuss progress made in preparing for the implementation of IFRS 16 - leases with the finance team over the course of our 2021/22 audit.</p>

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 Worthing Borough Council 
Code of Audit Practice 2020	<ul style="list-style-type: none"> ▶ 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. 	<ul style="list-style-type: none"> ▶ 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)	<ul style="list-style-type: none"> ▶ 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. 	<ul style="list-style-type: none"> ▶ 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	<ul style="list-style-type: none"> ▶ 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. 	<ul style="list-style-type: none"> ▶ 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.

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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ED None

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Joint Governance Committee
23 March 2021
Agenda Item 7

ADUR & WORTHING COUNCILS

Key Decision: No

Ward(s) Affected: N/A

2021/22 INTERNAL AUDIT PLAN REPORT BY THE ACTING HEAD OF INTERNAL AUDIT

Executive Summary

1. Purpose

- 1.1 This report Asks Members to consider and approve the 2021/22 Internal Audit Plan.

2. Recommendations

2.1 Recommendation One

That the Committee consider whether there are any specific audits which they would like to see progressed in 2021/22, which are not currently contained within the proposed plan.

2.2 Recommendation Two

That the 2021/22 Audit Plan be approved.

3. Context

3.1 Background

In accordance with professional internal auditing standards and the Internal Audit Charter, Internal Audit Plans are presented annually to Members for consideration and approval.

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

- Reviewing the risks contained within the Councils' corporate and service risk registers;
- Discussing areas of change or concern; and
- Considering current issues impacting on Local Government.

4. Issues for Consideration

4.1 The proposed 2021/22 Internal Audit Plan, attached as **Appendix A**, consists of 28 audits and 500 days of work allocated as summarised below:

Category of Work	Type of Work	Number of Days
Audits of High Risk areas	System audits, annual testing of key financial and governance systems	158
Audits of High Risk areas	Cross service audits	50
Audits of Medium Risk areas	System and cross service audits	55
Audits of Low Risk areas	System audits	5
ICT Audits	Specialist ICT related audits and Application Reviews	70
Contract Audits	Specialist reviews & Contract examination	27
Covid-19 audits	Specific audits required for post assurance in respect of Covid grants provided by the Government	27
NFI	Co-ordination & investigation of matches	20
Follow Up	Follow up to confirm implementation of agreed audit recommendations	20
Other	Management & Contingency	68
Total Days in Plan		500

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

4.3 The Committee is also asked to consider whether there are any specific areas of interest, which they would like to see covered in the 2021/22 Audit Plan.

5. Engagement and Communication

- 5.1** Following the meetings with each Head of Service, the proposed draft 2021/22 plan for each department was presented at their Departmental Management team for discussion and comment. The entire draft plan was then presented to the Councils' Leadership Team for review and comment. Any comments received have been addressed within the proposed plan.

6. Financial Implications

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

7. Legal Implications

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

Background Papers

None

Officer Contact Details:

Dave Phillips

Acting Head of Internal Audit

Town Hall, Worthing

Tel: 01903 221255

Dave.phillips@mazars.co.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

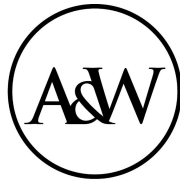
Matter considered and no issues identified.

4. Governance

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

DRAFT 21-22 AUDIT PLAN										APPENDIX A
	RISK REGISTER ISSUE	NOTES	AUDIT RISK RATING	INDICATIVE DAYS	Q1	Q2	Q3	Q4	COMMENTS	
					APR-JUN	JUL-SEP	OCT-DEC	JAN-MAR		
ECONOMY										
Planning & Development										
Planning Policy		HoS suggestion as not audited since 2016 and will provide completeness of audit coverage for service. To include Community Levy Infrastructure.	M	10				10		
Street Naming & Numbering	PD - Street Naming (Low)	There is a resilience issue in that only one member of staff does this work. HoS would like IA assurance that processes are in place should the key officer be absent long term	L	5	5				Postponed from 20/21 Plan	
Place & Economy										
Markets	P&E - Risk of not achieving commercial income (Medium)	Area was subject to fraud through theft of pitch fees in 2016. Changes made and a new officer is now in post, potential growth area both inside and outside of the District/Borough so assurance needed that processes are effective and will allow for growth	H	15		15			Postponed from 20/21 Plan	
COMMUNITIES										
Environmental Services										
Risk Assessments		HoS request - audit to look at the service's risks assessments and standard operating procedures. Do they have strong H & S procedures with SOPs in place which they have received training on and are following	H	20		20				
Adur Homes										
Regulatory Compliance - Fire Safety	Adur Homes - Compliance Risk (High)	To look at how the Council ensures it is meeting its requirements in respect fo Fire Safety	H	12		12				
Capital Works Programme		To look at how the AH capital works programme is managed and the letting of contracts for the works to be conducted	H	12			12		Audit will require input from Technical Services	
Housing										
General Compliance		Head of Audit suggestion - audit to provide assurance on general control environment across the service in the light of the results of audits conducted over the last few years. Coverage to include Petty Cash, use of procurement cards, claiming of staff expenses & overtime etc.	M	15	15				Audit will cover Adur Homes as well as Housing	
Wellbeing										
Anti Social Behaviour		HoS request	M	10			10		Audit will cover Adur Homes as well	
DIGITAL & RESOURCES										
Carbon Reduction Programme	Corp Risk - Climate Emergency (High)	Look at governance of programme and how the Councils ensure that the funding received will be spent be deadlines	H	15			15			
Risk Management		Annual audit of arrangements	H	10				10		
Human Resources										
Civica/Connect HR system	HR - Failure to implement new HR/Payroll system (Medium)	Audit to look at HR input to new HR/Payroll system	H	12			12			
Financial Services										
Income Reduction Grant - final outturn	Corp Risk - Council Finances (High)	Government assurance requirement for claiming Covid grants	M	5	5					
Cash Collection		HoS request to complete full audit of one key financial system each year	H	10			10			
Key control testing - financial systems		Ongoing testing of key financial controls (includes Revenues & Benefits systems)	H	30		10	10	10		
Legal Services										
Equalities Act Compliance		Non-compliance raised by Head of Legal - special base line assessment has been conducted and recommendations to be implemented	H	12				12	Audit in Q4 to look at confirming recommendations from base line assessment have been implemented	
Corporate Governance		Annual audit - changes to standards arrangements noted for coverage	H	10		10				

COVID-19 AUDITS									
Self Isolation Grants	Corp Risk - Covid 19 (High)		H	12		12			
BEIS Grants - Post Assurance Payment Plan	Corp Risk - Covid 19 (High)	Plan of work required to be completed following grants allocated by Government	H	15	15				
COMPUTER AUDITS									
Network Infrastructure Security		Noted as Very High Risk in revised IT Audit Needs Assessment (Sep 20)	H	20	20				
Disaster Recovery	Corp Risk - IT Disaster Recovery (Red)	Noted as Very High Risk in revised IT Audit Needs Assessment (Sep 20)	H	20			20		
Device Management & Security		Noted as High Risk in revised IT Audit Needs Assessment (Sep 20)	H	15		15			
Cloud Computing		Noted as High Risk in revised IT Audit Needs Assessment (Sep 20)	H	15	15				
CONTRACT AUDITS									
Condition Surveys contract - vertical audit	F&TS - Condition surveys on Council Assets (Medium)	Contract let to Potter Rapier for condition surveys - works in progress - audit post completion	H	12			12		Audit was part of 20/21 plan but postponed so days could be used for Hsg Fact Find audit
Other contract - to be determined		Continual assessment of service compliance with Council's Contract Standing Orders	H	15				15	
CROSS SERVICE REVIEWS									
Staff Wellbeing		As per Horizon scanning doc - added to draft plan following discussions with Head of Community Wellbeing - audit to look at how the Councils are managing staff wellbeing particularly in the wake of Covid-19 and in the future. Head of HR supports this audit.	M	15		15			
Welfare Reform	Corp Risk - Welfare Reform (High)		H	15		15			Was in 19/20 plan but was postponed - discussed with Head of Communities who suggested a Financial Resilience audit might be beneficial
Workspaces AW - Accommodation Review		Look at governance of this project.	H	15				15	Review being led by Head of Major Projects
Debt Management		Horizon Scanning - Audit to look at whether approaches to debt are consistent across the Councils and whether that approach works in parallel with the maximising of income. Also look at how the Councils deal with customers who have debts across various systems	H	20			20		Replaces Problem Debt audit added to 20/21 plan but transferred to 21/22 plan due to Covid-19.
OTHER									
Management & Admin				40	10	10	10	10	
Ad-Hoc/Contingency				28	7	7	7	7	
NFI Co-Ordination				10	2.5	2.5	2.5	2.5	
NFI Testing				10	10	0	0	0	continuing testing of NFI matches
Follow Up				20	5	5	5	5	
				500	109.5	148.5	145.5	96.5	



ADUR & WORTHING
COUNCILS

Joint Governance Committee
23 March 2021
Agenda Item 8

Ward(s) Affected: All

Audit enquiries to those charged with Governance

Report by the Director for Digital, Sustainability & Resources

Executive Summary

1. Purpose

- 1.1 Our external auditors, Ernst and Young, have asked that the Committee considers a letter about how the Joint Governance Committee gains assurance from management regarding the financial governance arrangements of the Councils. The Chairmen of the Committee have received two letters, one for Adur District Council, and one the Worthing Borough Council. The letter to Adur District Council is attached as Appendix 1, which is identical to the letter to Worthing Borough Council.
- 1.2 To assist the Committee in its deliberation of the letter, attached at Appendix 2 is the proposed response to each of the questions raised. This will form the basis of a formal letter if approved.

2. Recommendations

- 2.1 The Joint Governance Committee is asked to consider and agree the proposed response to the audit letter.

3. Context

3.1 The audit of the Council's financial statements is guided by International Standards of Auditing (ISAs). In order to comply with a number of these ISA's, each year the Chairmen of the Joint Governance Committee are written to by the Council's external auditor. The purpose of this letter is to obtain an understanding on how those charged with governance (the Joint Governance Committee) exercise oversight of management's processes in relation to fraud, laws and regulations and going concern.

4. Issues for consideration

4.1 It is proposed that the Committee discusses its draft response to the letter at Appendix 2. Members should be aware that the Committee is also asked to comment on whether the Councils are a 'going concern'. This is addressed separately below.

5. Going Concern

5.1 In accounting, "going concern" refers to an organisations' ability to continue functioning as a business entity. For the Councils, it is the responsibility of the Joint Governance Committee to assess whether the going concern assumption is appropriate when preparing the financial statements. The Councils are required to disclose in the notes to the Financial Statements whether there are any factors that may put the organisations' status as a going concern in doubt.

5.2 In forming an opinion on whether the Councils and the Joint Committee are 'going concerns' it is important to note the following:

- The budgets reported to Councils and the Joint Strategic Committee were balanced in 2020/21 and 2021/22
- The budget monitoring and outturn reports show that both Councils continue to spend within the overall budget as adjusted by the additional government funding received in 2020/21.
- Both Councils have a reasonable level of reserves and have a strategy to build reserves over the forthcoming years.

- Whilst there is a significant financial impact of the Covid 19 emergency on the Council finances, the Councils have received government funding towards the likely impact and currently it is assessed that both Council's have sufficient reserves to fund the consequences of the emergency in 2021/22.
- To further support the Councils financial position in 2021/22, the impact of the pandemic has been built into the budgets where it was judged that the impact would persist in 2021/22 and the Councils have created contingency budgets to further manage the risks to the 2021/22 financial position.

Consequently, at this time the Committee should have no concerns about whether the Councils and the Joint Committee are going concerns.

6. Engagement and Communication

- 6.1 The Head of Internal Audit and the Monitoring Officer have been consulted on the proposed responses to the External Auditors.
- 6.2 The purpose of the report is to consult with the members of the Joint Governance Committee on the proposed response to our External Auditors

7. Financial Implications

- 7.1 There are no financial implications arising from this report.

8. Legal Implications

- 8.1 This report concerns the audit of the Statements of Accounts which will be prepared in accordance with statutory instrument number 2015/234, the Accounts and Audit (England) Regulations 2015; and the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, based on International Financial Reporting Standards (IFRS).

Background Papers

Regular reports to the Joint Governance Committee on the progress of the work of internal audit

Officer Contact Details:-

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Sustainability & Risk Assessment

- 1. Economic**
Matter considered and no issues identified

- 2. Social**
 - 2.1 Social Value**
Matter considered and no issues identified

 - 2.2 Equality Issues**
Matter considered and no issues identified

 - 2.3 Community Safety Issues (Section 17)**
Matter considered and no issues identified

 - 2.4 Human Rights Issues**
Matter considered and no issues identified

- 3. Environmental**
Matter considered and no issues identified

- 4. Governance**

The report provides a proposed response to the letter from the External Auditor on how the Committee gains oversight of the Councils' management processes and arrangement.

This forms part of the Councils' annual audit which is part of the financial governance arrangements of the Councils.



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Councillor Kevin Boram
Chair of the Joint Governance Committee
Adur District Council
c/o Worthing Town Hall
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Worthing, West Sussex
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22 February 2021

Direct line: 023 8038 2099

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Dear Cllr Boram

Understanding how the Joint Governance Committee gains assurance from management – Adur District Council

Auditing standards require us to formally update our understanding of your arrangements for oversight of management processes and arrangements annually. Therefore, we are writing to ask that you please provide a response to the following questions.

- 1) How does the Joint Governance Committee, as 'those charged with governance' at the Authority, exercise oversight of management's processes in relation to:
 - undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud or error (including the nature, extent and frequency of these assessments);
 - identifying and responding to risks of fraud in the Authority, including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist;
 - communicating to employees its view on business practice and ethical behaviour (for example by updating, communicating and monitoring against the Authority code of conduct);
 - encouraging employees to report their concerns about fraud; and
 - communicating to you the processes for identifying and responding to fraud or error?
- 2) How does the Joint Governance Committee oversee management processes for identifying and responding to the risk of fraud and possible breaches of internal control?
- 3) Is the Committee aware of any:
 - breaches of, or deficiencies in, internal control; and
 - actual, suspected or alleged frauds during 2020/21?
- 4) Is the Committee aware any organisational or management pressure to meet financial or operating targets?

5) How does the Joint Governance Committee gain assurance that all relevant laws and regulations have been complied with? Are you aware of any instances of non-compliance during 2020/21?

6) Is the Joint Governance Committee aware of any actual or potential litigation or claims that would affect the financial statements?

7) How does the Joint Governance Committee satisfy itself that it is appropriate to adopt the going concern basis in preparing the financial statements?

8) What does the Joint Governance Committee consider to be the related parties that are significant to the Authority and what is its understanding of the relationships and transactions with those related parties?

9) Does the Joint Governance Committee have concerns regarding relationships or transactions with related parties and, if so, what is the substance of those concerns?

Please would you provide a response, after 1 April 2021, covering the whole of 2020/21, by email or letter either on behalf of those charged with governance or from yourself in your capacity as Chair of the Joint Governance Committee. If possible, please could we have your response by 30 April 2021.

Thank you for your assistance. If you have any queries in respect of this letter please contact Stephan van der Merwe at Stephan.van.der.Merwe@uk.ey.com.

