



ADUR & WORTHING  
C O U N C I L S

21 November 2022

<b>Joint Audit and Governance Committee</b>	
<b>Date:</b>	<b>29 November 2022</b>
<b>Time:</b>	<b>6.30 pm</b>
<b>Venue:</b>	<b>Worthing Town Hall</b>

**Committee Membership:**

**Adur District Council:** Councillors; Andy McGregor (Adur Chair), Rob Wilkinson (Adur Vice-Chair), Catherine Arnold, Tony Bellasis, Kevin Boram, Lee Cowen, Gabe Crisp and Jim Funnell

**Worthing Borough Council:** Councillors; Mike Barrett (Worthing Chairman), Dan Hermitage (Worthing Vice-Chairman), Ibsha Choudhury, Rita Garner, Charles James, Nigel Morgan, Steve Waight and Andy Whight

**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 13 October 2022, copies of which have been previously circulated.

### **4. Public Question Time**

To receive any questions from members of the public.

Questions should be submitted by noon on Wednesday 23rd November 2022 to Democratic Services, [democratic.services@adur-worthing.gov.uk](mailto:democratic.services@adur-worthing.gov.uk)

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

### **5. Members' Questions**

Pre-submitted Member questions pursuant to Rule 12 of the Council & Committee Procedure Rules.

### **6. Items Raised under Urgency Provisions**

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

### **7. Internal Audit Progress Report (Pages 5 - 30)**

To consider a report by the Interim Head of Internal Audit, copy attached as item 7.

### **8. Mid Year Review of Treasury Management 2022-23 (Pages 31 - 52)**

To consider reports from the Director for Digital, Sustainability & Resources, copies attached as item 8.

### **9. Risk & Opportunities Update (Pages 53 - 76)**

To consider reports from the Director for Digital, Sustainability & Resources, copies attached as item 9.

### **10. Enquiries to those charged with Governance (Pages 77 - 88)**

To consider reports from the Director for Digital, Sustainability & Resources, copies attached as item 10.

### **11. Members Allowances 2022/23 (Pages 89 - 94)**

To consider a report from the Director for Communities, copies attached as item 11.

## **Part B Exempt Reports - Not for Publication**

None.

**Recording of this meeting**

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

For Democratic Services enquiries relating to this meeting please contact:	For Legal Services enquiries relating to this meeting please contact:
Neil Terry Democratic Services Lead 01903 221073 neil.terry@adur-worthing.gov.uk	Joanne Lee Head of Legal Services and Monitoring Officer 01903 221134 <a href="mailto:joanne.lee@adur-worthing.gov.uk">joanne.lee@adur-worthing.gov.uk</a>

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

Key Decision: No

Ward(s) Affected: N/A

### INTERNAL AUDIT PROGRESS REPORT REPORT BY THE ACTING HEAD OF INTERNAL AUDIT

#### Executive Summary

##### 1. Purpose

- 1.1 This report provides an update on Internal Audit progress and key findings to the Committee.
- 1.2 This report also provides an update on fraud work conducted by the Councils' Corporate Investigations Team.

##### 2. Recommendations

###### 2.1 Recommendation One

That the report be received and progress against the 2022-23 Internal Audit Plan and implementation of Internal Audit recommendations be noted.

###### 2.2 Recommendation Two

That Members consider whether there are further updates from officers on particular issues that they would like provided at the next meeting.

##### 3. Context

###### 3.1 Background

###### Progress

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

Attached as Appendix A is the Internal Audit Progress Report.

## **4 Issues for Consideration**

### **4.1 Follow-Up of Housing Recommendations**

The Councils' Housing Service has been undergoing a Transformation Project since January 2020. Discussions with Housing Management have confirmed that the actions required to address outstanding audit recommendations will be taken as part of this project and agreement was made between the Director for Digital, Resources and Sustainability, the Chief Financial Officer, Interim Head of Audit, Head of Housing and Transformation Manager that an "amnesty" on the follow up of outstanding housing recommendations will be implemented to allow the Transformation Project to be completed.

All outstanding housing recommendations have therefore been removed from our ongoing progress reporting at present but are detailed in Appendix 2 of the attached Internal Audit Progress Report, for reference. Once the Transformation Project is complete a detailed follow-up will be completed to confirm the implementation of all of these recommendations.

### **Fraud**

- 4.2** We periodically provide an update/summary to the Committee of fraud work conducted within the Councils. This work is not undertaken or managed by Internal Audit and any questions should be directed to the Chief Financial Officer who is responsible for it. Detailed below is an update on the work completed by the Councils' Corporate Investigations Team (CIT) during the period 1/11/21 to 31/10/22.

#### **Successful investigations:**

74 X Housing Register Applications (74 X £3,240) = £239,760

30 X Homeless Assistance Applications (30 X £3,240) = £97,200

Right to Buy Applications (2 X £82,500) = £165,600

Abandonment (1 X £82,500) = £82,500

**Total savings period 01/11/21 to 31/10/22 = £585,060.**

CIT have conducted full pre-investigations on 421 Homeless Assistance applications and 858 Housing Applications and 53 Right to Buy Applications, during the period 01/11/21 to 31/10/22, to ascertain their entitlement to access social housing within the Adur & Worthing areas. From these pre-investigations, a further 242 full investigations were conducted (107 of which were found to be fraudulent). CIT currently have 1 case of illegal subletting with our Legal Department and five abandoned properties in the process of being recovered.

## **5 Engagement and Communication**

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

## **6 Financial Implications**

- 6.1** There are no financial implications arising from this report.