Yours sincerely



Helen Thompson
Associate Partner
For and on behalf of Ernst & Young LLP

QUESTION	PROPOSED RESPONSE
<p>1. How does the Joint Governance Committee, as ‘those charged with governance’ at the authority exercise oversight of management’s processes in relation to:</p> <ul style="list-style-type: none"> ● undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud or error (including the nature, extent and frequency of these assessments)? ● identifying and responding to risks of fraud in the Authority, including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist?; 	<p>The Joint Governance Committee have received regular reports from the Head of Internal Audit in relation to the operation of the control environment which is used to inform the Committee’s view of management processes.</p> <p>Management has assessed that the risk of material fraud affecting the financial statements is very low. There is a robust system of internal control operating as reported by the Head of Internal Audit to the council and no evidence of material fraud.</p> <p>The Joint Governance Committee has oversight of this. It receives regular reports from the Head of Internal Audit including:</p> <ul style="list-style-type: none"> ● The Internal Audit Plan is presented to the Committee to consider and approve. This takes into account the risks associated with individual services and processes, and the frequency with which services are subjected to audit. ● Internal audit provide the committee with regular reports on the audits undertaken together with details of any limited assurance audits and a summary of the fraud investigation work; ● The Head of Internal audit produces an annual report for the Committee. <p>In addition, the Committee approves the Council’s Annual Governance Statement ensuring that assurances from many sources across the Councils are provided which underpin the draft (AGS) for the Leader and the Chief Executive to review and sign.</p>

QUESTION	PROPOSED RESPONSE
<p>1. How does the Joint Governance Committee, as ‘those charged with governance’ exercise oversight of management's processes in relation to: (continued)</p> <ul style="list-style-type: none"> ● communicating to employees its view on business practice and ethical behavior (for example by updating, communicating and monitoring against the Authority’s code of conduct); ● encouraging employees to report their concerns about fraud; and ● communicating to you the processes for identifying and responding to fraud or error? 	<p>The Joint Governance Committee has oversight of this. The Councils have a code of conduct which is approved by the Committee. The Committee is also aware that Democratic Services keeps a register of Officer and Member interests.</p> <p>The Committee is aware that the Council has a well-publicised whistle blowing policy for staff to use. The Council also has several other policies and procedures in place which the Committee has oversight of including:</p> <ul style="list-style-type: none"> ● Code of conduct for members ● Council Policies (e.g. counter Fraud & Corruption). ● Financial and Contract Standing Orders ● Staff & Member declarations of interest. ● Programme of audits by Internal Audit. ● Work by External Audit. <p>The Joint Governance Committee has oversight of this and receives regular reports from internal audit. These include regular updates from the Corporate Fraud manager.</p>
<p>2. How does the Joint Governance Committee oversee management processes for identifying and responding to the risk of fraud and possible breaches of internal control</p>	<p>The Joint Governance Committee has oversight of this and monitors this through the reports provided by internal audit.</p> <p>The committee receives details of any limited and nil assurance audit reports and any special audit reviews commissioned.</p> <p>Audit reports also include a summary of the work of the fraud team.</p>

QUESTION	PROPOSED RESPONSE
<p>3. Is the Joint Governance Committee aware of any:</p> <ul style="list-style-type: none"> ● breaches of or deficiencies in internal control? ● actual, suspected or alleged frauds during 2020/21? 	<p>We are not aware of any breaches of internal control other than those brought to our attention through the work of internal audit.</p> <p>We are not aware of any actual, suspected or alleged frauds other than those brought to our attention through the work of internal audit, the monitoring officer, and the S151 Officer.</p>
<p>4. Is the Committee aware of any organisational or management pressure to meet financial or operating targets?</p>	<p>Officers are asked to monitor budgets and report to members over or under spends in a transparent manner, they will be questioned on any over or under performance against budget.</p> <p>However, there is no undue organisational or management pressure to meet financial or operating targets. There are no staff incentives for meeting financial or operating targets.</p>
<p>5. How does the Joint Governance Committee gain assurance that all relevant laws and regulations have been complied with? Are you aware of any instances of non-compliance in 2020/21?</p>	<ul style="list-style-type: none"> ● The Councils Legal Service Team lead by the Monitoring Office has a general advisory role to all Council Services as supplemented by specialist legal advice when necessary; ● All reports must be reviewed by the legal officers and include a legal implications paragraph before any decision is made; ● A legal officer is present at all meetings of the Council to ensure that Council operates within the law; ● Legal issues are considered as part of audit work; ● Committee approves the constitution, delegations, financial regulations and contract standing orders which provide guidance on procedural matters to ensure Council operates within the law. ● Training is arranged by the legal team on new legislation and matters of particular significance.

QUESTION	PROPOSED RESPONSE
<p>5. How does the Joint Governance Committee gain assurance that all relevant laws and regulations have been complied with? Are you aware of any instances of non-compliance in 2020/21? (continued)</p>	<p>The Committee is not aware of any instances of non-compliance other than those brought to our attention through the work of internal audit or by the monitoring officer.</p>
<p>6. Is the Joint Governance Committee aware of any actual or potential litigation or claims that would affect the financial statements?</p>	<p>Any potential litigation claims are disclosed within the statement of accounts.</p> <p>The Committee is not aware of any instances of any other potential claims other than those brought to our attention by the Chief Financial Officer or by the monitoring officer.</p>
<p>7. How does the Joint Governance Committee satisfy itself that it is appropriate to adopt the 'going concern' basis in preparing the financial statements?</p>	<p>The Committee considers the overall financial information available to it. These include:</p> <ul style="list-style-type: none"> • The annual revenue budget; • The Councils track record in spending within the budgets set; • The Councils' levels of reserves. • The level of any contingency budgets <p>The Committee has carried out this assessment and we are of the opinion that the Councils' and the Joint Committee have the ability to continue as a going concern.</p>
<p>8. What does the Joint Governance Committee consider to be the related parties that are significant to the Authority and what is its understanding of the relationships and transactions with those related parties?</p>	<p>The members of the Committee have received guidance on related party transactions from the S151 officer. The Committee understands that significant related parties include members and officers of the Council or their close family members.</p> <p>The Committee is not aware of any significant related parties or transactions other than those disclosed within the Statement of Accounts</p>
<p>9. Does the Joint Governance Committee have concerns regarding relationships with related parties and, if so, what is the substance of those concerns?</p>	<p>The Committee does not have any concerns regarding relationships with related parties.</p>



ADUR & WORTHING
COUNCILS

Joint Governance Committee
23 March 2021
Agenda Item 9

Ward(s) Affected: All

Strategic Property Investment Fund 2021 Annual Commercial Property Investment Strategy 2021/22

Report by the Director for the Economy

Executive Summary

Statutory guidance places a duty on Local Authorities to prepare an annual investment strategy to be approved by the full Council or equivalent, in advance of forthcoming financial years.

This report provides an update on the recent investment activities and current position of the Strategic Property Investment Fund as of January 2021. This covers:

- The current overall fund structures and completions within the current financial year to date.
- Review of impact due to the Covid-19 Pandemic and changes to the Public Works Loan Board (PWLB) funding criteria.
- Review and update of processes to support the ongoing structured and measured approach to property income generations and pro-active risk management inherent in any property investment.
- Update mechanisms to support the ongoing development of a balanced portfolio with a move from initial income generation to total return approach as the fund matures, with an increasing focus on strategic asset management and long term capital preservation and growth.
- Outline the future strategy to re-focus investment within the Council's area of functional economic activity, including seeking more opportunistic acquisitions in area where the Council can add commercial and social value to assets through repositioning, repurposing or redevelopment.

A comprehensive review has been undertaken of the current Investment Strategy. This has been updated following the fundamental shift of PWLB funding and the significant impact of the Covid-19 Pandemic. The updated version is attached to this report as an Appendix.

The primary objective of the Commercial Property Investment Strategy (CPIS) is to build a balanced portfolio generating consistent revenue for the Councils' delivery of services for the benefit of Adur and Worthing.

It is recommended that both of these reports be approved by the respective Councils as the Commercial Property Investment Strategy for 2021/2022.

1. Purpose

- 1.1 To update and confirm the Councils' CPIS to support the Councils' medium term financial strategy.
- 1.2 To meet the Councils' statutory obligation to prepare an annual investment strategy to be approved in advance of the relevant financial year by Full Council (or equivalent).
- 1.3 The report will support the Councils' medium term financial strategy and seeks to renew and refresh the current investment strategy in relation to the investment funds providing details on:
 - Robust parameters to guide and support the development of an income generating property portfolio that seeks to manage and provide a financially resilient income stream for the Councils.
 - Update governance criteria to ensure diligent analysis and transparency to support the transparent decision making process, particularly where investments have a value add opportunity.

2. Recommendations

- 2.1. It is recommended that the Joint Governance Committee considers the contents of this report, providing feedback and/or comments to the Joint Strategic Committee (JSC).
- 2.2. It is recommended that the Joint Strategic Committee:
 - i. Agree the suggested delivery and governance model as set out in the report which will be approved by full Council as part of the overall CPIS.
 - ii. Note that at the end of the 2020-2021 financial year an annual asset

review will be undertaken by an external consultancy for the Strategic Property Investment Fund (SPIF), with officer input, to detail specific performance of assets and potential future risks and opportunities, and updated asset plans for each individual asset moving forward. This will be reported to the JSC at its September meeting.

- iii. Approves that the average lot size be decreased from £10m - £20m to £2m - £10m.
- iv. Recommends to Adur District Council and Worthing Borough Council to adopt the Commercial Property Investment Strategy for 2021-2022.
- v. Approves that the budget for future years may be brought forward with the approval of the relevant Executive Members for Resources, following their consideration of a business case.
- vi. Approves that value add and opportunistic investments, as per section 4.3.9, 4.4.9 and 4.6.3, can be acquired and approved under the CPIS in consultation with the Executive Member for Resources considering a robust outline business and financial case.
- vii. Approves that assets which were purchased for operational, local economy and regeneration purposes, will be separated in future SPIF reporting to those purchased for investment purposes.

3. Report Context

- 3.1. Due to continued reductions in Central Government grant funding, Local Authorities are increasingly reliant upon income generating models to support the delivery of Council services.
- 3.2. Over the period 2010-11 to 2019-20 the Local Authority sector experienced a 28.7% real-terms reduction in spending power (Central Government funding plus Council tax).
- 3.3. Demand in key service areas has increased, including a 14.3% increase in the estimated population of older adults in need of care between 2010-11 and 2016-17, a 33.9% increase over the same period in the number of households accepted as unintentionally homeless and in priority need, and a 15.1% increase in the number of looked-after children from 2010-11 to 2017-18.
- 3.4. Adur and Worthing Councils have to make further savings of £1.6m and £4.5m over the next 4 years respectively. This is detailed in the Councils'

updated medium term financial plans which set out the scale of the financial challenge and detail the Council's approach in delivering the required level of savings. The most recent plan was considered by each Council as part of the budget papers presented to the Councils in February.

- 3.5. Direct investment in commercial properties is one of the ways that Councils across the country have sought to increase their income growth in support of delivering Council services.
- 3.6. According to the Ministry of Housing Communities and Local Government, Local Authority expenditure on trading services totalled £4.0bn in 2018-19, up £993m (33%) in real terms from the previous year. (Trading services include the maintenance of direct labour and service organisations, such as civic halls, retail markets and industrial estates, and commercial activity).
- 3.7. Up to 2018-19 a cumulative total of 105 Local Authorities (29.8%) had spent at least £10 million on commercial property since 2016-17 with over half of these being district Councils and a further 25% being unitary authorities.
- 3.8. Direct property investment is commonly undertaken by Local authorities who have acquired assets both within their administrative boundaries and nationally (47.9% out of area).
- 3.9. Local Authority spend on commercial property was £2.2bn in 2018-19, and during 2019-20, spending was estimated at £7.6bn. In 2020-21, investment volumes from Local Authorities fell significantly due to the impact of the PWLB changes, and a reduced sentiment following the impact of Covid-19 Pandemic on the market generally. This is reflected in the total Local Authority investment during this period, which is estimated at circa £700m, a significant reduction from previous years.
- 3.10. Typically these investments have been funded through Public Works Loan Board (PWLB) long term lending which is at rates of circa 1%-2.5%. Historically, this lending has been on preferential terms to the market enabling authorities to utilise this to generate income over and above borrowing costs. This surplus is used to contribute towards the funding of services and mitigating the impact of cuts to services whilst also protecting services that would otherwise be at risk of closure.
- 3.11. Members will be aware that in 2019 the PWLB increased borrowing rates by 1%, nevertheless the rates still represented good value.

- 3.12. The most recent change to PWLB funding arrangements announced during the November spending review, resulted in increased scrutiny on borrowing, preventing the use of this loan facility to fund investments primarily for yield. In parallel to this restriction, the PWLB rate was reduced by 1% for qualifying investments.
- 3.13. Members should also be aware that the CIPFA is currently consulting on changes to the Prudential Code which will further strengthen the prohibitions on investing solely for yield.
- 3.14. Adur District and Worthing Borough Councils already have an established Strategic Property Investment Fund (SPIF) following a report to JSC in July 2015. Since this time, subsequent reports (the most recent being March 2020) have built upon and developed this workstream following the introduction of the Strategic Property Investment Fund and have increased the current fund size (capital spend) to £125m per Council.
- 3.15. The approval of the 2020 CPIS provided mechanisms to grow the portfolio and monitor performance through improved asset management, continued annual reviews and monitoring. This report reinforces the continued need to monitor performance given the wider economic impact of the Covid-19 Pandemic but moves to take a longer term “total return” approach and analysis of the portfolios. The investment strategy as part of this year’s report follows the same format as previously.
- 3.16. This investment strategy was significantly curtailed by the global Covid-19 Pandemic, with officers re-focusing their efforts on rent collection and tenant engagement, seeking to preserve the Councils investment value and revenue position in these unprecedented times. Very little of the planned allocation for the year was spent by either authority reflecting the prudent and cautious management approach that has underpinned the development and management of the fund since its inception.
- 3.17. As a result, rent collection data (% of all rents collected in advance) for the last financial year is as follows:

	Mar 2020	June 2020	Sept 2020	Dec 2020
Adur	94.24%	96.22%	99.78%	90.23%
Worthing	90.57%	90.22%	90.62%	90.98%

- 3.18. The above figures take into account all rent collection data for all assets currently managed under the SPIF.
- 3.19. Against the backdrop of the Covid-19 Pandemic, the portfolios have performed very positively during the 2020-21 financial year, above industry benchmarks. The success in rent collection is in part due to the relationships developed with our tenants, but also through the careful evaluation and governance process that has been applied to purchases. Where recoverable, officers will continue to work with tenants with arrears in a proactive and supportive manner to improve the rent collection for the financial period.
- 3.20. This year's investment strategy reflects on the changes in the market over the last 12 months as a result of the profound impact arising from both changes to the PWLB lending criteria and the fundamental changes in the commercial property market as a result of the Covid-19 Pandemic. This strategy looks ahead to the future providing context for considering and change in the approach to include opportunistic and value add opportunities within the functional economic areas of the Councils (defined as the Greater Brighton City Region and Northern West Sussex Functional Economic Market Area) to better support out local economies whilst retaining the context of Council revenue requirements and general market regulations on this activity.

4. Points for Consideration

4.1. Financial Position

- 4.1.1. Please note that the total spend below per Council is based upon gross purchase price including purchaser's costs and includes all purchases made under the SPIF, including those purchased for operational, local economy and regeneration purposes, specifically for the Worthing fund.

	Number of purchases	Total Gross Spend
Adur	7	£81.5m
Worthing	16	£103.3m

- 4.1.2. For the Worthing fund, the number of purchases reduces to nine, and the total gross spend reduces to circa £75m, when those assets and additional funding acquired for local economy and regeneration purposes are excluded.

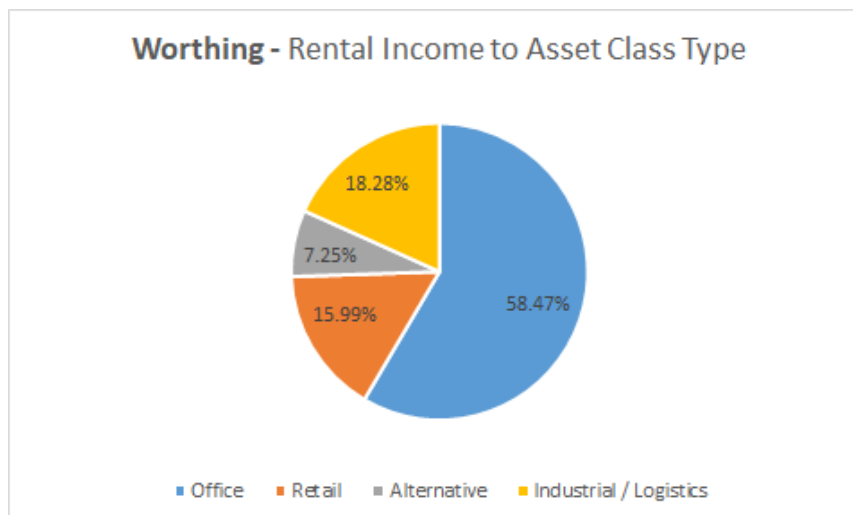
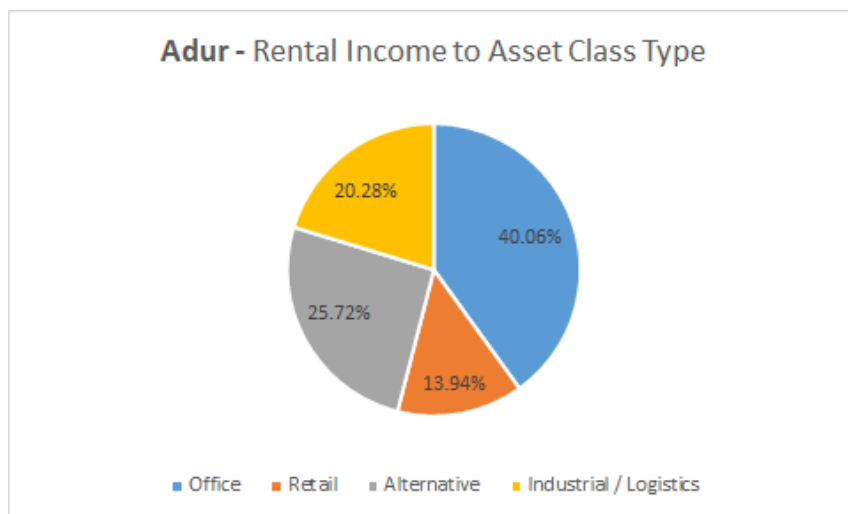
4.2. **New Acquisitions**

- 4.2.1. During the current financial year, the Councils have not been active as in previous years, but have taken a reactive approach to opportunities as they have presented themselves.
- 4.2.2. Three purchases were made by Worthing Borough Council at a total of £4.57m and all assets are located within the East Worthing industrial estate area. The Borough Council already has significant land holdings in this area including Decoy Farm.
- 4.2.3. This includes two separate industrial assets located on Dominion Way, predominantly let to Allergy Therapeutics, an important strategic local employer. The properties were acquired for £2.77m, reflecting a 6.5% net initial yield, and presented an attractive income return against a strong financial covenant, in a buoyant asset class. As an illustration of a value add purchase, since the purchase. Officers have renegotiated the main tenant leases for an additional five years term certain and as a result the purchase price sits comfortably below current market values should the Council choose to sell.
- 4.2.4. Worthing Borough Council also purchased a longer term redevelopment site for £1.8m, known as the former EDF Car Park, where it intends to directly deliver new employment space to the area. Officers are currently progressing a redesign of the scheme and the existing planning consent. Overall, members have approved a budget of £5.8m for the acquisition and development of the site from the Commercial Property Fund.
- 4.2.5. Adur District Council made no acquisitions during the 2020/21 financial year.

4.3. **Current Fund Structure**

- 4.3.1. The Council has an established Strategic Property Investment Fund following a report to JSC in July 2015. The overall fund objective is to invest in commercial property in the UK so as to obtain a high level of secure income and long term capital growth to support the Councils in delivering local services following reductions in Central Government grant funding.
- 4.3.2. As a result of this the Councils have sought to acquire assets that present a minimum hurdle average net return of at least 1% over the assumed hold period after all costs and expenses including principal and interest debt payments.

- 4.3.3. The acquisitions have still sought to minimise risk exposure, seeking strong underpinning factors with the investment but with the objective to obtain stable income and long term capital appreciation. The portfolio is under constant review and where asset returns diminish to an unacceptable level, disinvestment will be considered.
- 4.3.4. The funds have maintained a balanced spread between asset classes and geographical locations. The pie charts below detail the current weighting of the funds considering all purchases to date:



These funds have been targeting the following asset class weightings:

Office	Retail & Supermarkets	Industrial & Logistics	Alternative
30%	20%	25%	25%

- 4.3.5. The above pie charts does not include any purchases made which have been acquired for either operational purposes or regeneration and local economy purposes.
- 4.3.6. The above charts show that the latest financial year still leaves both Councils weighted highly towards office investments as this has been driven by a combination of historic market opportunities and strong fundamentals within this sector (location of properties, strong demand from the UK's service lead economy, high quality of construction and low maintenance). The office sector makes up a significant proportion of the commercial real estate value in the UK in terms of value.
- 4.3.7. The balanced diversification within the portfolios, and an asset allocation focused on strong underpinning fundamentals, has resulted in a resilient performance overall given the pressure of the Covid-19 Pandemic. The funds low exposure to traditional retail and greater allocation to food store retailing, and industrial and logistic sectors, has been helpful to the funds performance. These specific sectors have seen significant investor demand and yield compression since the start of the Covid-19 Pandemic which is anticipated to continue in the short term.
- 4.3.8. It is important to note that this diversification will continue as the funds mature and seek a total return approach rather than immediate short term income. This may mean that assets present challenges as well as opportunities from an asset management perspective and through asset management plans for the individual assets, potentially investment, re-gearing of leases. Disposal for reinvestment to reduce exposure may further be required where appropriate returns have not been achieved or if future performance prospects of an asset diminish to an unacceptable level.
- 4.3.9. Purchases will now solely focus on the functional economic area of the Councils, specifically targeting opportunities locally, where there is significant regeneration or social value to build a portfolio for a longer term position, balanced with the need to secure long term revenue income for the Councils.
- 4.3.10. The key considerations underpinning the recent acquisitions have been around supporting our local economy and employment opportunities and

value add opportunities within area however, a market commentary and a key update is provided below on the main high level commercial property asset classes:

Offices

Office markets remain subdued due to the impact of the Covid-19 Pandemic, national and regional lockdowns and the shift to home working. This has led to a reduction in investment volumes with market liquidity focused around the life science and biotech sector assets or traditional office assets with long dated income from secured investment grade tenants. A review of occupier office requirements and potential 'hub and spoke' models mean that there are opportunities more regionally for office demand, although this is yet to present it-self as an established trend. Investment yields have moved out in non-core offices and volumes are lower due to the Covid-19 Pandemic. Offices have typically been considered to be the least volatile commercial property asset class and it is not unexpected that both Councils remain heavily weighted towards the offices within the portfolios.

Looking to 2021 office occupier markets are likely to continue to perform well for high quality stock however there remains some uncertainty around structural changes in this sector as occupiers are expected to forensically examine how they use their office space with a move to more flexible working. It is likely that this will result in an acceleration of secondary office stock being repurposed where they face economic and physical obsolescence.

Retail

The decline in 'bricks and mortar' retail has been exacerbated by the Covid-19 Pandemic which has in effect accelerated the move to digital trading. There have been a number of notable administrations, Debenhams, Arcadia Group, Bon Marche, TM Lewin, Monsoon amongst others and it is anticipated that this decline will continue.

Retail properties will continue to present high volatility rates until a sustainable model for traditional retail is established. Other than food store retail, it is recommended that unless there are compelling reasons for an acquisition, that this asset class continues to be avoided.

It is anticipated that there will be continued and accelerated structural change in UK retail in 2021. Repurposing of assets will be the key trend in 2021, with 'right-sizing' and 're-centralising' as converting excess retail

space to create mixed-use destination schemes, which is supported by proposals for reform within the planning system.

Industrial

Industrial and logistics investments remain highly sought after, both prime and secondary stock, with net yields often reflecting sub 5%. The Councils have invested into this asset class and will look to increase its allocation to this sector where pricing permits.

It is expected that rental and capital growth will continue although at a lower rate than we have seen recently. Industrial investments will remain competitively priced due to continued investor demand for industrial stock particularly in relation to last mile distribution. The Councils will remain alert to opportunities, although due to competition, opportunities remain limited. Within areas there is little new stock due to come on stream, other than 'Decoy Farm' which when delivered will increase much needed supply.

Alternatives

The Councils have sought to add alternative investments such as hotels, car parking or sustainability investments such as solar farms to the funds, acquiring long index linked income to strong investment grade covenants. These have typically been in sectors that have been profoundly impacted in the short term by the Covid-19 Pandemic and lockdown restrictions. It is anticipated this sector will recover strongly and subject to detailed risk management, will continue to present as attractive investment opportunities.

The Councils should seek further alternative sector investments to diversify risk across the funds, supported by alternative long term opportunities at these sites within Adur District and Worthing Borough. The Councils should also look to partnering and forward funding opportunities to deliver both regeneration, social, and economic return and there may be opportunities such as Teville Gate and Union Place amongst others to meet a mixture of these aims.

4.4. Fund Size

- 4.4.1. The decision to increase the fund size in the 2019 CPIS strategy provided means that the current un-allocated capital after all costs of acquisitions, including assets purchased for operational and regeneration purposes, are taken into account is as follows:

Adur: Circa £43.5m

Worthing: Circa £24.7m

- 4.4.2. The overall fund size of £125m per Council is relatively small within the context of wider commercial property investment funds, however due to the risks presented by smaller funds officers have sought to proactively ensure a diverse portfolio composition and balanced approach. This has proven resilient against increased volatility in the market and has reduced the Council's exposure by spreading risk across a number of assets, lot sizes, sectors and geographical locations.
- 4.4.3. There are currently no proposals to increase this fund size beyond £250m but that the Councils should move to the overall fund being determined with assets comprising not more than £125m of debt per authority.
- 4.4.4. Due to the impact of changes to the PWLB lending criteria, it is recommended that, following a review of typical transactional opportunities within the functional economic area, the average lot size be amended to £2m - £10m.
- 4.4.5. This will enable the Councils to operate in a window of opportunity below that of typical institutional investors (pension funds and private equity) in order for the Council to remain competitive in the market.
- 4.4.6. It is also anticipated that opportunities below this size are not cost efficient from a transactional and resourcing perspective and there will be limited opportunities above this level in the boroughs.
- 4.4.7. This target average lot size should not restrict the Council from seeking opportunities higher or lower than this subject to the usual due diligence procedures.
- 4.4.8. Proposals to alter the average lot size will not change the Council's acquisition and risk management process other than for redevelopment opportunities.
- 4.4.9. Where an acquisition presents as a value add and opportunistic opportunity, where there is a repositioning, repurposing and redevelopment opportunity, it is recommended that the acquisition process have an additional requirement to produce a detailed outline business case for the redevelopment prior to acquisition, and that a full business case be required in order to release the funds for development.

- 4.4.10. This will enable the Councils to proactively seek more opportunities such as the proposed multi-let industrial development on Southdownview Road at the former EDF Car Park, Worthing, where the Council is working on plans to directly deliver circa 30,000ft² of new employment space.
- 4.4.11. Officers will continue to evaluate opportunities both higher and lower than the average lot size as well as assets across the evaluation criteria to ensure that opportunities of interest and benefit to the Councils are not unduly ruled out.

4.5. Resources and Capacity

- 4.5.1. During 2020-21 the Property and Investment Team has consolidated a strong team to lead on both acquisitions and management of this portfolio to support the delivery of the CPIS.
- 4.5.2. Officers are supported on rent collection and service charge management by Savills who continue to undertake the day-to-day property management of the portfolio. The Councils' have procured Savills, a FTSE250 RICS regulated property firm with over 130 offices across the UK and 39,000 employees globally.
- 4.5.3. The Property and Investment team has expanded with the further recruitment of a Principal Surveyor. There are now two Principal Surveyors within the team who split responsibility for both the strategic investment portfolio and the historic estate. This was in lieu of recruiting a post under the 'Commercial Property Investment Officer' post that was approved in last year's strategy.
- 4.5.4. As part of the development of the 2020-21 revenue budget, an additional role of Asset Portfolio Manager was recommended for approval. Following a review of the tasks and requirements of the role, it is now recommended that this role not be progressed, but the Councils procure a specialist consultancy firm to provide an investment management and fund administration service reporting on a regular basis and to produce an annual review of the individual assets, their financial performance since acquisition and a future management strategy for these assets within the respective portfolios.
- 4.5.5. A full specification of the requirements of this is being drafted by officers, in consultation with the Chief Financial Officer and will be procured in due course.

4.5.6. The Property and Investment Team will continue to engage specialist consultants where required and appropriate and subscriptions maintained for specialist property software/data to ensure the Councils are well informed in delivery of the CPIS.

4.5.7. The Property and Investment team will also continue to maintain relevant CPD requirements for the RICS, consider undertaking an Investment Management Certificate qualification, seeking to develop trainees and apprentices through their Assessment of Professional Competence, and for more senior officers to develop specialist skills to supplement the service delivery.

4.6. **Future Fund Direction and Update to Commercial Property Investment Strategy**

4.6.1. The current weighting of the portfolio into the varying asset classes has improved in diversification from previous years as the funds have started to mature with a larger number of assets within each fund. It is anticipated that this will continue although until the fund is full it is to be expected to have periods of imbalance whilst further properties are acquired or repositioned.

4.6.2. It is recommended that through the production of the annual individual asset plans, that officers continually review opportunities within the existing portfolio to re-shape this accordingly in order to manage risk. This will be reviewed against the individual asset performance and ensure that the portfolio has a balanced asset mix representative of the core aims of the SPIF.

4.6.3. Due to the restrictions on PWLB funding, officers will be seeking investments within the functional economic areas of the Council's where there are opportunities to enhance economic regeneration prospects, or maintain and support economic recovery. This may mean the investment and delivery of new employment space, or opportunities where Councils can add value to existing assets through the Council covenant, perhaps by way of under-writing new developments through forward funding or head leases.

4.6.4. The Councils should consider expanding its investment into alternative asset classes, including the purpose built residential sector i.e. student housing / build-to-rent and temporary accommodation, healthcare, renewables and educational investments.

- 4.6.5. Due to the specialist nature of some of the above investments, the Councils should continue to review the need for alternative corporate delivery structures, such as wholly owned companies, to ensure it is well placed to manage localised risks with the above asset classes and the changing market.
- 4.6.6. Owing to market uncertainties and the impact of the Covid-19 Pandemic coupled with the accelerated decline of retail assets, it is unlikely that the funds will seek to meet their target percentage of retail stock. It is recommended that the SPIF does not alter its current investment mix as a target percentage but should remain flexible in a fluid and fluctuating market until the wider structural impact of Covid-19 Pandemic is known. This will enable the Councils to remain competitive and agile particularly when exploring investments that present strategic opportunities.
- 4.6.7. The Councils should also remain reactive to opportunities that present themselves for additional Council benefit such as where there is the option for site assembly with adjoining properties, longer term regeneration opportunities or other potential windfall acquisitions.
- 4.6.8. Acquisitions should also be considered for portfolio acquisitions where the investment opportunity meets the Council's KPI to invest but the fund would need to acquire a number of assets. This can potentially mean acquiring a number of units as part of a single transaction, which may be considered to exceed the average lot size for a single purchase, however individual lots are likely to meet the average size requirements. This is a means to deploy capital in a potentially more efficient manner that generates greater return and opportunities for the Councils.
- 4.6.9. Councils continue to seek a mixture of 'Core', 'Added Value' and 'Opportunistic' acquisitions.
- 4.6.10. To undertake the whole portfolio review on an asset by asset basis and bring a further report back to members with the findings and with individual property recommendations to September JSC.

4.7. **Statutory Guidance**

- 4.7.1. When investing in property, local authorities must comply with statutory guidance. This includes two codes of practice (Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes and The Prudential Code for Capital Finance in Local Authorities) issued by the

Chartered Institute of Public Finance and Accountancy (CIPFA), in addition to, the Ministry for Housing Communities and Local Government (MHCLG) February 2018 publication, “Statutory Guidance on Local Authority Investment Activity”. Copies of this guidance are attached to the CPIS 2019/20, for which there is a link under background documents at the end of this report.

4.7.2. This statutory guidance on investment strategy includes requirements for Councils to:

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

4.7.3. The investment strategy must include:

- Details of the processes used to ensure effective due diligence, defining the authority’s risk appetite, including proportionality in respect of overall resources.
- Qualify independent and expert advice and scrutiny arrangements.
- Disclose the contribution that investments make “towards the service delivery objectives and/or place making role of the local authority”.
- Propose indicators that enable councillors and the public to assess the authority’s investments and the decisions taken.

4.7.4. The investment guidance is clear that Councils may not “borrow in advance of need” to profit from the investment of the sums borrowed. The definition of investment has recently been extended to include investment in property and

the granting of loans to third parties.

- 4.7.5. In recognition of the importance of commercial income to Councils at a time when Central Government funding is steeply declining, a Council can choose to disregard the Prudential Code and this part of the guidance. In this case, its investment strategy should set out why this is the case and what the Council's relevant policies are.
- 4.7.6. The implications of the guidance are that the Councils will need to have at least one Investment Strategy ("the Strategy") that meets all the disclosures and reporting requirements specified in the statutory guidance.
- 4.7.7. For Adur District and Worthing Borough Councils, there will be two separate elements to the strategy:
 - Annual treasury management investment strategy which covers all cash investments.
 - Annual SPIF and CPIS covers the Councils' approach to commercial property investment.
- 4.7.8. The annual Treasury Management Investment Strategy has already been approved by the Councils in February. This Treasury Management Investment Strategy and the Commercial Property Investment Strategy 2021/22, which is attached as Appendix 1, provide evaluation criteria for the assessment of investment opportunities, risk profiling, evaluation, resourcing and monitoring, accounting for the statutory guidance.

4.8. Investment Evaluation Process

- 4.8.1. Prospective investment opportunities are reported by suitably qualified and experienced in-house MRICS (Member of the Royal Institution of Chartered Surveyors) professionals, in a risk matrix as Appendix 2. This risk matrix provides analysis of a set of key investment criteria against which every prospective purchase is evaluated. The presentation of information highlights fundamental matters such as macro/micro location economics, tenant covenant strength, lease length, building quality and alternative uses in a transparent and consistent format, to support clear scrutiny and decisions.
- 4.8.2. The risk matrix provides a basis for scoring and weighting risk, to support the analysis of potential acquisitions and qualify overall suitability for inclusion in the wider portfolio. A minimum score threshold is set, below which it is not

recommended to proceed unless there are significant factors that require consideration, to include additional regeneration opportunities for the Council, land assembly opportunities or other circumstances that can be suitably justified from a social and environmental perspective.

- 4.8.3. The score threshold is not an absolute, but set to guide decisions, reflecting the fund structure objectives, as detailed in the CPIS (Appendix 1), which assumes a low risk profile. The process is further supported by the inclusion of a Strength, Weakness, Opportunities, and Threats analysis (SWOT).
- 4.8.4. To ensure arms-length objectivity and scrutiny, external agents and consultants provide professional market analysis, specialist data and advice, to support the evaluation and internal reporting process. The risk matrix and SWOT analysis is undertaken by the Councils retained external agent and consultants, with officer input and scrutiny.
- 4.8.5. Tenant default is a significant threat to performance. This risk has previously been reviewed through undertaking in-house reports such as CreditSafe and/or Dun and Bradstreet, with further internal scrutiny from the in-house financial team. Where proportionate, it is recommended that this process is furthered to include third party advice from an accountant to provide an in-depth analysis of a tenants financial health, business operations and future performance.
- 4.8.6. Where value add or opportunistic acquisitions are identified, an additional outline business and financial case will be prepared and shared at Stage 2 below and shared in Stage 4 as part of the relevant consultation process.
- 4.8.7. If a decision is made to proceed, in-house surveyors lead negotiations, via the introducing/retained external agents, who are professional property firms with relevant market specialism and RICS regulated.
- 4.8.8. To ensure independent and expert advice and scrutiny, all pre-sale technical due diligence is undertaken by arms-length external professional advisors, including as required:
 - A valuation, in accordance with the RICS Red Book, Professional Valuation Standards, issued by the RICS as part of their commitment to promoting and supporting high standards in valuation delivery worldwide. The publication details mandatory practices for RICS members undertaking valuation services.