## **7. Legal Implications**

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

## **Background Papers**

None

## **Officer Contact Details:**

Dave Phillips, Acting Head of Internal Audit (Mazars LLP)

Town Hall, Worthing [dave.phillips@mazars.co.uk](mailto:dave.phillips@mazars.co.uk)

## **Sustainability & Risk Assessment**

### **1. Economic**

**1.1** Matter considered and no issues identified.

### **2. Social**

#### **2.1 Social Value**

Matter considered and no issues identified.

#### **2.2 Equality Issues**

Matter considered and no issues identified.

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

Matter considered and no issues identified.

#### **2.4 Human Rights Issues**

Matter considered and no issues identified.

### **3. Environmental**

Matter considered and no issues identified.

### **4. Governance**

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



**Adur District & Worthing Borough Councils  
Internal Audit Progress Report  
November 2022**



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### ***Disclaimer***

This report (“Report”) was prepared by Mazars LLP at the request of Adur District & Worthing Borough Councils (Councils), and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently, no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

The Report was prepared solely for the use and benefit of the Councils, and to the fullest extent permitted by law, Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification. Accordingly, any reliance placed on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification by any third party is entirely at their own risk.

## 01 Introduction

Internal Audit is required to provide a quarterly report on progress and key findings to the Joint Audit and Governance Committee (Committee). This report covers internal audit activity and performance since our last report to the Committee in March 2022 and includes:

- An update on progress in delivering the 2022/23 Plan;
- A summary of audit reports issued and high priority recommendations raised; and
- An update on follow-up activity and any recommendations outstanding for implementation.

## 02 Internal Audit Progress

### 2022/23 Internal Audit Plan

The Committee considered and approved the 2022/23 Internal Audit Plan (Plan) on 22 March 2022.

The Plan provided for 27 internal audits totalling 515 days, including 55 days for IT audits, 45 days for Contract audit and 40 days for management which includes the Head of Internal Audit role. The audits in the Plan comprised a mixture of key financial systems, service-specific (operational and financial), corporate-wide, and IT reviews.

Since the Plan was approved in March 2022, the following changes have been made:

- *Condition Surveys contract - vertical audit* – re-scheduled from the 2021/22 Plan and, following discussions with the CFO regarding the need to focus audit resources on other contract audits, has since been cancelled from the 2022/23 Plan.
- *Supply of Affordable Housing* – rescheduled from the 2021/22 Plan and now transferred to 23/24 Plan in order for recruitment of a new Affordable Housing Liaison Officer can be completed and the officer be in post.
- *Civica/Connect HR System* – rescheduled from the 2021/22 Plan and now transferred to Q1 23/24 Plan at the request of the Head of Human Resources due to resource capacity and organisational re-design.
- *Fire Doors Contract Management* – Audit added to the Plan at the request of the CFO.
- *Planned Maintenance Programme* – Audit postponed to Q1 of the 2023/24 Plan at the request of the CFO in order to accommodate the above audit.
- *Invoicing of Housing Services – Housing Repairs (Contractors)* – Added to the Plan at the request of the Head of Housing and in agreement with the CFO.
- *Workforce Planning* – transferred to Q2 23/24 Plan following discussions with the CFO regarding organisational re-design.

- *Energy Supplier - procurement & contract management* – transferred to Q3 of the 23/24 Plan following discussion with the CFO and the decision to restrict contract audits to two each year.

The impact of these changes mean that the Plan now contains 24 reviews totalling 456 days.

The table below provides a summary of current progress relevant to the 2022/23 Plan:

Audit Status	Number of reviews	Percentage %
Finalised/complete	2	8%
Draft report	3	12.5%
Fieldwork complete & audit under review	3	12.5%
Fieldwork in progress	4	17%
Scoping/Planning complete	5	21%
Not yet started	7	29%
<b>Total</b>	<b>24</b>	<b>100%</b>

For reference, additional detail of the audits, progress and timings, is included in Appendix A1 of this report.

### 03 Audit Reports Issued

We have four categories by which we classify internal audit assurance over the processes we examine: Full, Satisfactory, Limited or None.

Internal Audit categorises recommendations as Priority 1, 2 or 3 to differentiate between the types of recommendation made. These categories give management an indication of the importance and urgency of implementing the recommendations. Details on our Assurance Definitions are contained within Appendix A3.

The table below lists the internal audits for which final reports were issued since our last report to the Committee.

Internal Audit Title	Assurance Level	Planned Year	Previously Reported in Annual Report √ / X
Environmental Services - Risk Assessments	Satisfactory	2021/22	√
Governance of Property Purchases	Limited	2021/22	√

Internal Audit Title	Assurance Level	Planned Year	Previously Reported in Annual Report √ / X
Housing – Compliance with general corporate controls	Satisfactory	2021/22	√
Key Controls Testing	Limited	2021/22	X
Workspaces AW – Accommodation Review	Limited	2021/22	X
Cloud Management	Satisfactory	2021/22	X
Staff Wellbeing	Satisfactory	2021/22	X
Device Management	Satisfactory	2022/23	X
Community Infrastructure Levy (Worthing)	Satisfactory	2022/23	X

Two Priority 1 recommendations were raised in these reports. Further details of the Priority 1 and Priority 2 recommendations raised in each of these reports can be found in the summary briefing provided separately to Members.

## 04 Follow-Ups

Since the last Committee meeting, the Councils' Audit App has continued to be populated with new recommendations from finalised internal audit reports.

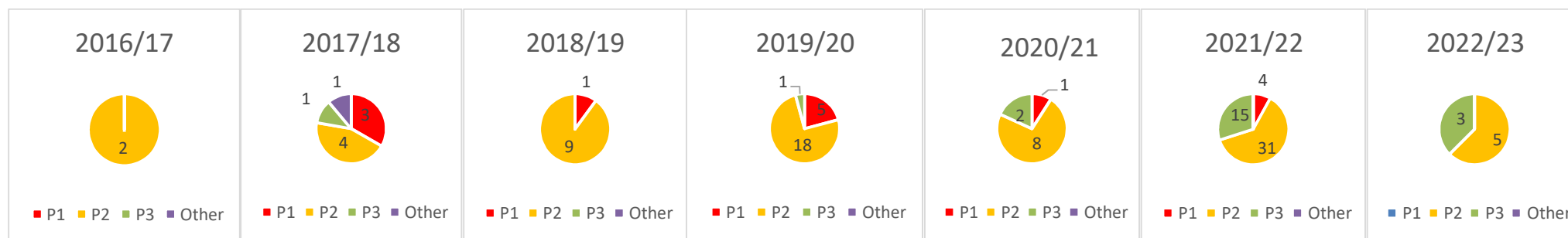
Follow-up audits are undertaken to ensure that all the recommendations/issues raised have been successfully resolved according to the action plans agreed with the service managers. The Councils' target for internal audit recommendations/issues to be resolved at the time of the follow-up is 80% for all priority 2 & 3 recommendations/issues and 100% for priority 1 recommendations/issues.

Performance Objective	Target	Performance (to date)						
		2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Percentage of Priority 1 actions implemented	<b>100%</b>	100%	92%	94%	71%	75%	0%	0%
Number of Priority 1 recommendations (for reference)		17	37	18	17	4	4	0

Percentage of all actions implemented	80%	99%	94%	94%	78%	80%	14%	0%
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Specific details on follow-up performance are included in the briefing note provided separately to Members.

### Outstanding Recommendations by Priority Level (including Housing)



In addition to monitoring management updates on progress within the Audit App, Internal Audit can undertake spot checks to confirm that recommendations are being implemented in practice. A Follow Up Protocol is in place which contains a procedure to escalate recommendations that have not been implemented as agreed to this Committee where necessary.

When we reported to this Committee in July 2022 there were 110 outstanding recommendations (split 12 P1, 79 P2, 18 P3 and 1 other) of these 83 were overdue (split 9 P1, 59 P2, 14 P3 and 1 other). As at production of this report, which includes recommendations from the finalised reports detailed above, there are 114 recommendations due for follow-up (split 14 P1, 77 P2, 22 P3 and 1 other), of these 59 are overdue (split 10 P1, 41 P2, 7 P3 and 1 other).

Within these 114 recommendations are 31 which relate to Housing and which, as detailed in paragraph 4.1 of the covering report are being progress through the Housing Transformation Project and which will actively be monitored until completion of that project. These 31 recommendations, detailed within Appendix 2 of this report, are split 8 P1, 22 P2 and 1 P3 and 30 are overdue (7 P1, 22 P2 and 1 P3).

Further detail of the three overdue Priority 1 recommendations (excluding Housing) is included in Appendix A3 of this report.

## A1 Current Status – 2022/23 Plan

Audit area	Progress	Assurance Opinion	Recommendations		
			High	Medium	Low
Community Infrastructure Levy	Final	Satisfactory	-	1	1
Housing Complaints	Draft				
Recruitment and Selection	Draft				
Self-Isolation Grants	Draft				
Information Governance	Work complete and under review				
Commercial Waste	Work complete and under review				
Fire Safety – Commercial Provision	Work complete and under review				
BEIS Grants - Post Assurance Plan work	In Progress				
Creditors	In Progress				
Key controls testing – continuous testing	In Progress				
Governance of Property Disposals	In Progress				
Invoicing of Housing Services – Emergency & Temporary Accommodation	Q3 – Planned Dec 22				
Economic Development - Small Business Growth Grants & Apprenticeship Grants	Q3 – Planned Dec 22				
Safety of Commercially Leased Buildings	Q4				
Risk Management	Q4				
Councils' response and impacts of Welfare Reform, Cost of Living, Covid-19	Q4				
Carbon Reduction Programme	Q4				

Audit area	Progress	Assurance Opinion	Recommendations		
			High	Medium	Low
Markets	Q4				
Invoicing of Housing Services – Housing Repairs (Contractors)	Q4				
Civica/Connect HR system	Postponed to 2023/24 Plan				
Supply of Affordable housing	Postponed to 2023/24 Plan				
Workforce Planning	Postponed to 2023/24 Plan				
<b>Contract Audit</b>					
Condition Surveys contract - vertical audit	Audit Cancelled				
Fire Door Contract Management	Q3 – Planned Dec 22				
Adur Leisure Contract management	Q4 – Planned Mar 23				
Energy Supplier - Procurement & Contract Management	Postponed to 2023/24 Plan				
Planned Maintenance Programme	Postponed to Q1 23/24 Plan				
<b>IT</b>					
Device Management	<b>Final</b>	Satisfactory	-	4	3
Applications Development	Q3 – Planned Dec 22				
Digital Strategy	Q4				
<b>Total</b>			<b>-</b>	<b>5</b>	<b>4</b>