- A Building Survey report, as part of the proposed purchase for investment purposes, including preparation of a Reinstatement Cost Assessment for insurance purposes.
- Environmental, services and any further surveys/technical due diligence required to qualify the investment.
- Specialist investment market advice, including, as required, occupational market context and financial modelling to qualify and forecast prospective investment performance.

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

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

4.8.11. A separate paper will be presented at an appropriate date, detailing a proposal for a disposals strategy if required, as part of the whole fund annual review after the year end.

4.8.12. This will present opportunities for capital generation for projects but also to reduce the debt levels across the investment portfolio as the Councils seek to include equity into the investment process, leading to better overall returns.

4.9. **Property Investment Governance**

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

competitively, to investment opportunities in the market and avoid missing opportunities through delay.

- 4.9.2. The current Scheme of Delegations provides that the authority to acquire or dispose of land, is vested in the Head of Major Projects and Investment, and where the asset is purchased through the SPIF, the delegation is only exercisable in consultation with the relevant Leader, Executive Member for Resources and the Chief Financial Officer.
- 4.9.3. It is proposed that a formalised staged governance approach is adopted in relation to SPIF purchases, as follows:

Stage 1

Officers identify suitable opportunities in the market, having undertaken appropriate investigative and due diligence assessment, in accordance with the above “Investment Evaluation Process”.

Stage 2

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

The report will include:

- A risk matrix and SWOT analysis
- A financial appraisal
- An outline business case where the opportunity is a ‘value add’ or ‘opportunistic’ and likely to require additional capital expenditure
- A summary of the investment, including a request for authority to bind the Council to a range of terms and indicating an acceptable price point for the acquisition.
- A consideration of any tenant, use or asset from an Environmental, Social and Governance perspective

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

Stage 3

The Property and Investment Team will progress negotiations, with the retained external agent, seeking to formally agree Heads of Terms with the vendor, including price and basis/terms of acquisition. If negotiations lead to

the agreement of acceptable terms, final approval to proceed will be sought in accordance with Stage 4.

Stage 4

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

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

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

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

Stage 5

Completed purchases will be reported as part of the Annual Review, or through the following year's Commercial Property Investment Strategy to JSC.

4.10. Risk Management

- 4.10.1. Property investment will necessitate exposure to risk. Risk is in effect two fold - specific risks, arising from the nature of particular assets, or systemic risks - risk that are fundamental to the investment market and reliance upon property investments for commercial returns.
- 4.10.2. Financial risk is notably evident whereby the total invested can exceed the current Market Value. Prices are prone to fluctuation, particularly due to changes in the locality, the general economic outlook, or asset specific risks, such as tenant failure. Furthermore, property investment is relatively illiquid,

requiring a longer term approach. In the event of a market crash, property is much less liquid than other assets and can be hard to sell and may present risk to income and servicing of debt requirements.

- 4.10.3. The Councils' exposure to risk equates to the total amount of capital invested, plus financing costs (such as interest due on loans), property operational running costs (management, vacant business rates, service charges, professional fees etc.) and legislative compliance. The Councils' risk quantum will be defined as this total exposure, less the value of held assets.
- 4.10.4. Whilst risk is a natural, necessary, part of investment that cannot be eliminated, it can be proactively managed.
- 4.10.5. Larger investment funds have greater overall exposure but tend to be better insulated to market fluctuations where they comprise a diverse mix of strong performing assets.
- 4.10.6. The SPIF is built upon a series of conventional measures to manage risk, reflecting the key objective:

“To adopt a structured and measured approach to property income generation, pro-actively managing the risk inherent to investment, creating a balanced portfolio delivering long term sustainable income, for the purpose of supporting the continued provision of Council Services.”
- 4.10.7. The CPIS (Appendix 1) objectives and fund policy build upon this key objective, providing a series of controls to direct the investment strategy towards a prudent low risk fund with a cautious perspective on investment, limiting exposure to unnecessary capital risk, whilst generating a return.
- 4.10.8. In reviewing this strategy, the investment direction has been expanded to include value add and opportunistic investments, where within the functional economic area, additional value can be quantified through social, economic or environmental benefit to the Councils' objectives.
- 4.10.9. Financing property investments has typically been based upon utilising reserves, capital receipts and borrowing. Borrowing is currently available with fixed interest for the duration of any loan, (albeit subject to much more stringent criteria than previous) via the PWLB funding, mitigating the risk associated with exposure to interest rate fluctuations.

- 4.10.10. The Minimum Revenue Provision Policy (part of the treasury management strategy statement) details the Council's position and deals with the Minimum Revenue Provision (MRP) that must be made to mitigate that risk. The MRP is the amount the Councils must set aside each year from the annual revenue budget for the repayment of debt.
- 4.10.11. The CPIS (Appendix 1) details a series of measures to guide decisions, based around spreading capital across a variety of asset classes, locations and sectors. This diversification reduces the risks of exposure to a single asset, tenant, or sector failure.
- 4.10.12. Funds that are excessively concentrated in one particular sector or region increase risk, whilst a good spread of properties across asset classes, diversify systematic risk and varying the locality, reduces local market risk.
- 4.10.13. As a result of re-focusing investment within the functional economic area, the Council's risk profile to local market risk will be increased due to the reduction in geographical spread of investments and higher allocation to our functional economic area. However, where investments are local, the Council is able to take a longer term view with regards to future growth and opportunities, specifically where an asset's current use is facing economic, physical or functional obsolescence and requires regeneration, economic support and placemaking more generally.
- 4.10.14. The average property size was typically a measure to ensure the fund does not only hold a very small number of large properties, which increases risk, such as a single large tenant failing whilst maintaining an efficiency of management. Whilst the funds have historically moved to increase the fund size, targeting larger lot sizes in order to maintain the same level of net return to the Council, officers feel that due to the locational restrictions on lending and typical lot size for prospective assets within our economic functional area, the average lot size should be adjusted to between £2m - £10m.
- 4.10.15. Investments should still focus on a diverse mix of single and multi let tenanted properties to spread the income security.
- 4.10.16. The Council's exposure to investment risk can also be profiled by defining the acceptable parameters. The CPIS (Appendix 1) Fund Structure details a series of different segments that provide a basis for dividing commercial

property investments, based upon their position at differing points on the risk versus return spectrum.

- 4.10.17. The ability to vary the distribution of purchases between each of the above three categories, is a common portfolio investment tool. This provides flexibility to respond fluidly to opportunities and changes in the economy, market climate and differing performance across asset classes, as the fund evolves. Such agility is key to maximising operational efficiencies and opportunities will continue to be evaluated on a case by case basis.
- 4.10.18. This portfolio profile has favoured acquiring premises leased to strong covenant tenants in established markets, which are typically more attractive to investors, thus easier to sell if required, when compared to higher risk investments which attract a different type of investor. As the portfolio expands into the value add and opportunistic spheres, investments will become less liquid so a greater level of scrutiny is required through the business cases for individual opportunities to ensure proposals are financially robust and can be delivered within an appropriate timeframe. This is why officers are recommending an update to the acquisition process and further reporting to ensure that a robust risk management process is in place.
- 4.10.19. Officers have sought to ensure the Councils' robust risk management procedures are fit for purpose, in particular as a result of the 'stress test' applied to the portfolio as a result of the Covid-19 Pandemic. Whilst it is clear that the impact of the pandemic will continue to be felt and markets will flex and change to meet this, it is important that the Councils continue to adjust their risk management procedures in order to respond to this.

4.11. **Annual Performance Monitoring**

- 4.11.1. Active management of the portfolio is key to proactively maintain the buildings to maximise value, monitor occupiers and capitalise in favourable market conditions which maximise capital receipts. Tenant covenant strength, compliance with lease obligations, such as repair and maintenance, management of the payment of rent and service charge needs to be actively managed. External managing agents (Savills) have been appointed and the portfolio is cliented by the Councils' in-house surveyor, a MRICS qualified professional with experience in institutional level commercial property investments.

- 4.11.2. Additional recommendations within this report is to expand the investment management fund reporting to include total return outputs which will measure the income and capital return from portfolio at inception to each future financial year showing accumulative and annual performance. These outputs will be further benchmarked against a comparator index. This will enhance the performance reporting mechanisms and enable officers to recommend asset management initiatives in the future, either investment, repositioning and disinvestment. This further includes new updated asset plans for each asset, and a portfolio composition review. This work is being scoped currently, and will be procured in due course.
- 4.11.3. The cost of this additional reporting and recommendations will be met from the budget already allocated from the Asset Portfolio Manager post.
- 4.11.4. This additional third party reporting is in addition to ongoing monitoring, the CPIS (Appendix 1) which details a series of measures to undertake a comprehensive annual re-evaluation, including detailed assessment of key performance indicators, to quantify, monitor and benchmark the portfolio performance and strategic direction that are undertaken internally and in consultation with relevant officers and members.

4.12. **Corporate Implications**

- 4.13. If the Councils had not taken the decision to invest, this would have led to an overall reduction in the capacity of the Councils to deliver, with cuts in services, particularly those we are not under a statutory duty to deliver.
- 4.14. The capital value and income from the funds assets will go down as well as up. There is no guarantee that the fund will achieve its objectives and Council returns less than originally invested.
- 4.15. The additional income delivered from SPIF investments, has contributed to the delivery of a more robust and sustainable Revenue Budget for 2021/22 and the delivery of the budget strategy, helping to manage pressures arising in year due to unforeseen circumstances, including the Covid-19 Pandemic.
- 4.16. As part of this initiative, the Councils will inevitably be taking on more risk. Consequently, a robust risk management strategy has been adopted to cover both acquiring property and managing the portfolio for the future, to ensure that there is sufficient revenue income, to repay the debts the Councils are acquiring and to continue to contribute to the Councils' financial health.

5. Engagement and Communication

- 5.1. This report builds upon the previous CPIS 2020-21, taken to JSC in March 2020.
- 5.2. Consultations have taken place with legal and finance and their comments are contained within.

6. Financial Implications

- 6.1. The Councils have over the past few years addressed significant budget shortfalls. The investment in commercial property has enabled the Councils to protect front line services, address falling income from Central Government grant funding, and increase the level of spend in areas such as Housing need through generating net additional income. Below is a breakdown of the contribution to balancing the budgets made by the acquisitions since the introduction of the initiative in 2017:

	Adur	Worthing
Level of savings required to balance the budget 2017/18 - 2021/2022	£5.119m	£8.521m
Net new income from the investment in commercial property	£1.043m	£1.270m
% of savings from commercial property income	20.43%	14.90%

- 6.2. Looking ahead, this investment continues to be an important strand of the budget strategy, helping balance the budget as the Councils continue to address significant financial challenges.
- 6.3. The Councils have already approved an overall investment of £125m per Council which has been spent or allocated as follows:

	Adur £'000	Worthing £'000
2016/17 Actual	0	3,222
2017/18 Actual	11,579	9,464
2018/19 Actual	26,366	26,973
2019/20 Actual	43,507	51,549
2020/21 Actual	0	4,799
2021/22		
- Allocated to projects	80	4,272
- Unallocated	43,468	24,721
Total investments	<u>125,000</u>	<u>125,000</u>

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

6.5. It is recommended where possible the Councils continue to seek to retain an average of 20% of the rental income towards future expenditure on repairs, refurbishment, lettings incentives, and void periods. To achieve this the Council will take three measures:

- i) A regular contribution to earmarked reserves is to be created over the next 5 years to equate to 10 - 20% of annual rental income;
- ii) Any over-achievement against the commercial income budget set will be placed into earmarked reserves at the year end;
- iii) Where commercial properties are disposed of, all the surplus income in excess of any associated debt and the original purchase price, will be placed into a specific reserve for future capital investment requirements. In the short term, this reflects the need to build reserves to support the management of risks associated with the portfolios. In the medium term, it is envisaged these funds could also be released for reinvestment into the portfolios.

6.6. Currently the annual provision for the management of voids and future maintenance is (to be confirmed), and it is intended to increase this provision

by at least £100k per annum until the 20% annual set aside has been reached. For 2021-21 the annual provision will be:

- Adur £550,000
- Worthing £350,000

In 2020-21 this provision was used to offset all losses within the property portfolio due to the impact of the Covid-19 Pandemic.

7. Legal Implications

- 7.1. S.111 Local Government Act 1972 provides Councils with the power to do anything (whether or not involving the expenditure, borrowing or lending of money or the acquisition or disposal of any property or rights) which is calculated to facilitate, or is conducive or incidental to, the discharge of any of their functions.”
- 7.2. Section 120 (1) Local Government Act 1972 provides the Council with the power to acquire land, whether inside their area or not, for the benefit, improvement or development of their area. Section 1 Local Government Act 2003 enables the Councils to borrow money for the purpose of the prudent management of its financial affairs. Section 12 Local Government Act 2003 empowers the Councils to invest for the purposes of the prudent management of its financial affairs.
- 7.3. s.1 of the Localism Act 2011 provides the Councils with the general power of competence to do anything that an individual may do.
- 7.4. The Scheme of Officer Delegations includes the following delegation to the Head of Major Projects and Investment at paragraph 3.13.2: “To acquire land in connection with the Council’s functions and to take leases, easements, licences and wayleaves of, in, or over buildings or land in connection with the Council’s functions. (Where acquisition of land is purchased through the Strategic Investment Fund, the delegation is to be exercised in consultation with the Leader, Executive Member for Resources and the Chief Financial Officer).
- 7.5. The Officer Decision Making Protocol in each Council’s Constitution provides a procedure for giving notice of key decisions, Officer Decision making, the publication of Decision Notices, and the procedure for Call-In of such decisions.

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

Background Papers

- March 2020 JSC report
 - Strategic Property investment Fund 2020 (SPIF)
 - The Commercial Property Investment Strategy (CPIS 2020-2021)
- Platforms for our places
- Ministry for Housing Communities and Local Government (MHCLG) February 2018 publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes
- The Prudential Code for Capital Finances In Local Authorities
- The Chartered Institute of Public Finance and Accountancy: Prudential Property Investment
- National Audit Office: Ministry of Housing, Communities & Local Government Local authority investment in commercial property
- Costar Insight - Local Authority Investment

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Sustainability & Risk Assessment

1. Economic

- This proposal continues the implementation of the Council's capital and Medium Term Financial Strategy to generate additional revenue for the funding of Council services.

2. Social

2.1 Social Value

- Matter Considered, no issues identified.

2.2 Equality Issues

- Matter Considered, no issues identified.

2.3 Community Safety Issues (Section 17)

- Matter Considered, no issues identified.

2.4 Human Rights Issues

- Matter Considered, no issues identified.

3. Environmental

- Matter Considered, no issues identified.

4. Governance

- This aligns with the Council's capital strategy. Investment in good quality commercial property to produce additional revenue is part of a combined strategy in the Councils' approved budget strategy.

Appendix 1

Commercial Property Investment Strategy:

THE COMMERCIAL

PROPERTY INVESTMENT

STRATEGY 2021-2022

Contents

1. Objectives
2. Fund Policy
3. Financial Resilience
4. Fund Structure
5. Purchase Guidelines
6. Annual Review

The Property Investment Strategy

1. Objectives

The key objective:-

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

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

- ❖ To invest in commercial property to generate a sustainable income, with clear margins exceeding the cost of capital and borrowing.
- ❖ To build financial resilience through the creation of a diverse portfolio to balance risk and return.
- ❖ To acquire established commercial properties generating an immediate stable income and preserve capital (notwithstanding market changes).
- ❖ Supporting economic growth within Worthing and Adur, where suitable opportunities arise, provided the return covers the costs of an associated financing but lower returns or greater risk can be justified.
- ❖ Re-evaluate the existing property portfolio to maximise the financial benefit.
- ❖ Retain the existing property portfolio, where appropriate to maximise long term revenue generation.

The Property Investment Strategy

2. Fund Policy

- ❖ Retain existing assets where appropriate, to generate income, investing where necessary to enhance returns.
- ❖ Review the benefits of an investment vehicle, such as a holding company, to retain acquired assets.
- ❖ Capital receipts from the sale of Strategic Property Investment Fund (SPIF), or other Council properties, to be considered for:
 - Reinvestment in SPIF, to sustain income generation and maximise opportunities.
 - Repayment of capital borrowing to improve the return on existing assets.
- ❖ Allocation of new purchases or disinvestment between the Adur and Worthing portfolios, to be recommended in consideration of fund diversification risk management.
- ❖ We will not engage with occupiers who may present a significant unmitigated reputational risk.

The Property Investment Strategy

3. Financial Resilience

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

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

Risk Diversification		
Geographical Diversification	Maximum of 30% of the Target Fund size is invested in any single town, except for in borough investments with a social, economic or environmental benefit.	Given the size of the funds, initially concentrating on outer London and the wider South East area, with consideration given to wider geographical diversification, as the funds grow and approach their target sizes. Restrictions to PWLB funding mean that this is relevant to non-PWLB funded acquisitions through alternative finance or from capital reinvestment following asset sales.
Asset Class/Sector Mix	Industrial/Warehouses 25% Offices 35% Retail 15% Alternatives 25% (e.g. car parking)	To ensure a spread of risks, acquisition across office, retail and industrial sectors. As the fund grows, the portfolios will be heavily weighted into certain sectors and classes, driven by opportunities and market performance. It is expected weightings will progress towards targets as the portfolio matures in the medium term. The fund has avoided retail, but where food retail opportunities or those with value add or opportunistic opportunities, this level has been retained.
Average Property Size	Guide Size c.£2-10m	This provides flexibility for the Councils to operate in an optimal place in the market, tailored to the extent of competition and likely asset availability within the functional economic area. Acquisitions outside the guide sizes will be considered where they offer a good return, support diversity and do not create over exposure to a large single tenant/asset but also facilitate larger multi-let properties or strategic purchases.
Leases Expiring within 5 years	Maximum 30%	Spread and diversity sought in future lease expiries across acquisitions to protect revenue streams unless value add or opportunistic acquisitions.
Target Return	A return exceeding the cost of borrowing	Initial return exceeding the cost of borrowing, preferably by 2%. Lower returns considered if there is a viable business case/portfolio fit or for lower risk investments but not lower than 1%.