## A2 Outstanding Housing Recommendations

Audit Title	Audit Plan Year	Recommendation	Priority	Original Deadline	Revised Deadline
Rent Collection and Collection of Arrears	2017/18	3.2 An alternative solution to the regular payment of housing benefit into the Rent's suspense account for Worthing Emergency Housing before it is allocated out by the Cashiers, should be established.	P3 - Minor Issue	31/03/2018	31/03/2023
Leaseholder Charges	2017/18	<p>3.1 The Council should document a Leasehold Management Policy, which outlines the legislative framework (and timescales) within which it is required to operate for the various leasehold functions and services that it provides. The policy should:</p> <ul style="list-style-type: none"> <li>• Outline any local policy decisions in respect of the management of leaseholders, recovery of charges etc. and detail how these requirements will be achieved;</li> <li>• Clearly state how the Council will deal with major repair costs, including outlining the statutory processes that have to be completed and the timescales to ensure the recovery of costs (e.g. invoice or issue S20B notice within 18 months of cost being incurred; and</li> <li>• State at what level the cost of repairs will be pursued (e.g. minor costs above the £250 legislative rate may not be cost effective for the Council to pursue where there are only a few leaseholders, but if there were several then the costs and effort would be worth it). Once documented, the Policy should be</li> </ul>	P1 - Major Issue	30/09/2018	31/03/2023



Audit Title	Audit Plan Year	Recommendation	Priority	Original Deadline	Revised Deadline
		approved by the relevant senior management, member and committee.			
		3.5 Once the Council's policy re leasehold management has been agreed, and procedures have been reviewed and updated, training should be provided to all relevant staff on how processes should be undertaken, particularly in relation to major works. Evidence should be retained to support training provided, to whom and when.	P2 - Important Issue	30/06/2018	31/7/2023
		3.32 The Council's Policy in respect of options available to leaseholders for payment of major works should be reviewed, approved by ADC Executive and then consistently applied.	P1 - Major Issue	31/03/2019	31/05/2023
		3.33 Once the Major Works Payment Policy has been decided the Council should review how implementing payment loans/arrangements will for major works will be achieved. An agreed process, which reflects policy requirements should be effected to ensure that any future loans/arrangements are correctly actioned. Legal Services and Finance should be involved in any discussions to ensure that all legal and financial requirements are met The agreed process should be formalised in a documented procedure which details the forms that need to be completed, by whom and when and how supporting information/documentation should be retained.	P1 - Major Issue	31/03/2019	30/09/2023

Audit Title	Audit Plan Year	Recommendation	Priority	Original Deadline	Revised Deadline
		3.34 Where leaseholders request additional time to pay their invoices, a process should exist for assessing their affordability. Once decided, the method for accessing affordability should be included within the Major Works Payment Options Policy recommended in 3.32 above.	P2 - Important Issue	31/03/2019	31/03/2023
<b>Gas Safety Inspections</b>	<b>2017/18</b>	3.1 The Council should have a documented, approved policy which sets out its' objectives and legal obligations, and how these will be achieved, in respect of the servicing of gas installations within its' properties.	P2 - Important Issue	30/09/2018	22/12/2022
		3.2 Documented procedures should be developed to detail all processes undertaken in respect of gas servicing. Once developed, these procedures should be reviewed and updated regularly and subject to version control.  Procedures should be made available to all relevant staff within a central location.	P2 - Important Issue	30/09/2018	31/03/2023
<b>Housing Repairs (Matsoft Process)</b>	<b>2018/19</b>	3.8 The process for making variations to works should be documented within a procedure and be available to all relevant staff.	P2 - Important Issue	31/03/2021	31/03/2023
		3.12 Adur Homes Post Inspection requirements should be documented within a Policy.	P2 - Important Issue	31/03/2021	22/12/2022
		3.23 1) The reporting element of the Mats system should be expanded to include the facility for a report on varied jobs to be created.	P2 - Important Issue	30/09/2021	31/03/2023

Audit Title	Audit Plan Year	Recommendation	Priority	Original Deadline	Revised Deadline
		<p>Once established, this report should be run on a regular basis and reviewed by management in order to monitor the overall level and value of variations.</p> <p>2) Furthermore, management should investigate why the Mats system contains jobs awaiting variation authorisation, which were created as long ago as July 2018 and take corrective action to cancel/close these jobs.</p>			
		3.24 Adur Homes' management should discuss with Digital how the system can be enhanced to require post inspection of repair projects costing over £1,000.	P1 - Major Issue	30/09/2021	22/12/2022
		3.25 Once agreed the requirements of the Inspection Policy will need to be built into the Mats system.	P2 - Important Issue	30/06/2021	22/12/2022
		3.29 Enhancement of the Mats system is required to enable reporting of PIs once agreed.	P2 - Important Issue	30/09/2021	22/12/2022
<b>Rent in Advance/Rent Deposit Scheme</b>	<b>2019/20</b>	<p>3.2 The RiA/DG process should be reviewed and the documented procedure updated to reflect the necessary process requirements for this scheme only.</p> <p>In addition, the process to be followed if the applicant is only going to claim DHP should be recorded in a separate procedure.</p> <p>Once updated/generated documented procedures should be dated and be made</p>	P2 - Important Issue	30/06/2020	30/11/22

Audit Title	Audit Plan Year	Recommendation	Priority	Original Deadline	Revised Deadline
		available to all relevant staff and any procedural changes should be highlighted to staff.			
		<p>3.3 Every form used in the RiA/RD process which is used to collect the personal data of the client (and/or their family members) needs to be reviewed and a relevant privacy notice added.</p> <p>Furthermore, where personal data is collected and recorded within forms and the Councils are relying on a client's consent to process the information then the relevant consent(s) need to be obtained.</p> <p>The Housing Needs Manager should liaise with the Councils' Senior Information Governance Officer (SIGO) in order to effect this.</p>	P1 - Major Issue	30/06/2020	30/11/22
		<p>3.11 Relevant debt recovery actions should be taken in respect of all outstanding RiA Debts.</p> <p>Housing Management should be provided by Exchequer Services, with details of those agreements where debts are not being repaid, as agreed, in order that they are aware of such outstanding issues.</p>	P2 - Important Issue	30/06/2020	31/03/2023
		3.12 Performance targets should be set, monitored and reported on a regular basis to senior management & Members.	P2 - Important Issue	31/03/2020	31/03/2023
<b>Regulatory Compliance - Housing</b>	<b>2019/20</b>	3.1 The Council should reconcile the different regulatory compliance schedules and timetables with other Council property systems, (such as the property terrier, housing	P2 - Important Issue	01/06/2021	31/08/2023

Audit Title	Audit Plan Year	Recommendation	Priority	Original Deadline	Revised Deadline
		management system etc.) to ensure that all and every single housing property is included in the different regulatory compliance schedules and timetables used to ensure compliance with the various legislative requirements.			
		<p>3.2 All regulatory documents should be retained in a central location (Google Drives).</p> <p>Documents known to be held in other locations should be moved to the central repository.</p> <p>Staff should be reminded of this requirement and advised not to retain documents in any other area, particularly within local drives.</p>	P2 - Important Issue	30/09/2020	31/08/2023
		<p>3.4 Adur Homes should review when the last Asbestos management surveys were undertaken and urgently progress any outstanding ones.</p> <p>Furthermore, the outcomes of the surveys should be recorded and monitored and a monitoring process should be effected to ensure that assessments are undertaken every 12 months.</p>	P1 - Major Issue	01/12/2020	31/08/2023
		3.5 The Electrical Testing spreadsheet should continue be reviewed and updated to ensure it accurately reflects those properties where an inspection has been undertaken with completion dates and outcomes recorded.	P2 - Important Issue	01/10/2020	31/08/2023

Audit Title	Audit Plan Year	Recommendation	Priority	Original Deadline	Revised Deadline
		As noted in rec 3.2 above, certificates obtained from inspections should then be retained in a centralised location.			
		<p>3.6 The Council should ensure that appropriate processes are in place to ensure compliance with the LOLER.</p> <p>An internal monitoring record should be developed to ensure that all lifts are maintained/inspected every 6 or 12 months in accordance with requirements.</p> <p>Results of these inspections and/or maintenance visits should be centrally maintained and recorded to allow for any remedial actions to be undertaken in line with recommendations and/or legislation timescales.</p>	P2 - Important Issue	01/03/2021	31/08/2023
		<p>3.7 Management should monitor and record the outcomes of inspections and/or maintenance visits to ensure any rectification needed is identified. Management should also ensure that any rectifying actions undertaken address the issues originally identified/raised.</p> <p>Where applicable, any documentation (inspection reports, new certificates etc) received which support the completion of rectification works should be retained.</p> <p>Rectification of recommended actions and/or issues identified should be performed in a timely manner and/or in line with established</p>	P1 - Major Issue	01/11/2020	31/08/2023

Audit Title	Audit Plan Year	Recommendation	Priority	Original Deadline	Revised Deadline
		timescales (i.e. recommended by specialists or legislation).			
		<p>3.8 Adur Homes should expand the compliance reports produced for the H&amp;S Board to include complete and detailed information for all relevant areas, such as lift safety compliance.</p> <p>This should include any non-compliances in order that immediate follow-up can occur.</p>	P2 - Important Issue	01/12/2020	31/08/2023
<b>Contract Management and Procurement - Housing</b>	<b>2019/20</b>	<p>2.1 (i) The Contracts Register should be reviewed for completeness and brought up to date.</p> <p>(ii) A timetable of all contracts that are greater than £100,000 and due to terminate should be produced and the tender evaluation panel and evaluation criteria should be timetabled for agreement and documenting in accordance with the Joint Councils CSOs.</p> <p>(iii) The Joint Councils CSOs should be updated to stipulate that initial evaluations undertaken by individual tender evaluation panel members should be retained on file.</p>	P1 – Major Issue	31/12/2022	31/08/2023
<b>Tenancy Management</b>	<b>2019/20</b>	<p>2.1 (i) The Tenancy Strategy should be reviewed and updated regularly (i.e. every three years).</p> <p>(ii) Once updated and finalised the new Tenancy Strategy should be made available to</p>	P2 - Important Issue	31/03/2022	30/04/2023

Audit Title	Audit Plan Year	Recommendation	Priority	Original Deadline	Revised Deadline
		all staff and updated on the Adur & Worthing Councils website.			
		2.2 Once generated, documented procedures should be dated and be made available to all relevant staff. Procedures should be reviewed and updated annually.  (ii) The 'maximising rental income' procedure should also be subject to regular reviews and updated.	P2 - Important Issue	31/03/2022	31/12/2022
		2.3 (i) Management should develop a mechanism to record and maintain appeals processes documentation.  (ii) Considerations should also be given to undertake spotchecks ensuring compliance with the process described, including an independent review of appeals cases.	P2 - Important Issue	31/03/2022	31/03/2024
<b>Rent Collection and Recovery of Arrears</b>	<b>2020/21</b>	3.2 The rent collection procedure should be updated to reflect the current actions being taken to collect arrears. This should include following the suggested actions on Orchard as well as alternative actions taken when Orchard suggested actions are not considered appropriate.	P2 - Important Issue	30/02/2021	31/12/2022
<b>Leaseholder Charges</b>	<b>2020/21</b>	2.2 Minimum leaseholder service standards, to which the Council commits, should be set and the Leasehold Team should devise KPIs based on the service standards, to allow the standard	P2 - Important Issue	31/12/2021	30/05/2023