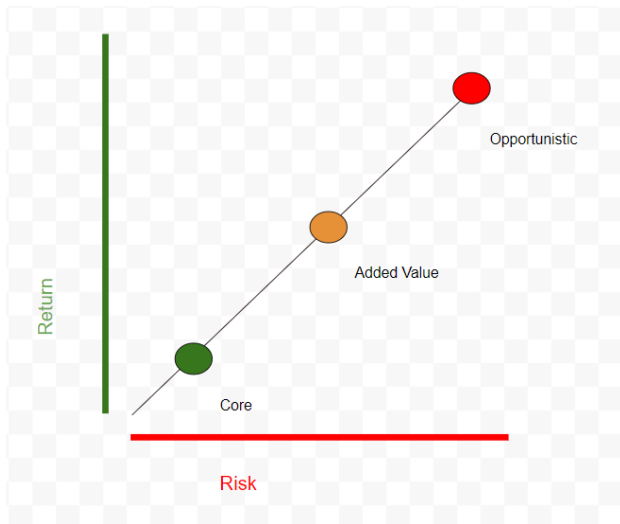
Target Fund Size	£250M	In order to make a meaningful contribution to the financial challenge, the Councils has agreed to build a portfolio that will generate an initial yield of at least 5%.
Capital Expenditure Allowance	20% of the rental income	Held in a fund to support future management and capital expenditure for the portfolio, such as voids, maintenance and/or refurbishment. Surplus income will be set aside into a revenue account and capacity within the annual revenue budget to support this will be built over the next 3 financial years, notwithstanding unforeseen stress tests such as Covid-19

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

The Property Investment Strategy

4. Fund Structure

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



These segments can be defined as follows: -

Core investments: - comprise the bedrock of a diversified portfolio and present minimum risk, being the least risky investment segment. Typically they comprise fully leased, secure investments to strong covenant tenants, in urban locations/markets that tend towards strong demand.

Attractive for the lower level of risk they provide compared to other investment types, which is reflected in the lower yield when compared to more risky property investments.

Typical property characteristics: -

- subject to long leases to strong covenant tenants on fully repairing terms.
- buildings are typically modern, in good repair and condition.
- the buildings have reduced depreciation and obsolescence, providing a stable relatively predictable income.

This type of investment suits investors who seek capital preservation and long hold periods. This type of investment is typically the most liquid, on the basis they are generally attractive, marketable assets when compared to the following segments.

Added Value: - More risky investments reflected in the potential for higher return by increasing property value.

Typical Property Characteristics: -

- single let, or multi let, with varying tenant covenants
- Opportunities to improve buildings.
- Fairly liquid in a stable market.
- Potentially vacant, partially vacant, or close to lease expiries, creating opportunities to make improvements.
- Opportunities to increase value could include physical improvements, such as refurbishment, or re-development, letting vacant space to stronger covenant tenants on more investor attractive terms, lowering operating expenses.

These properties carry more risk due to the property not operating to its full potential when acquired, commonly with less secure income. If the business plan to increase value does not succeed, a tenant fails, or vacates, there is potential for reduced return, or losses.

Opportunistic: - similar approach to value add, with additional risk due to property typically requiring substantive work to increase value.

Typical property characteristics: -

- Part of fully vacant when acquired.
- No income when acquired, with ongoing vacant running costs.
- Typically distressed property, requiring substantial investment.
- These properties are considered high risk, with failure of a business plan typically resulting in financial losses.

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

	%	
Core	65% (+/- 10%)	Modern, or extensively refurbished buildings, fully let on long leases to good covenant tenants in major core markets.
Value Add	Max 25% (+/- 10%)	Single or multi-let buildings, with various lease lengths and tenant covenants. Opportunity to add value.
Opportunistic	Max 10%	Higher risk assets that can be repurposed to generate income.

5. Purchase Guidelines

- ❖ Target area UK wide, with focus upon the South East. Where new acquisitions are PWLB funded, sites to be within the functional economic area.
- ❖ Commercial real estate.
- ❖ Freehold, or long leasehold nominal rent purchases. Forward funding, income strips and other financial models considered subject to individual business cases.

- ❖ Income producing properties, leased on conventional terms, secured against good covenant tenants.
- ❖ Value Add and Opportunistic acquisitions to have an outline business case and clearly identify economic social or environmental value added if returns do not meet the benchmarks above.

Property Investment Strategy – Property Investment Portfolio Management

6. Quarterly and Annual Review

To monitor performance and ensure proactive risk and opportunity management, the Quarterly review will consider:

- ❖ An update of quarterly rent performance, service charge and insurance collection and , arrears position.
- ❖ A review of retain, sale, repurpose or re-gear of each asset following on from the individual asset plan.
- ❖ Bi-annual valuations of the assets to look at portfolio total return.
- ❖ Advise on all critical lease matters including rent reviews, lease renewals, lease breaks and re-gearing opportunities.
- ❖ Upcoming cash flow issues and reactive asset management requirements, risk reporting from these.
- ❖ Tenant compliance with lease terms and any default, or issue.

The annual review will consider:

- ❖ Market update on activity and forecasts to identify any re-purposing of any asset(s).
- ❖ Ongoing review of the current investment strategy.
- ❖ An external market valuation of the portfolio to monitor and benchmark performance, meeting financial requirements.
- ❖ An updated three -year cash flow forecast.
- ❖ An update of three-year capital expenditure forecast.
- ❖ A review of retain, sale, repurpose or re-gear of each asset.
- ❖ Review of the previous year’s performance including any (Key Performance Indicators) KPIs.
- ❖ Review of the underlying lifecycle of the asset, holding period and refurbishment expectations.
- ❖ Rent collection rates, arrears and service charge reconciliation.
- ❖ Advise on all critical lease matters including rent reviews, lease renewals, lease breaks and re-gearing opportunities.
- ❖ Dilapidations, health and safety and insurance claims.
- ❖ Capital expenditure over the preceding 12-month period.

- ❖ Tenant covenant strength monitoring report.
- ❖ Tenant compliance with lease terms and any default, or issue.

7. Asset Management (on-going)

- ❖ Rent collection rates, arrears and service charge reconciliation.
- ❖ Advise on all critical lease matters including rent reviews, lease renewals, lease breaks and re-gearing opportunities.
- ❖ Driving asset management initiatives to deliver asset management plans
- ❖ Dilapidations, health and safety and insurance claims.
- ❖ Void and re-letting management.
- ❖ Capital expenditure over the preceding 12-month period.
- ❖ Tenant covenant strength monitoring report.
- ❖ Tenant compliance with lease terms and any default, or issue.

Appendix 2

Risk Matrix and SWOT example:

INVESTMENT PROPOSAL

Property Name/Location:
 vendor:
 tenure:
 Category:
 Price:
 Rent per annum:
 Rent Free:
 Initial Yield:
 VAV Election:
 EPC:
 Net Return After Borrowing

Criteria	Criteria Description	Comments	Weighting	Weighted Property Score	Excellent	Good	Acceptable	Marginal	Poor
Location: Macro	Quality of the location (town, city, area) with regard to the property use		3	0					
Location: Micro	Quality of the individual situation of the property within the macro location, with regard to the property use		3	0					
Building Quality	Quality of the building compared to the industry standard Grade A for the property type		3	0					
Tenant Covenant	Ability of the tenant/s to pay the rent for the duration of the lease. Credit rating of the tenant		3	0					
Tenure	Freehold / Long Leasehold. Consideration of any ground rent obligations		2	0					
Lease Term	Length of the secured income.		3	0					
Lease Structure	Tenant repairing obligations, rent review mechanisms		3	0					
Rental Growth Prospects	Opportunity / Likelihood to increase passing rent/ ERV		3	0					
Occupational Demand	Anticipated level of demand from alternative occupiers if the tenant/s were to vacate		3	0					
Management Intensity	Complexity and cost of managing the property		2	0					
Liquidity/Exit Strategy	The degree to which the property can be quickly sold in the market without affecting the price. Please provide specific commentary on exit strategy.		2	0					
Alternative Use / Underlying Value	The value of the land and the opportunity to explore a change of use should this be required		2	0					
Asset Management Opportunities	Opportunities to add value to the property		1	0					
Financial Return (risk v reward)	The forecast gross internal return considering the risk profile of the property and in accordance with the sector with a focus upon income v capital values at lease expiry		4	0					
Portfolio Strategy Context	The extent to which the property meets the strategy and contributes to the achievement of a diversified portfolio		3	0					
Weighted Score		A property will be expected to score at least 140 out of 200 (70%) on the above matrix unless there are other economic / wider benefits to be delivered.		0					

Investment Decision Guide for filling in matrix

example considerations

Criteria	Criteria Description	Maximum Weighted Score	Excellent	Good	Acceptable	Marginal	Poor
Scoring numerically between 1 and 5 as detailed in this guide							
SCORE TO APPLY TO EACH COLUMN		5	4	3	2	1	

Shading denotes client to fill in

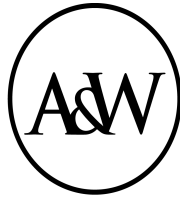
SCORING GUIDE

SCORING CONTROLS

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

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



ADUR & WORTHING COUNCILS

Ward(s) Affected: All

LGA Model Code of Conduct and arrangements for dealing with breaches of the Members' Code of Conduct

Report by the Monitoring Officer

Executive Summary

1.0 Purpose

- 1.1. Members of the Joint Governance Committee will recall on the 24th November last year, a report was presented giving an update on the progress of the work on the Committee on Standards in Public Life and the Local Government Association, following earlier consultation in July 2020, when Members of the Joint Governance Committee engaged in the consultation process.
- 1.2. This report seeks to provide Members of the Joint Governance Committee, with the outcome of the governance and ethics Joint Member Officer Working Group in relation to the Code of Conduct, a new procedure for assessing Code of Conduct Complaints, investigations and hearings procedure.
- 1.3. The Appendices attached to this report are:
 - Appendix 1 Local Government Association Model Code of Conduct
 - Appendix 2 Arrangements for dealing with Members' Code of Conduct Complaints, how to complain, the procedures For the initial assessment, dealing with investigations And the hearings procedure

2.0 Recommendations

- 2.1. Members of the Joint Governance Committee are asked to note the contents of this report and appendices.
- 2.2. The Joint Governance Committee is recommended to:
 - a. Agree the LGA Model Code of Conduct should be adopted as set out in Appendix 1
 - b. Agree the arrangements for dealing with Member Code of Conduct Complaints as indicated in Appendix 2,
 - c. That the Member Code of Conduct and arrangements for dealing with Code of Conduct complaints should be reviewed by the Monitoring Officer every two years including any related Policies
 - d. Agree to have two separate sub-committees for Adur & Worthing Councils
 - e. To decide on whether the word chairman needs to be changed as chair or chairperson.
- 2.3. Recommend to each Council to:
 - a. To adopt the LGA Model Code of Conduct; and
 - b. To accept the procedures set out in Appendices 2, 3 and 4;
 - c. Agree the Member Code of Conduct and arrangements for dealing with complaints under that Code should be reviewed by the Monitoring Officer, every two years including any related policies;
 - d. To have two separate sub-committees for Adur & Worthing Councils

3.0 SUMMARY

Background

- 3.1. All (elected and co-opted) Members of the Borough, District and Parish Councils are expected to uphold the highest standards of conduct as holders of public office, and at the very least uphold the Nolan 7 principles of selflessness, integrity, objectivity, accountability, openness, honesty and leadership.

- 3.2. S.28 of the Localism Act requires Councils to adopt a Code of Conduct for its Members. Furthermore, s. 28 (6) and s. 28 (7) of the Localism Act 2011 requires Councils to put in place “arrangements” to deal with allegations of misconduct in failing to comply with the Adopted Code of Conduct for Members.

The reports before the Joint Governance Committee

- 3.3. Members will recall various reports brought to them:
- **November 2019** - “Standards in Public Life” updating Members of the Joint Governance Committee with the work undertaken by the Committee on Standards in Public Life and their recommendations in respect of ethical standards, particularly creating an updated Model Code of Conduct by the Local Government Association, in consultation with the representative bodies of councillors and officers of all tiers of local government.
 - **July 2020** - Members of the Joint Governance Committee considered the draft Model Code of Conduct and engaged with the consultation process.
 - **24th November 2020** - Members of the Joint Governance Committee received a report from the Monitoring Officer updating the Committee on the progress of the work of the Committee on Standards in Public Life and the Local Government Association, setting out in some detail, the implications for the Councils of Adur and Worthing. As a result of that report it was recommended that a Joint Member Officer Working Group should be formed for the purpose of looking at the LGA Model Code of Conduct in more detail, with a view to reviewing the arrangements for dealing with Code of Conduct Complaints.

The Joint Member Officer Working Group

- 3.4. The Joint Member Officer Working Group has met four times. All three Independent Persons have participated in the meetings, along with the Members, the Monitoring Officer and the two deputy Monitoring Officers. All three Independent Persons have had the benefit of the Independent Persons Conference in early March, and observed a Code of conduct hearing following an investigation.

Deliberations of the Joint Working Group

3.5. A number of issues were raised during the work of the Member Officer Working Group and a consensus reached in respect of the following:

- The LGA Model Code of Conduct should be adopted - because essentially this has the fundamental aim to create and maintain public confidence in the role of the Member and local government.
- The Working Group felt the Model Code is more comprehensive and gave more clarity to certain conduct such as bullying, harassment and discrimination, making particular reference to the Equality Act 2010 which Members were keen to emphasise. Members discussed the need for examples, and wanted to include reference to unconscious bias. Members were referred to the ACAS provisions as suitable definitions for harassment and bullying.
- There is clarity as to confidentiality and access to information.
- The use of the first person made the Code of Conduct more personal to the Member.
- “Respect” was better defined in the Model Code of Conduct.
- When to speak and when not to participate in relation to disclosable pecuniary interests is clearer in the Model Code of Conduct. Members wanted to ensure the same approach is adopted in the Planning Protocol. The Monitoring Officer is to make the appropriate amendments where necessary.
- As a result of discussions within the Working Group, the Planning Protocol, Member Officer Relations Protocol, Social Media Policy and Licensing Procedure were examined. Members would like to see the Planning Protocol aligned with the new LGA Model Code of Conduct, and the Social Media Policy to be updated too, not least because it refers to the old Data Protection Act.
- The Social Media Policy to be updated and modernised, subject to the discussions between the Monitoring Officer and the Surveillance Inspector, in relation to the impending RIPA Inspection. The Monitoring Officer to amend as appropriate. Members were keen for there to be a clearer distinction between personal use and Member use, with examples where possible.

There was a particular concern regarding retweeting and sharing and whether this was an endorsement of a view or not. It was agreed the Monitoring Officer would seek out examples as to Member “Capacity” to give greater clarity to Members.

- Members, having examined the Protocol for Relationships Between Members and Officers, required slight tweaking to include the up-to-date GDPR as opposed to Data Protection, and clause 6.3 relating to bullying and/or intimidation required a fuller explanation and to include reference to the Equalities Act 2010. The Monitoring Officer to make the appropriate changes.
- As to the Licensing Committee, it was noted that Members had to be trained in the preceding two years before becoming Members of that Committee; and a party may be assisted or represented by their Ward Member, but Ward Member should take no part in the determination of the matter before the Licensing Committee.
- Members wanted greater clarity on “substitutions” particularly with regard to predetermination/bias/predisposition.
- Members are keen for Group Leaders to be told when a Code of Conduct complaint has been made against one of their Members. Provision has been made in the procedure.
- Members were concerned that the Member complained of, should have support throughout the process. This has been addressed in the procedure.
- Finally the Working Group went through all the 15 best practice recommendations in the guidance accompanying the Model Code of Conduct, and accepted all, but best practice no. 3. This states the Code of Conduct should be reviewed every year. The Working Group felt this was too onerous and agreed that the Code of Conduct should be reviewed every two years, unless an earlier review is required by the Monitoring Officer.
- Although the LGA Model Code of Conduct has been widely published and consulted upon, Members were of the opinion the Code of Conduct should be included on the Councils’ websites once the Joint Governance Committee has approved the Code, and to be published in the local newspapers prior to adoption by the two Councils; the Monitoring Officer/Democratic Services Manager to liaise with the Communications Team in this regard.