Audit Title	Audit Plan Year	Recommendation	Priority	Original Deadline	Revised Deadline
		<p>of service to be more easily monitored and measured.</p> <p>Furthermore, the service standards should be documented within the Leaseholders Handbook.</p>			
		2.3 The Council should agree an approach to the way in which leaseholder observations, responses and correspondence are held.	P2 - Important Issue	31/12/2021	31/12/2023

## A3 Outstanding Priority 1 Recommendations (Past Implementation Date)

### Management of Community Buildings 2019/20 - (Final Issued June 2021)

Recommendation (Reference & content)	Findings and Risk as outlined in Final Audit Report	Agreed Action, Comments & Original Implementation deadline	Follow Up Comments	Proposed Completion Date
A policy (or a set of policies) should be developed that set out the Councils goals and objectives for the use of and management of community buildings. This policy should include, as a minimum, strategic objectives as well as the key operational practices needed to achieve these objectives. Once developed, the policy should be reviewed and approved by Senior Management and should be subject to regular reviews to ensure it is kept up to date and still relevant to the Council's objectives and/or strategic goals. Version control should be applied to any policy to ensure readers can ensure that they are referring to the current version	Maintaining policies assists in ensuring that staff are aware of and can work towards ensuring corporate goals and objectives are being met. From discussions with the Community and Third Sector Lead we established that there was no corporate steer or corporate policy on how the use of community buildings fit into the Councils corporate objectives or what the expectations were from lessees/tenants. Without such policies, the Councils could be developing new community centres without any review on whether these were needed across the communities or assessing what the needs of communities were in those areas to ensure that the buildings were put to the best use to meet identified needs. Where there is no corporate steer/policy over the use of community buildings, there is a risk that the Councils are failing to meet their goals and objectives and may be missing the opportunity to provide services within those buildings which meet the needs of the local community. Community objectives may also therefore not be achieved.	Agreed, although we are limited to our actions as most Community Centres are on long leases and agreement. The policy will address how closer working with community organisations can be achieved but will balance where the Councils can effect change in premises already leased, where terms cannot be changed and the relationship with the occupiers is purely that of landlord and tenant. 31st March 2022 Adur District & Worthing Borough Councils – Final Report 7 This is being picked up as part of the corporate landlord work. We now have a working group to further develop our work with Community Centres and are working towards clarity over what we want to see in all of our Community Centres. I suggest this forms part of the corporate assets group as a policy approach to centres, stating what each centre needs to have. Note there is not additional resource for this - this work forms part of an existing role and therefore we need to be	Update provided to IA confirmed that work is underway to develop a Community Assets Framework that will sit within the Corporate Assets Policy, clearly laying out the approach in the allocation, management and disposal of the Councils' community assets. This will clarify and strengthen the multi-disciplinary work and will create a more robust system of management/ oversight of community assets and greater transparency of the decisions the Councils make around the allocation of space to groups and organisations	31 <sup>st</sup> December 2022

Recommendation (Reference & content)	Findings and Risk as outlined in Final Audit Report	Agreed Action, Comments & Original Implementation deadline	Follow Up Comments	Proposed Completion Date
		realistic in relation to monitoring meetings. We do not have the resources to commit to this across our whole estate.  Deadline: 31 <sup>st</sup> March 2022		

#### Project Management 2020/21 - (Final Issued June 2021)

Recommendation (Reference & content)	Findings and Risk as outlined in Final Audit Report	Agreed Action, Comments & Original Implementation deadline	Follow Up Comments	Proposed Completion Date
<p>2.5 The Scrutiny and Risk Officer must ensure that all necessary steps in the planning and executing of a project are followed, and documentation is retained.</p> <p>In addition to centralised document retention (which would make gaps in documentary evidence more obvious), the Scrutiny and Risk Officer should track the stages at which each project stands and ensure that all necessary documentation for that stage has been completed before projects progress.</p>	<p>During the audit testing, it became clear that the list of project managers that we had been provided with was inaccurate.</p> <p>Several individuals named on the list as project managers replied to tell us that they were not. In some cases, confusion also ensued as to who the project manager was.</p> <p>Even in other cases, it became clear that “project manager” is not always treated as a specific responsibility assigned to an individual, leading to some confusion about whether some individuals were or were not project managers. Without accurate records of who project managers are, there is a risk that project management efforts will be highly ineffective.</p>	<p>The Councils will do some follow up training for staff from Autumn 2021 to clarify the project cycles.</p> <p>Deadline 31<sup>st</sup> October 2021</p>	<p>Update provided to IA confirmed that a major initiative is now underway to ensure that the Councils programme of projects is better managed and resourced and is realistic given the staff numbers we have and a programme of Project Management training for staff will be investigated as part of this.</p>	<p>31<sup>st</sup> March 2023</p>