Matters of principle

- 3.6. As a matter of principle, the Working Group were of the opinion that the Code of Conduct Complaints should be dealt with locally, wherever possible, namely, by the Monitoring Officer in consultation with one of the Independent Persons to have a local resolution.
- 3.7. The Working Group felt that the current role of the Monitoring Officer feels like one of prosecutor. The current procedure for dealing with Code of Conduct complaints is complex and difficult to follow. It was essential to have a new procedure that was much simpler to follow.
- 3.8. That trivial, vexatious, politically motivated, “tit for tat” matters, or not in the public interest, will not be investigated, nor even reported. Nor matters which took place more than 6 months (unless there are exceptional circumstances) The Monitoring Officer to dismiss these, if appropriate, at an early stage, in consultation with one of the Independent Persons. However, the Members felt that it was important for such matters to be recorded in case a pattern emerged and which can be used as evidence for vexatious or bullying behaviour. Members preferred a much lighter and swifter touch, hence why they preferred the Model Code of Conduct in this respect.
- 3.9. Members were keen for genuine complaints to be resolved quickly, and to put time limits in the new procedure, within reason.
- 3.10. Members are aware the Model Code of Conduct refers to “Councillor”. The definition in the Model Code of Conduct states that “Councillor” means a Member or Co-opted Member of a Local Authority.
- 3.11. Members are keen for the arrangements for dealing with Code of Conduct Complaints should be easily sign-posted on the Website with an indication of the roles of the Monitoring Officer in relation to the Code of Conduct, the Independent Person and the Investigator.
- 3.12. There was a strong feeling that a sub-committee should be set up for each Council dealing with their own Members’ Code of Conduct Complaints, because they felt Members should be judged “by their own peers”. The Monitoring Officer and the Democratic Services Manager to create two separate sub-committees for this purpose.

3.13. The arrangements for dealing with the Members Code of Conduct is set out in Appendix 2, which have been simplified with the use of flowcharts. The Appendix 2 deals with how to deal with the Code of Conduct Complaints, the initial assessment by the Monitoring Officer in consultation with the Independent Person, the procedure when the complaint is referred for investigation and the Hearings procedure, including any sanctions to be imposed.

3.14 Members were divided about the name/description of the person presiding over the meetings. Discussions took place as to whether the Word “Chairman” was still appropriate. There were differing views as to whether the new terminology should include “Chair” or “Chairperson” but No consensus was reached.

4.0 Engagement and Communication

4.1. The LGA have already consulted widely with Officers, Members and others before producing the Model Code of Conduct issued on the 23rd December 2020

4.2. The Joint Member Officer Working Group are of the opinion the Code of Conduct, once approved by the Joint Governance Committee, should be placed on the Councils’ website for any comments, and in the local press subject to consultation with the Communications Officer of the Councils.

5.0 Financial Implications

5.1. There are no financial implications arising from this report

6.0 Legal Implications

6.1. S. 28 of the Localism Act requires Councils to adopt a Code of Conduct for its Members.

6.2. s. 28 (6) and s. 28 (7) of the Localism Act 2011 requires Councils to put in place “arrangements” to deal with allegations of misconduct in failing to comply with the Adopted Code of Conduct for Members.

Appendix 1 Local Government Association Model Code of Conduct, as slightly amended by referring to “Member” as opposed to “Councillor” for consistency of the Code of Conduct purposes and review bi-annually instead of annually.

Appendix 2 Arrangements for Member Code of Conduct Complaints, covering how to complain, the initial assessment process, and Investigations and Hearings Procedure

Officer Contact Details:-

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Monitoring Officer and Head of Legal Services

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Sustainability & Risk Assessment

1. Economic

Matter considered and no issues identified.

2. Social

2.1 Social Value

Matter considered and no issues identified.

2.2 Equality Issues

Matter considered and no issues identified.

2.3 Community Safety Issues (Section 17)

Matter considered and no issues identified.

2.4 Human Rights Issues

Any hearing before the Standards Sub-Committee would be based on the principles of natural justice and comply with the Human Rights legislation, particularly the right to a fair hearing.

3. Environmental

Matter considered and no issues identified.

4. Governance

Failure to uphold high standards of conduct and ethics amongst Members and/or to fail to deal with allegations of misconduct can lead to reputational damage and a lack of confidence in the democratic process.

Local Government Association

Model Councillor Code of Conduct 2020

NB: The Model Code for Adur & Worthing Councils will be based on this Code and all references to “Councillor” have been changed to “Member” throughout

Joint statement

The role of Member across all tiers of local government is a vital part of our country’s system of democracy. It is important that as Members we can be held accountable and all adopt the behaviors and responsibilities associated with the role. Our conduct as an individual Member affects the reputation of all Members. We want the role of Member to be one that people aspire to. We also want individuals from a range of backgrounds and circumstances to be putting themselves forward to become Members.

As Members, we represent local residents, work to develop better services and deliver local change. The public have high expectations of us and entrust us to represent our local area; taking decisions fairly, openly, and transparently. We have both an individual and collective responsibility to meet these expectations by maintaining high standards and demonstrating good conduct, and by challenging behaviour which falls below expectations.

Importantly, we should be able to undertake our role as a Member without being intimidated, abused, bullied or threatened by anyone, including the general public.

This Code has been designed to protect our democratic role, encourage good conduct and safeguard the public’s trust in local government.

Introduction

The Local Government Association (LGA) has developed this Model Councillor Code of Conduct, in association with key partners and after extensive consultation with the sector, as part of its work on supporting all tiers of local government to continue to aspire to high standards of leadership and performance. It is a template for councils to adopt in whole and/or with local amendments.

All councils are required to have a local Member Code of Conduct.

The LGA will undertake an annual review of this Code to ensure it continues to be fit-for-purpose, incorporating advances in technology, social media and changes in legislation. The LGA can also offer support, training and mediation to councils and Members on the application of the Code and the National Association of Local Councils (NALC) and the county associations of local councils can offer advice and support to town and parish councils.

Definitions

For the purposes of this Code of Conduct, a “Member” means a member or co-opted member of a local authority or a directly elected mayor. A “co-opted member” is defined in the Localism Act 2011 Section 27(4) as “a person who is not a member of the authority but who

- a) is a member of any committee or sub-committee of the authority, or;
- b) is a member of, and represents the authority on, any joint committee or joint sub-committee of the authority;

and who is entitled to vote on any question that falls to be decided at any meeting of that committee or sub-committee”.

For the purposes of this Code of Conduct, “local authority” includes county councils, district councils, London borough councils, parish councils, town councils, fire and rescue authorities, police authorities, joint authorities, economic prosperity boards, combined authorities and National Park authorities.

Purpose of the Code of Conduct

The purpose of this Code of Conduct is to assist you, as a Member, in modelling the behaviour that is expected of you, to provide a personal check and balance, and to set out the type of conduct that could lead to action being taken against you. It is also to protect you, the public, fellow Members, local authority officers and the reputation of local government. It sets out general principles of conduct expected of all Members and your specific obligations in relation to standards of conduct. The LGA encourages the use of support, training and mediation prior to action being taken using the Code. The fundamental aim of the Code is to create and maintain public confidence in the role of Member and local government.

General principles of Member conduct

Everyone in public office at all levels; all who serve the public or deliver public services, including ministers, civil servants, Members and local authority officers; should uphold the [Seven Principles of Public Life](#), also known as the Nolan Principles.

Building on these principles, the following general principles have been developed specifically for the role of Member.

In accordance with the public trust placed in me, on all occasions:

- I act with integrity and honesty
- I act lawfully
- I treat all persons fairly and with respect; and
- I lead by example and act in a way that secures public confidence in the role of Member.

In undertaking my role:

- I impartially exercise my responsibilities in the interests of the local community
- I do not improperly seek to confer an advantage, or disadvantage, on any person
- I avoid conflicts of interest
- I exercise reasonable care and diligence; and
- I ensure that public resources are used prudently in accordance with my local authority's requirements and in the public interest.

Application of the Code of Conduct

This Code of Conduct applies to you as soon as you sign your declaration of acceptance of the office of Member or attend your first meeting as a co-opted member and continues to apply to you until you cease to be a Member.

This Code of Conduct applies to you when you are acting in your capacity as a Member which may include when:

- you misuse your position as a Member
- Your actions would give the impression to a reasonable member of the public with knowledge of all the facts that you are acting as a Member;

The Code applies to all forms of communication and interaction, including:

- at face-to-face meetings
- at online or telephone meetings
- in written communication
- in verbal communication
- in non-verbal communication
- in electronic and social media communication, posts, statements and comments.

You are also expected to uphold high standards of conduct and show leadership at all times when acting as a Member.

Your Monitoring Officer has statutory responsibility for the implementation of the Code of Conduct, and you are encouraged to seek advice from your Monitoring Officer on any matters that may relate to the Code of Conduct. Town and parish Members are encouraged to seek advice from their Clerk, who may refer matters to the Monitoring Officer.

Standards of Member conduct

This section sets out your obligations, which are the minimum standards of conduct required of you as a Member. Should your conduct fall short of these standards, a complaint may be made against you, which may result in action being taken.

Guidance is included to help explain the reasons for the obligations and how they should be followed.

General Conduct

1. Respect

As a Member:

1.1 I treat other Members and members of the public with respect.

1.2 I treat local authority employees, employees and representatives of partner organisations and those volunteering for the local authority with respect and respect the role they play.

Respect means politeness and courtesy in behaviour, speech, and in the written word. Debate and having different views are all part of a healthy democracy. As a Member, you can express, challenge, criticise and disagree with views, ideas, opinions and policies in a robust but civil manner. You should not, however, subject individuals, groups of people or organisations to personal attack.

In your contact with the public, you should treat them politely and courteously. Rude and offensive behaviour lowers the public's expectations and confidence in Members.

In return, you have a right to expect respectful behaviour from the public. If members of the public are being abusive, intimidating or threatening you are entitled to stop any conversation or interaction in person or online and report them to the local authority, the relevant social media provider or the police. This also applies to fellow Members, where action could then be taken under the Member Code of Conduct, and local authority employees, where concerns should be raised in line with the local authority's Member-Officer protocol.

2. Bullying, harassment and discrimination

As a Member:

2.1 I do not bully any person.

2.2 I do not harass any person.

2.3 I promote equalities and do not discriminate unlawfully against any person.

The Advisory, Conciliation and Arbitration Service (ACAS) characterises bullying as offensive, intimidating, malicious or insulting behaviour, an abuse or misuse of power through means that undermine, humiliate, denigrate or injure the recipient. Bullying might be a regular pattern of behaviour or a one-off incident, happen face-to-face, on social media, in emails or phone calls, happen in the workplace or at work social events and may not always be obvious or noticed by others.

The Protection from Harassment Act 1997 defines harassment as conduct that causes alarm or distress or puts people in fear of violence and must involve such conduct on at least two occasions. It can include repeated attempts to impose unwanted communications and contact upon a person in a manner that could be expected to cause distress or fear in any reasonable person.

Unlawful discrimination is where someone is treated unfairly because of a protected characteristic. Protected characteristics are specific aspects of a person's identity defined by the Equality Act 2010. They are age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation.

The Equality Act 2010 places specific duties on local authorities. Members have a central role to play in ensuring that equality issues are integral to the local authority's performance and strategic aims, and that there is a strong vision and public commitment to equality across public services.

3. Impartiality of officers of the council

As a Member:

3.1 I do not compromise, or attempt to compromise, the impartiality of anyone who works for, or on behalf of, the local authority.

Officers work for the local authority as a whole and must be politically neutral (unless they are political assistants). They should not be coerced or persuaded to act in a way that would undermine their neutrality. You can question officers in order to understand, for example, their reasons for proposing to act in a particular way, or the content of a report that they have written. However, you must not try and force them to act differently, change their advice, or alter the content of that report, if doing so would prejudice their professional integrity.

4. Confidentiality and access to information

As a Member:

4.1 I do not disclose information:

- a. given to me in confidence by anyone**
- b. acquired by me which I believe, or ought reasonably to be aware, is of a confidential nature, unless**
 - i. I have received the consent of a person authorised to give it;**
 - ii. I am required by law to do so;**
 - iii. the disclosure is made to a third party for the purpose of obtaining professional legal advice provided that the third party agrees not to disclose the information to any other person; or**
 - iv. the disclosure is:**
 - 1. reasonable and in the public interest; and**
 - 2. made in good faith and in compliance with the reasonable requirements of the local authority; and**
 - 3. I have consulted the Monitoring Officer prior to its release.**

4.2 I do not improperly use knowledge gained solely as a result of my role as a Member for the advancement of myself, my friends, my family members, my employer or my business interests.

4.3 I do not prevent anyone from getting information that they are entitled to by law.

Local authorities must work openly and transparently, and their proceedings and printed materials are open to the public, except in certain legally defined circumstances. You should work on this basis, but there will be times when it is required by law that discussions, documents and other information relating to or held by the local authority must be treated in a confidential manner. Examples include personal data relating to individuals or information relating to ongoing negotiations.

5. Disrepute

As a Member:

5.1 I do not bring my role or local authority into disrepute.

As a Member, you are trusted to make decisions on behalf of your community and your actions and behaviour are subject to greater scrutiny than that of ordinary members of the public. You should be aware that your actions might have an adverse impact on you, other Members and/or your local authority and may lower the public's confidence in you or your local authority's ability to discharge your/it's functions. For example, behaviour that is considered dishonest and/or deceitful can bring your local authority into disrepute.

You are able to hold the local authority and fellow Members to account and are able to constructively challenge and express concern about decisions and processes undertaken by the council whilst continuing to adhere to other aspects of this Code of Conduct.

6. Use of position

As a Member:

6.1 I do not use, or attempt to use, my position improperly to the advantage or disadvantage of myself or anyone else.

Your position as a member of the local authority provides you with certain opportunities, responsibilities and privileges, and you make choices all the time that will impact others. However, you should not take advantage of these opportunities to further your own or others' private interests or to disadvantage anyone unfairly.

7. Use of local authority resources and facilities

As a Member:

7.1 I do not misuse council resources.

7.2 I will, when using the resources of the local or authorising their use by others:

- a. act in accordance with the local authority's requirements; and**
- b. ensure that such resources are not used for political purposes unless that use could reasonably be regarded as likely to facilitate, or be conducive to, the discharge of the functions of the local authority or of the office to which I have been elected or appointed.**

You may be provided with resources and facilities by the local authority to assist you in carrying out your duties as a Member.

Examples include:

- office support
- stationery
- equipment such as phones, and computers
- transport
- access and use of local authority buildings and rooms.

These are given to you to help you carry out your role as a Member more effectively and are not to be used for business or personal gain. They should be used in accordance with the purpose for which they have been provided and the local authority's own policies regarding their use.

8 . Complying with the Code of Conduct

As a Member:

- 8.1 I undertake Code of Conduct training provided by my local authority.**
- 8.2 I cooperate with any Code of Conduct investigation and/or determination.**
- 8.3 I do not intimidate or attempt to intimidate any person who is likely to be involved with the administration of any investigation or proceedings.**
- 8.4 I comply with any sanction imposed on me following a finding that I have breached the Code of Conduct.**

It is extremely important for you as a Member to demonstrate high standards, for you to have your actions open to scrutiny and for you not to undermine public trust in the local authority or its governance. If you do not understand or are concerned about the local authority's processes in handling a complaint you should raise this with your Monitoring Officer.

Protecting your reputation and the reputation of the local authority

9 . Interests

As a Member:

- 9.1 I register and disclose my interests.**

Section 29 of the Localism Act 2011 requires the Monitoring Officer to establish and maintain a register of interests of members of the authority.

You need to register your interests so that the public, local authority employees and fellow Members know which of your interests might give rise to a conflict of interest. The register is a public document that can be consulted when (or before) an issue arises. The register also protects you by allowing you to demonstrate openness and a willingness to be held accountable. You are personally responsible for deciding whether or not you should disclose an interest in a meeting, but it can be helpful for you to know early on if others think that a potential conflict might arise. It is also important that the public know about any interest that might have to be disclosed by you or other Members when making or taking part in decisions, so that decision making is seen by the public as open and honest. This helps to ensure that public confidence in the integrity of local governance is maintained.

You should note that failure to register or disclose a disclosable pecuniary interest as set out in Table 1, is a criminal offence under the Localism Act 2011.

Appendix B sets out the detailed provisions on registering and disclosing interests. If in doubt, you should always seek advice from your Monitoring Officer.

10. Gifts and hospitality

As a Member:

- 10.1 I do not accept gifts or hospitality, irrespective of estimated value, which could give rise to real or substantive personal gain or a reasonable suspicion of influence on my part to show favour from persons seeking to acquire, develop or do business with the local authority or from persons who may apply to the local authority for any permission, licence or other significant advantage.**
- 10.2 I register with the Monitoring Officer any gift or hospitality with an estimated value of at least £50 within 28 days of its receipt.**
- 10.3 I register with the Monitoring Officer any significant gift or hospitality that I have been offered but have refused to accept.**

In order to protect your position and the reputation of the local authority, you should exercise caution in accepting any gifts or hospitality which are (or which you reasonably believe to be) offered to you because you are a Member. The presumption should always be not to accept significant gifts or hospitality. However, there may be times when such a refusal may be difficult if it is seen as rudeness in which case you could accept it but must ensure it is publicly registered. However, you do not need to register gifts and hospitality which are not related to your role as a Member, such as Christmas gifts from your friends and family. It is also important to note that it is appropriate to accept normal expenses and hospitality associated with your duties as a Member. If you are unsure, do contact your Monitoring Officer for guidance.

Appendices

Appendix A – The Seven Principles of Public Life

The principles are:

Selflessness

Holders of public office should act solely in terms of the public interest.

Integrity

Holders of public office must avoid placing themselves under any obligation to people or organisations that might try inappropriately to influence them in their work. They should not act or take decisions in order to gain financial or other material benefits for themselves, their family, or their friends. They must disclose and resolve any interests and relationships.