### Disaster Recovery 2021/22 - (Final Issued July 2022)

Recommendation (Reference & content)	Findings and Risk as outlined in Final Audit Report	Agreed Action, Comments & Original Implementation deadline	Follow Up Comments	Proposed Completion Date
<p>1. For critical high-risk services, a report showing the supporting IT applications and IT services should be extracted from the MATS Business Impact Assessment (BIA) data and provided to IT that also shows the related recovery time objective to the overall service.</p> <p>2. Upon annual review of the BIA, business unit managers should be informed that the IT recovery arrangements are assumed to rely on overnight backups and therefore up to 24 hours data could be lost following an incident. If this is not deemed acceptable, they should be encouraged to liaise with IT to discuss their requirements.</p> <p>3. The Incident Management Plan should be updated to reflect changes to the delivery of IT services since the CenSus partnership was terminated.</p> <p>4. Residual business units yet to complete a business impact assessment should do so within the next three months.</p> <p>5. The Safety and Resilience Manager and IT should meet regularly to review the status of disaster recovery</p>	<p>Disaster recovery arrangements should provide the technical means by which the business continuity plans could successfully mitigate a severe incident. Therefore, the business continuity plans business impact assessment is a key input to disaster recovery. The results of the latest BIA are summarised in schedule B of the Incident Management Plan, which according to recovery time objectives, prioritise the Councils' services to be recovered following a major incident. However, this does not list the IT systems required for these Council services or detail relevant recovery point objectives (RPOs).</p> <p>As the BIA collated details of supporting IT systems for each service but did not record RPOs, these omissions reflect design gaps to the MATS BIA system used to manage and record the BIA for each business unit. We also note that the Incident Management Plan schedule states it to be incomplete as for several services, a BIA is still required. In considering ICT, the Incident Management plan refers to CenSus ICT which was a tripartite partnership with two other local authorities, yet the partnership came to an end on 30th September 2017. Despite the</p>	<p>1. The Critical Services list of the Incident Management Plan will be reviewed ahead of submitting it to the Council Leadership Team for ratification, and from this, the supporting critical IT applications will be prioritised.</p> <p>2. Agreed. Information about the use of backups and the potential loss of data will be included in the above paper to the Council Leadership Team.</p> <p>3. Agreed.</p> <p>4. This historical reference is no longer relevant and will be removed at the next review.</p> <p>5. Agreed – a regular meeting will be arranged quarterly.</p> <p>Deadline 31st July 2022.</p>	<p>Monthly meetings have been established between the Safety and Resilience Manager and the Digital Team. The scope of this work is significant and a new post of Information Security Officer has been created and the officer tasked with writing a detailed DR Plan. The plan will conform to ISO standards to provide an opportunity of Central Government funding in the future.</p> <p>The Business Continuity Mats data cannot be easily extracted from the system as the original design did not encompass this reporting tool. As development time is not available at this time, this functionality is not planned in. We have established a protocol for prioritising systems and software and a process is underway to risk manage these. For high and medium systems granular response plans will be created together with identifying dependencies and RPOs. The timeline for this work is due to be completed by March 2023.</p>	<p>23rd January 2023</p>

Recommendation (Reference & content)	Findings and Risk as outlined in Final Audit Report	Agreed Action, Comments & Original Implementation deadline	Follow Up Comments	Proposed Completion Date
<p>arrangements. The meeting should cover;</p> <ul style="list-style-type: none"> <li>• Business continuity requirements;</li> <li>• Adequacy of measures to avoid a disaster;</li> <li>• Adequacy of disaster recovery arrangements; and</li> <li>• Testing of disaster recovery arrangements.</li> </ul>	<p>relationship between the Business Continuity Plan and the disaster recovery arrangements, in separate discussions with IT management, who are responsible for disaster recovery processes, and the Safety &amp; Resilience Manager, who is responsible for business continuity, we noted that there is no ongoing communication between the two teams and that continuity requirements arising from the BIA have not been communicated to IT.</p> <p>Risk: Disaster recovery arrangements designed and implemented by IT may not meet the requirements of the directorates, to for example, satisfy their statutory obligations under the Civil Contingencies Act.</p>		<p>A review date has been set for January 2023 to update this audit, by which time regular meetings would have continued to take place track and work through the formation of the DR Plan.</p>	

## A4 Definitions of Assurance

Definitions of Assurance Levels		
Level	Description	
Full	There is a sound system of control designed to achieve the system objectives and the controls are being consistently applied.	
Satisfactory	While there is a basically sound system, there are weaknesses that put some of the system objectives at risk, and/or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.	
Limited	Weaknesses in the system of controls are such as to put the system objectives at risk, and/or the level of non-compliance puts the system objectives at risk.	
No	Control is generally weak, leaving the system open to significant error or abuse, and/or significant non-compliance with basic controls leaves the system open to error or abuse.	
Definitions of Recommendations		
Priority	Definition	Action required
Priority 1 (Fundamental)	Major issues for the attention of senior management and the Joint Governance Committee.	Remedial action must be taken urgently and within an agreed timescale.
Priority 2 (Significant)	Other recommendations for local management action.	Remedial action should be taken at the earliest opportunity and within an agreed timescale.
Priority 3 (Housekeeping)	Minor matters.	Remedial action should be prioritised and undertaken within an agreed timescale.