Objectivity

Holders of public office must act and take decisions impartially, fairly and on merit, using the best evidence and without discrimination or bias.

Accountability

Holders of public office are accountable to the public for their decisions and actions and must submit themselves to the scrutiny necessary to ensure this.

Openness

Holders of public office should act and take decisions in an open and transparent manner. Information should not be withheld from the public unless there are clear and lawful reasons for so doing.

Honesty

Holders of public office should be truthful.

Leadership

Holders of public office should exhibit these principles in their own behaviour. They should actively promote and robustly support the principles and be willing to challenge poor behaviour wherever it occurs.

Appendix B

Registering interests

Within 28 days of becoming a member or your re-election or re-appointment to office you must register with the Monitoring Officer the interests which fall within the categories set out in **Table 1 (Disclosable Pecuniary Interests)** which are as described in "The Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012". You should also register details of your other personal interests which fall within the categories set out in **Table 2 (Other Registerable Interests)**.

"Disclosable pecuniary interest" means an interest of yourself, or of your partner if you are aware of your partner's interest, within the descriptions set out in Table 1 below.

"Partner" means a spouse or civil partner, or a person with whom you are living as husband or wife, or a person with whom you are living as if you are civil partners.

1. You must ensure that your register of interests is kept up-to-date and within 28 days of becoming aware of any new interest, or of any change to a registered interest, notify the Monitoring Officer.
2. A 'sensitive interest' is as an interest which, if disclosed, could lead to the Member, or a person connected with the Member, being subject to violence or intimidation.
3. Where you have a 'sensitive interest' you must notify the Monitoring Officer with the reasons why you believe it is a sensitive interest. If the Monitoring Officer agrees they will withhold the interest from the public register.

Non participation in case of disclosable pecuniary interest

4. Where a matter arises at a meeting which directly relates to one of your Disclosable Pecuniary Interests as set out in **Table 1**, you must disclose the interest, not participate in any discussion or vote on the matter and must not remain in the room unless you have been granted a dispensation. If it is a 'sensitive interest', you do not have to disclose the nature of the interest, just that you have an interest. Dispensation may be granted in limited circumstances, to enable you to participate and vote on a matter in which you have a disclosable pecuniary interest.
5. Where you have a disclosable pecuniary interest on a matter to be considered or is being considered by you as a Cabinet member in exercise of your executive function, you must notify the Monitoring Officer of the interest and must not take any steps or further steps in the matter apart from arranging for someone else to deal with it

Disclosure of Other Registerable Interests

6. Where a matter arises at a meeting which **directly relates** to one of your Other Registerable Interests (as set out in Table 2), you must disclose the interest. You may speak on the matter only if members of the public are also allowed to speak at the meeting but otherwise must not take part in any discussion or vote on the matter and must not remain in the room unless you have been granted a dispensation. If it

is a 'sensitive interest', you do not have to disclose the nature of the interest.

Disclosure of Non-Registerable Interests

7. Where a matter arises at a meeting which **directly relates** to your financial interest or well-being (and is not a Disclosable Pecuniary Interest set out in Table 1) or a financial interest or well-being of a relative or close associate, you must disclose the interest. You may speak on the matter only if members of the public are also allowed to speak at the meeting but otherwise must not take part in any discussion or vote on the matter and must not remain in the room unless you have been granted a dispensation. If it is a 'sensitive interest', you do not have to disclose the nature of the interest.
8. Where a matter arises at a meeting which **affects** –
 - a. your own financial interest or well-being;
 - b. a financial interest or well-being of a friend, relative, close associate; or
 - c. a body included in those you need to disclose under Disclosable Pecuniary Interests as set out in **Table 1**

you must disclose the interest. In order to determine whether you can remain in the meeting after disclosing your interest the following test should be applied

9. Where a matter **affects** your financial interest or well-being:
 - a. to a greater extent than it affects the financial interests of the majority of inhabitants of the ward affected by the decision and;
 - b. a reasonable member of the public knowing all the facts would believe that it would affect your view of the wider public interest

You may speak on the matter only if members of the public are also allowed to speak at the meeting but otherwise must not take part in any discussion or vote on the matter and must not remain in the room unless you have been granted a dispensation.

If it is a 'sensitive interest', you do not have to disclose the nature of the interest.

10. Where you have a personal interest in any business of your authority and you have made an executive decision in relation to that business, you must make sure that any written statement of that decision records the existence and nature of your interest.

Table 1: Disclosable Pecuniary Interests

This table sets out the explanation of Disclosable Pecuniary Interests as set out in the [Relevant Authorities \(Disclosable Pecuniary Interests\) Regulations 2012](#).

Subject	Description
Employment, office, trade, profession or vocation	Any employment, office, trade, profession or vocation carried on for profit or gain. [Any unpaid directorship.]
Sponsorship	Any payment or provision of any other financial benefit (other than from the council) made to the Member during the previous 12-month period for expenses incurred by him/her in carrying out his/her duties as a Member, or towards his/her election expenses. This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.
Contracts	Any contract made between the Member or his/her spouse or civil partner or the person with whom the

	<p>Member is living as if they were spouses/civil partners (or a firm in which such person is a partner, or an incorporated body of which such person is a director* or a body that such person has a beneficial interest in the securities of*) and the council —</p> <p>(a) under which goods or services are to be provided or works are to be executed; and</p> <p>(b) which has not been fully discharged.</p>
Land and Property	<p>Any beneficial interest in land which is within the area of the council.</p> <p>‘Land’ excludes an easement, servitude, interest or right in or over land which does not give the Member or his/her spouse or civil partner or the person with whom the Member is living as if they were spouses/ civil partners (alone or jointly with another) a right to occupy or to receive income.</p>
Licenses	<p>Any licence (alone or jointly with others) to occupy land in the area of the council for a month or longer</p>
Corporate tenancies	<p>Any tenancy where (to the Member’s knowledge)—</p> <p>(a) the landlord is the council; and</p> <p>(b) the tenant is a body that the Member, or his/her spouse or civil partner or the person with whom the Member is living as if they were spouses/ civil partners is a partner of or a director* of or has a beneficial interest in the securities* of.</p>
Securities	<p>Any beneficial interest in securities* of a body where—</p> <p>(a) that body (to the Member’s knowledge) has a place of business or land in the area of the council; and</p> <p>(b) either—</p> <p>(i)) the total nominal value of the securities* exceeds £25,000 or one hundredth of the total issued share capital of that body; or</p> <p>(ii) if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which the Member, or his/ her spouse or civil partner or the person with whom the Member is living as if they were</p>

	spouses/civil partners has a beneficial interest exceeds one hundredth of the total issued share capital of that class.
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* 'director' includes a member of the committee of management of an industrial and provident society.

* 'securities' means shares, debentures, debenture stock, loan stock, bonds, units of a collective investment scheme within the meaning of the Financial Services and Markets Act 2000 and other securities of any description, other than money deposited with a building society.

Table 2: Other Registerable Interests

<p>You have a personal interest in any business of your authority where it relates to or is likely to affect:</p> <ul style="list-style-type: none"> a) any body of which you are in general control or management and to which you are nominated or appointed by your authority b) any body <ul style="list-style-type: none"> (i) exercising functions of a public nature (ii) any body directed to charitable purposes or (iii) one of whose principal purposes includes the influence of public opinion or policy (including any political party or trade union)
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Appendix C – the Committee on Standards in Public Life

The LGA has undertaken this review whilst the Government continues to consider the recommendations made by the Committee on Standards in Public Life in their report on [Local Government Ethical Standards](#). If the Government chooses to implement any of the recommendations, this could require a change to this Code.

The recommendations cover:

- Recommendations for changes to the Localism Act 2011 to clarify in law when the Code of Conduct applies
- The introduction of sanctions
- An appeals process through the Local Government Ombudsman
- Changes to the Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012
- Updates to the Local Government Transparency Code
- Changes to the role and responsibilities of the Independent Person
- That the criminal offences in the Localism Act 2011 relating to Disclosable Pecuniary Interests should be abolished

The Local Government Ethical Standards report also includes Best Practice recommendations. These are:

Best practice 1: Local authorities should include prohibitions on bullying and harassment in codes of conduct. These should include a definition of bullying and harassment, supplemented with a list of examples of the sort of behaviour covered by such a definition.

Best practice 2: Councils should include provisions in their code of conduct requiring Members to comply with any formal standards investigation and prohibiting trivial or malicious allegations by Members.

Best practice 3: Principal authorities should review their code of conduct each year and regularly seek, where possible, the views of the public, community organisations and neighbouring authorities.

NB: The Councils' Working Group has agreed to renew every two years unless an earlier review is requested by the Monitoring Officer.

Best practice 4: An authority's code should be readily accessible to both Members and the public, in a prominent position on a council's website and available in council premises.

Best practice 5: Local authorities should update their gifts and hospitality register at least once per quarter, and publish it in an accessible format, such as CSV.

Best practice 6: Councils should publish a clear and straightforward public interest test against which allegations are filtered.

Best practice 7: Local authorities should have access to at least two Independent Persons.

Best practice 8: An Independent Person should be consulted as to whether to undertake a formal investigation on an allegation, and should be given the option to

review and comment on allegations which the responsible officer is minded to dismiss as being without merit, vexatious, or trivial.

Best practice 9: Where a local authority makes a decision on an allegation of misconduct following a formal investigation, a decision notice should be published as soon as possible on its website, including a brief statement of facts, the provisions of the code engaged by the allegations, the view of the Independent Person, the reasoning of the decision-maker, and any sanction applied.

Best practice 10: A local authority should have straightforward and accessible guidance on its website on how to make a complaint under the code of conduct, the process for handling complaints, and estimated timescales for investigations and outcomes.

Best practice 11: Formal standards complaints about the conduct of a parish Member towards a clerk should be made by the chair or by the parish council, rather than the clerk in all but exceptional circumstances.

Best practice 12: Monitoring Officers' roles should include providing advice, support and management of investigations and adjudications on alleged breaches to parish councils within the remit of the principal authority. They should be provided with adequate training, corporate support and resources to undertake this work.

Best practice 13: A local authority should have procedures in place to address any conflicts of interest when undertaking a standards investigation. Possible steps should include asking the Monitoring Officer from a different authority to undertake the investigation.

Best practice 14: Councils should report on separate bodies they have set up or which they own as part of their annual governance statement and give a full picture of their relationship with those bodies. Separate bodies created by local authorities should abide by the Nolan principle of openness and publish their board agendas and minutes and annual reports in an accessible place.

Best practice 15: Senior officers should meet regularly with political group leaders or group whips to discuss standards issues.

Procedure for Assessment, Investigation and hearings of Complaints that Councillors have breached the Adur District Council / Worthing Borough Council Code of Conduct for Members

1. Introduction

This procedure is only to be used for the assessment and investigation of complaints of alleged failures by Members to comply with the Council's Code of Conduct for Members.

2. Making a complaint

Complaints should be made in writing to the Monitoring Officer.

3. Initial assessment of complaint

On receipt of a complaint, the Monitoring Officer will notify the Subject Member that a complaint has been received (unless the Monitoring Officer considers that it would be contrary to the public interest or would prejudice the consideration of the complaint to do so).

The Monitoring Officer will make an initial assessment of the complaint within 20 working days of receipt of all relevant information to enable an initial assessment to be made. In making an initial assessment, the Monitoring Officer shall consult with an Independent Person, and inform the Group Leader.

Having carried out an initial assessment of a complaint, the Monitoring Officer will decide on one of the following courses of action:

- Decide to take no action
- Decide that the Monitoring Officer shall resolve the complaint informally
- Decide to refer the complaint for investigation

4. Decision to take no action

Where the Monitoring Officer decides to take no further action in respect of the complaint, the Complainant and the Subject Member shall be advised of that decision in writing. The Monitoring officer may decide to take no action if for example, the Code of Conduct was not engaged (The Member was not acting as a Member at the time of the alleged breach of Conduct took place), or where matter took place more than six months ago (except in exceptional circumstances, or where the allegations are anonymous, or the complaint appears to be malicious, vexatious, politically motivated, tit for tat, or is so minor, that there is no overriding public benefit in carrying out an investigation. Also whilst framed as a code of conduct matter, a challenge to an expression of fact or opinion made during a debate at a council meeting or is fundamentally a challenge to the underlying merits of a Council determination (e.g. a planning application). These are just some examples, but the list is not exhaustive. The Monitoring Officer in consultation with the Independent Person may decide that a complaint does not merit further consideration for any other reason which appears to them to be relevant.

Parish Council Members

If you are a Parish Council Member and the subject Member (or one of them) is a Member of the same Parish Council, the Monitoring Officer may, in consultation with the Independent Person, refer the entire complaint to the Sussex Association of Local Councils (SALC) if appropriate. SALC will appoint a Panel to hear your complaint and decide whether it is sufficiently serious to be put through the procedure set out below or whether it should be settled in some other way within the Parish Council.

Where the Monitoring Officer has taken the decision that the complaint does not merit further consideration or is to be referred to SALC, if appropriate, for mediation/conciliation the Monitoring Officer will inform the Complainant of that decision and the reasons for that decision.

In the alternative, any formal complaints about the conduct of a Parish Council member towards a clerk should be made by the chair or by the parish council as a whole, rather than the clerk in all but exceptional circumstances.

5. Decision to resolve complaint informally

Where the Monitoring Officer decides to resolve the complaint informally, the Complainant and the Subject Member shall be advised of that decision in writing. In deciding to resolve the complaint informally, the Monitoring Officer may pursue any of the following courses of action:

- Provide further training and guidance to the Subject Member
- Mediate between the Complainant and the Subject Member
- Require the Subject Member to write a personal apology to the Complainant
- Write an advisory letter to the Member

or such other action agreed between the Monitoring Officer and the Independent Person

If informal resolution is able to resolve the complaint, then no further action is required.

Where informal resolution does not resolve the complaint, the Monitoring Officer may, following consultation with the Independent Person, decide to refer the complaint for investigation.

6. Decision to investigate complaint

Where the Monitoring Officer decides to refer the complaint for investigation, the Complainant and the Subject Member shall be advised of that decision in writing. The Monitoring Officer shall also advise the Chairman Joint Governance Committee that a complaint has been referred for investigation.

Where the Monitoring Officer decides to refer the complaint for investigation, the Subject Member shall be provided with the details of an Independent Person should they require guidance on the process for investigation of the complaint. The Independent Person shall be a different Independent Person to the one that the Monitoring Officer has previously consulted with.

Within 14 days of deciding to refer the complaint for investigation, the Monitoring Officer shall appoint an Investigating Officer to investigate the complaint. The Investigating Officer may be an officer of the Council, an officer of another local authority, or an external person.

7. Investigation of complaint

The Investigating Officer shall be instructed to investigate the complaint and to report to the Monitoring Officer. The Investigating Officer shall carry out an investigation. The purpose of the investigation is to establish the facts of the case and to form a view on whether there has been a breach of the Members Code of Conduct.

The Complainant and the Subject Member shall cooperate fully with the Investigating Officer, including attending any meetings or interviews and providing all relevant information and documents to the Investigating Officer.

The Subject Member may be accompanied by a friend or an adviser when attending any meeting or interview as part of the investigation of the complaint.

The Investigating Officer may pursue any of the following actions as part of the investigation:

- Interviewing the Complainant
- Interviewing the Subject Member
- Interviewing other relevant witnesses
- Requesting copies of any documents relevant to the investigation

The Investigating Officer shall produce a draft report of their findings and send a copy to the Monitoring Officer, the Complainant and the Subject Member. The Investigating Officer shall allow 14 days for comments on the draft report and shall take any comments into consideration when producing the final report.

If during the course of the investigation, the Investigating Officer identifies other breaches of the Code of Conduct the Monitoring Officer shall be advised accordingly.

The Investigating Officer shall endeavour to complete the investigation within 2 months of appointment.

The Investigating Officer shall send a copy of the final report to the Monitoring Officer. The report shall include copies of any statements or documents obtained during the course of the investigation.

8. Post investigation procedures

Where the Investigating Officer concludes that there has not been a breach of the Code of Conduct, the Monitoring Officer shall take no further action and the Complainant and the Subject Member shall be advised of that decision in writing.

Where the Investigating Officer concludes that there has been a breach of the Code of Conduct, the Monitoring Officer shall refer the report to the Hearings Sub-Committee for consideration.

9. Hearings Sub-Committee

Where a Hearings Sub-Committee is required the procedure for the hearing set out in the Appendix to this procedure shall apply.

The Hearings Sub-Committee shall have the power to decide whether or not to impose a sanction where there has been a finding of a breach of the Code of Conduct for Members.

The Hearings Sub-Committee may decide not to impose a sanction or it may impose one or more of the following sanctions:

- The Monitoring Officer to send a formal letter to the Subject Member
- The Subject Member to make a public apology at Full Council. In the event of an apology not being made, the Subject Member may be censured at a meeting of the Full Council.
- The Monitoring Officer to provide further training and guidance to the Subject Councillor.
- The Subject Member to write a personal apology to the Complainant.
- A recommendation to the relevant Group Leader that the Subject Member should not sit on a particular Committee (or Sub-Committee or Working Group) for a period of time and for the relevant Group Leader to appoint a temporary replacement to the relevant committee.

The Hearings Sub-committee will have the benefit of any advice from the Independent Person.

Appendix

Hearings Sub-Committee procedure

1. Terms of Reference

The Hearings Sub-Committee is responsible for considering reports of an investigating Officer into complaints that there has been a breach of the The Council's Code of Conduct. The hearing shall be conducted in public whenever possible, unless circumstances require the hearing to be in private, such as personal details, or not in the public interest.

Membership

A Hearings Sub-Committee shall consist of three District / Borough Councillors (wherever possible from different political groups). The Hearings Sub-Committee shall be advised by the Monitoring Officer, who will be accompanied by the Independent Person. The Independent Person will be present to give independent advice to the Monitoring Officer, or to the sub-committee.

2. Procedure

Pre-hearing process

The Monitoring Officer will liaise with Democratic Services to arrange for the Hearing sub-committee to meet to hear the complaint within three months of receiving the Investigating Officer's report. Sufficient notice will be given to all parties to the Sub-committee hearing regarding the date fixed for the hearing.

The Monitoring Officer will require the subject Member to give their response to the Investigating Officer's report as to what facts are agreed or facts likely to be in contention at the Hearing Sub-committee

If the subject Member wishes to rely on evidence at the Hearing sub-committee, then that information should be provided to the Monitoring Officer, in writing.

The Hearing Sub-committee will not allow new arguments or evidence to be presented at the hearing.

If there are two complaints that relate to the same Member or to the same incident/occasion, then the Monitoring Officer may decide for them to be considered together.

The subject Member should be provided with the Investigating Officer's report and any evidence which will be heard at the hearing.

The Monitoring Officer should provide the Members of the Hearing Sub-committee with a report that summarises the allegation. This should include a list of agreed facts, and disputed issues should be outlined.

The Hearing sub-committee

The Hearing Sub-committee will generally take place in public. If the subject Member is a parish member, a parish Member who is a co-opted member of the Joint Governance Committee will attend in an advisory capacity, in addition to the three voting Members of the Sub-Committee.

One of the Independent Persons will be invited to attend the hearing and will be asked to comment on whether there has been a breach of the Code of Conduct and on appropriate sanctions.

If the subject member does not attend the hearing, the Hearing sub-committee may adjourn the hearing or may continue to reach a decision on the basis of the Investigating Officer's report, and if it decides to do so, any evidence that it hears.

Whilst the Hearing Sub-Committee is a meeting of the Council, it is not a court of law. It does not hear evidence under oath. The rules of natural justice should nevertheless be carefully followed and the Hearing sub-committee will have due regard to the seriousness of the proceedings for those involved, the Council and the public, and will adhere at all times to the Equalities Act 2010.

The Hearing Sub-committee will decide disputed issues and whether the subject member has breached the Code of Conduct on the "balance of probabilities".

Representation

The subject Member may choose to be represented, at their own cost. The Hearing sub-committee may refuse to allow any person to remain at the hearing if they are disruptive. The Hearing sub-committee will have the discretion to hear opening or closing arguments from the subject Member and the Investigating Officer, if they feel this will assist them in reaching a decision.

Evidence

The Hearing sub-committee will control the procedure and evidence presented at a hearing, including the number of witnesses and the way they are questioned. All matters relating to the evidence and procedure are within its discretion.

Generally, the subject Member is entitled to present their case as they see fit.

Witnesses of facts that are disputed would normally be expected to attend to be questioned. Character witnesses, if appropriate, will provide written evidence which will be read at the hearing.

Witnesses may be questioned by the Hearing Sub-committee, the Independent Person, the Investigating Officer and the subject Member.

The onus is on the subject Member to ensure the attendance of the witnesses whom they rely on to give evidence to assist them. The Hearing Sub-committee can limit the number of witnesses or the issues which can be covered by them.

Neither the Hearing sub-committee nor the subject Member will have any power

to compel witnesses to give evidence.

Making Findings of Fact

- The Chairperson introduces the Sub-Committee and any other persons present, including the Monitoring Officer, the Independent Person, the Investigating Officer and a Committee Officer.
- The Subject Member introduces any person who is acting as their representative and any witnesses to be called on their behalf.
- The Chairperson shall explain the procedure that shall be followed
- The Investigating Officer is invited to present their report and to call any witnesses.
- The Subject Member may ask questions of the Investigating Officer and/or any witnesses which are to be put through the Chairperson.
- The Members of the Sub-committee may ask questions of the Investigating Officer.
- The Subject Member is invited to respond to the Investigating Officer's report and to call any witnesses.
- The Investigating Officer may ask questions of the Subject Member or any witnesses which are to be put through the Chairperson.
- The Members of the Sub-Committee may ask questions of the Subject Member.
- The Chairperson may request advice from the Monitoring Officer, and/or the Independent Person.

Decision

- The Sub-Committee shall adjourn to consider whether there has been a breach of the Members Code of Conduct. The Sub-Committee may request the presence of the Committee Officer during their deliberations. The Monitoring Officer may assist in settling out the reasons for their decisions.
- The Sub-Committee shall reconvene to deliver its decision verbally.
- If the Sub-Committee decides that there has been a breach of the Code of Conduct then the Sub-Committee shall consider whether a sanction should be imposed.

Sanctions

- The Chairperson shall invite representations from the Investigating Officer as to whether a sanction should be imposed.
- The Chairperson shall invite representations from the Subject Member as to whether a sanction should be imposed.

- The Chairperson shall ask the Monitoring Officer if they wish to express an opinion as to whether a sanction should be imposed, and whether to comment on the appropriate sanctions
- The Chairperson shall ask the Independent Person if they wish to express an opinion as to whether a sanction should be imposed, and whether to comment on the appropriate sanctions.
- The Sub-Committee shall adjourn to consider whether to impose a sanction.
- The Sub-Committee may request the presence of the Committee Officer during their deliberations.

Sanctions- mitigating/aggravating circumstances

- The hearing sub-committee should consider all the mitigating and aggravating circumstances that appear to be relevant. For example, it may wish to consider:
 - What were the actual and potential consequences of the breach?
 - How serious was the breach?
 - What is the attitude of the subject Member now? Have they apologised?
 - Has the subject Member previously been dealt with or a breach of the Code of Conduct?
- The following are examples of mitigating and aggravating factors, (but these are not exhaustive):

Mitigating Factors

- An honest but mistaken belief that the action was not a breach of the Code of Conduct
- A previous record of good service
- Evidence that they were suffering from ill health at the time of the breach

Aggravating Factors

- Dishonesty
- Continuing to deny the factors or blaming other people
- Evidence of a failure to follow advice or warnings.

The priority of the Hearing Sub-Committee should be to ensure there are no further breaches of the Code of Conduct and that public confidence is maintained.

The Decision

- The Sub-Committee shall reconvene to deliver its decision in respect of a sanction verbally.
- The Chairperson will explain that written notice of the decision and the reasons for it shall be sent to all parties within 14 days of the date of the hearing, including the Parish Council, if the subject member is a parish council Member.

- The Chairperson will formally close the hearing.

Appeals

There is no right of appeal for you as the complainant, or for the Subject Member against a decision of the Monitoring Officer, or the Hearing Sub-Committee.

Withdrawal of a complaint

In the event that a complainant withdraws a complaint at any time prior to a decision having been made by the Hearing sub-committee, the Monitoring officer may, following consultation with the Independent Person, decide that no further steps to be taken in respect of that complaint but shall, in taking such decision take into account any issues which may arise under paragraph 2.1 of the Code of Conduct, particularly any intimidation.

Explanation of the roles

Monitoring Officer

The Monitoring Officer is a statutory role appointed by Council under s. 5 of the Local Government and Housing Act 1989, and in relation to the Code of conduct for Members, is the responsible person. The Monitoring officer is also responsible for the operation of the Council's Constitution. When a complaint is received, it is the Monitoring Officer's to check the form is completed correctly and will decide whether the complaint can move forward or not, in accordance with this Code of Conduct Complaints procedure.

References to the Monitoring Officer should be red to include any representative of the Monitoring Officer. The Monitoring Officer has a key role in ensuring the smooth running of the pre-hearing and hearing process; who will remain neutral throughout and will provide independent advice to the Hearing Sub-committee.

Independent Person

The Independent Person is a statutory role under s. 28 of the Localism Act 2011 and appointed by Council. The role of the Independent Person is to advise the Hearings sub-committee as to whether in their opinion there has been a breach of the Code of Conduct and whether, and what sanctions could be imposed. The Independent Person is consulted by the Monitoring Officer at the initial assessment stage of the complaint. Please note there will be a different Independent Member at the Hearing Sub-committee. The role also includes giving advice to the Subject Member as to procedural points in the process.

Investigating Officer

May be a Council Officer, an officer from another council or an external investigator. Following the initial assessment, The Monitoring Officer, may appoint an Investigating Officer to carry out an investigation into the

complaints made by the Complainant against the Subject Member in respect of misconduct by a council Member.

Hearing sub-committee

The role of the Hearing Sub-committee is to hear the code of conduct complaints that have been referred to them by the Monitoring Officer. Decide on whether or not there has been a breach of the Code of Conduct, and then decide on if and what sanction/sanctions should be imposed.

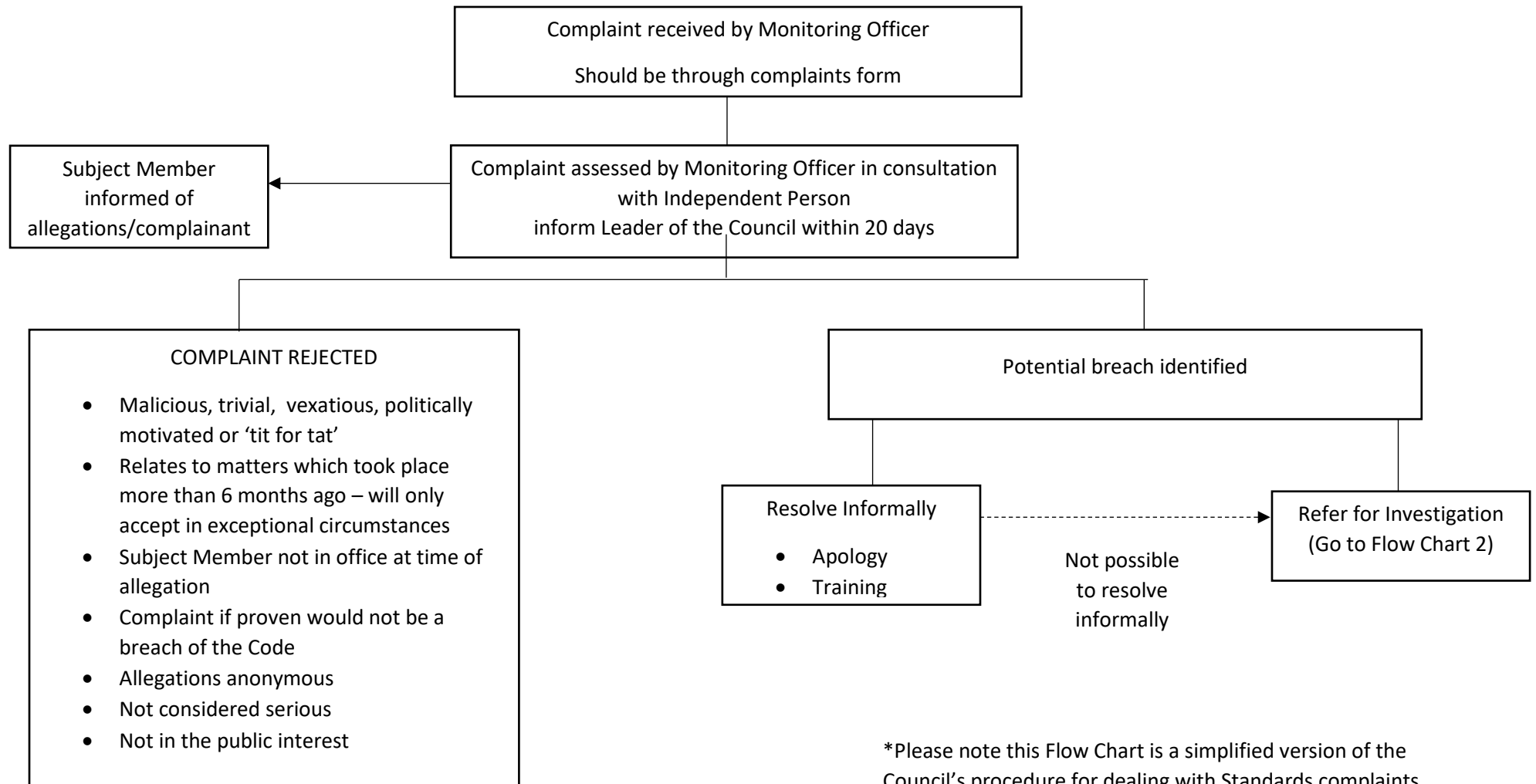
The Independent Person is invited to attend all meetings of the Hearing sub-committee and their views are sought and taken into consideration before a decision is made by the Hearing Sub-committee as to whether the Member's conduct constitutes a failure to comply with the Code of Conduct and as to any action to be taken following a finding of a failure to comply with the Code of Conduct

Revisions of Arrangements for dealing with breaches of the Member Code of Conduct

The Council may by resolution agree to amend the arrangements for dealing with breaches of the Member Code of Conduct and has delegated to the Monitoring Officer the right to depart from these arrangements where they consider it is expedient to do so in order to secure the effective and fair consideration of any matter.

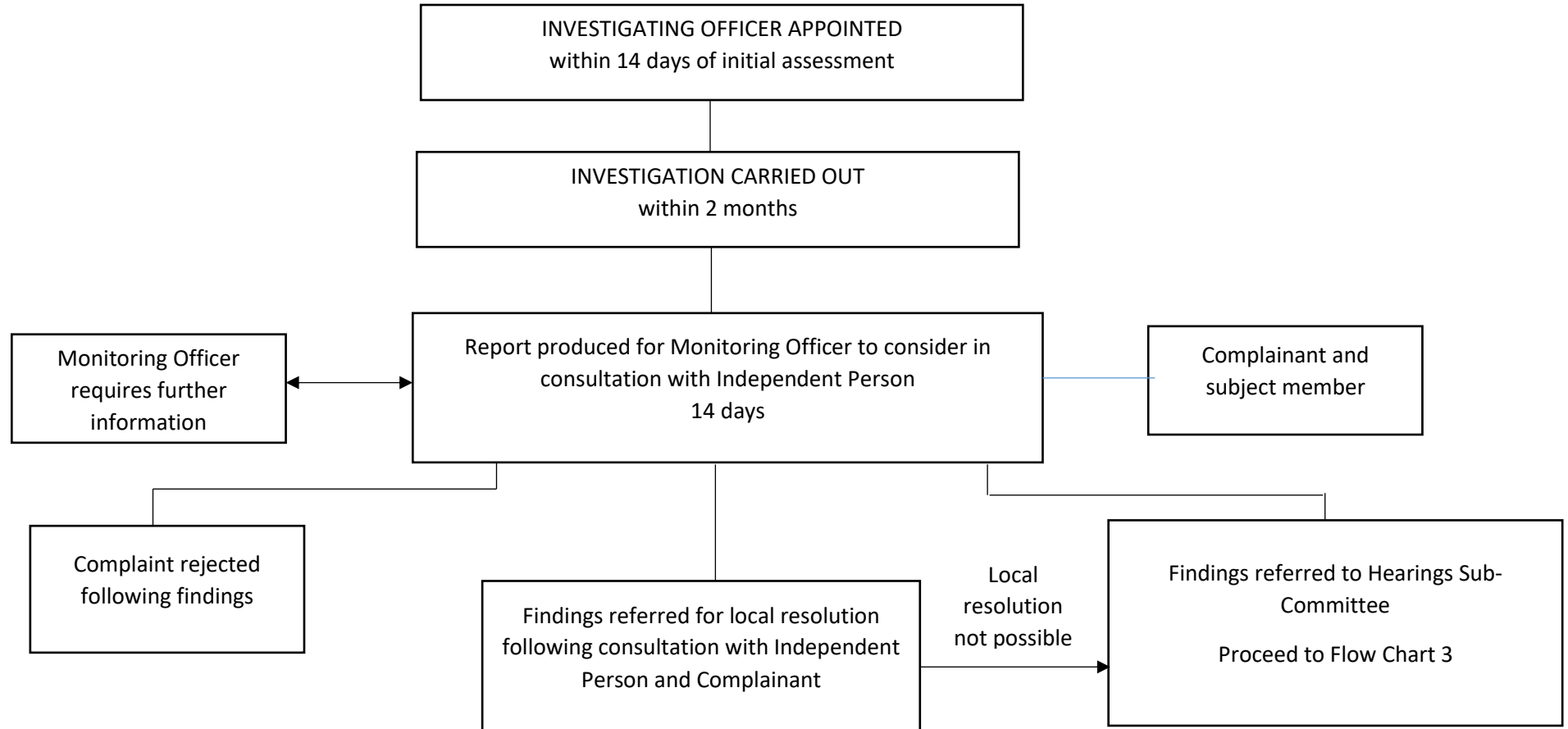
See the flow charts for ease of reference and to show the time-lines

FLOW CHART FOR STANDARDS COMPLAINTS – 1. ASSESSMENTS*



*Please note this Flow Chart is a simplified version of the Council's procedure for dealing with Standards complaints, the detail of which should be referred to where appropriate

FLOW CHART FOR STANDARDS COMPLAINTS – 2. INVESTIGATION



Adur subject member – Adur Hearings sub-committee
Worthing subject member – Worthing Hearings sub-committee

FLOW CHART FOR STANDARDS COMPLAINTS – 3. HEARING