ADUR & WORTHING  
COUNCILS

Joint Governance Committee  
29 November, 2022

Joint Strategic Committee  
6 December, 2022

Key Decision : No  
Ward(s) Affected: All

## Joint Mid Year Treasury Management Review 2022/23

### Report by the Director for Digital, Sustainability & Resources

#### Officer Contact Details:-

Joel Goacher, Group Accountant (Strategic Finance)

01903 221236

[joel.goacher@adur-worthing.gov.uk](mailto:joel.goacher@adur-worthing.gov.uk)

#### Executive Summary

##### 1. PURPOSE

- 1.1 The purpose of this and the other treasury management reports that are submitted during the year is to ensure that proper scrutiny is undertaken of the treasury and capital expenditure activities of the Councils and that the activities are conducted in a prudent manner in order to safeguard the financial position of the Councils.
- 1.2 Councils are required by regulations issued under the Local Government Act 2003 to produce a mid-year treasury management review of activities; and a review of performance against the prudential and treasury indicators for the year.
- 1.3 The key message arising from this report is that both Adur and Worthing Councils have complied with the approved policies and the indicators agreed prior to the start of the financial year with the exception of one minor breach as detailed within the report.
- 1.4 This report asks Members to note the Treasury Management mid-year performance for Adur and Worthing Councils at the 30 September 2022, as required by regulations issued under the Local Government Act 2003.

## **2. RECOMMENDATIONS**

- 2.1 The Joint Governance Committee is recommended to note this report, and refer any comments or suggestions to the Joint Strategic Committee meeting on the 6th December 2022.
- 2.2 The Joint Strategic Committee is recommended to note this report and forward the report to the Worthing Borough Council Meeting on 13th of December 2022 and Adur District Council 15th of December 2022
- 2.3 Worthing Borough Council is recommended to note this report at its meeting on 13th December 2022
- 2.4 Adur District Council is recommended to note this report at its meeting on 15th December 2022

## **3. CONTEXT**

- 3.1 This report summarises the treasury management activities and portfolio for both Adur and Worthing Councils for the half year to 30<sup>th</sup> September 2022.
- 3.2 This is one of 3 treasury management reports that are required to be presented during the financial year (see Para. 4.1.3).

### **3.3 Capital Strategy**

In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. All local authorities are required to prepare a Capital Strategy which is intended to provide the following: -

- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

A report setting out our Capital Strategy was approved by JSC on 11th October 2022.

### **3.4 Treasury Management**

The Councils operate balanced budgets, which broadly means cash raised during the year will meet their cash expenditure. Part of the treasury management operation is to ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.



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

Accordingly, treasury management is defined as:

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

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

#### **4. ISSUES FOR CONSIDERATION**

- 4.1 This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2021).

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Councils' treasury management activities.
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Councils will seek to achieve those policies and objectives.
3. Receipt by the full Councils of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year.
4. Delegation by the Councils of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
5. Delegation by the Councils of the role of scrutiny of treasury management strategy and policies to a specific named body. For these

Councils the delegated bodies are the Joint Governance Committee and the Joint Strategic Committee.

4.2 This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the first half of the 2022/23 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Councils' capital expenditure, as set out in the Capital Strategy, and prudential indicators;
- A review of the Councils' investment portfolios for 2022/23;
- A review of the Councils' borrowing strategy for 2022/23;
- A review of any debt rescheduling undertaken during 2022/23;
- A review of compliance with Treasury and Prudential Limits for 2022/23

#### 4.3 **RECOMMENDED ADDITIONS/AMENDMENTS TO COUNTERPARTIES**

There are no recommended changes to the Treasury and Capital Strategies.

### 5. **THE ECONOMY AND INTEREST RATES**

A commentary supplied by **Link Treasury Services Ltd**, the professional consultants for the Councils' shared treasury management services, is included as an appendix to this report. The context is significant as it describes the backdrop against which treasury management activity has been undertaken during the year.

### 6. **TREASURY MANAGEMENT STRATEGY STATEMENT and ANNUAL INVESTMENT STRATEGY UPDATE**

6.1 The Treasury Management Strategy Statement (TMSS) for 2022/23 was noted by the Joint Governance Committee on the 25th January 2022 and approved by Adur Council on 24th February 2022 and by Worthing Council on 22nd February 2022.

6.2 There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

### 7. **THE COUNCILS' CAPITAL POSITION (PRUDENTIAL INDICATORS)**

This part of the report is structured to update:

- The Councils' capital expenditure plans
- How these plans are being financed
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow
- Compliance with the limits in place for borrowing activity

## 7.1 Prudential Indicator for Capital Expenditure

These tables show the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget.

### Adur District Council

	2022/23 Original Estimate	Actual at 30 Sept 2022	2022/23 Revised Estimate
	£m	£m	£m
HRA	19.513	5.060	16.006
Non HRA	52.997	1.055	7.102
Total capital expenditure	72.510	6.115	23.108

The change in the Adur capital expenditure estimate is due mainly to the decision that the Council no longer plans to use the Strategic Property fund to invest in property solely for commercial purposes, due to changes in government guidance, consequently this is not expected to be used in 2022/23 pending identification of appropriate projects. The budget was previously £44m, which has been reprofiled to 2023/24 to be used for regeneration projects. There has also been some reprofiling of the HRA maintenance programme.

### Worthing Borough Council

	2022/23 Original Estimate	Actual at 30 Sept 2022	2022/23 Revised Estimate
	£m	£m	£m
Non HRA	74.896	22.727	63.627

There have been various changes to the Worthing capital expenditure programme, this has involved the review of some major projects which have been detailed in regular capital monitoring reports.

## 7.2 Changes to the Financing of the Capital Programme

The tables below draw together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. The borrowing element of the tables increases the underlying indebtedness of the Councils by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision).

This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

#### **Adur District Council**

	<b>2022/23 Original Estimate</b>	<b>2022/23 Revised Estimate</b>
	<b>£m</b>	<b>£m</b>
Total Capital Expenditure	72.510	23.108
Financed by:		
Capital receipts	0.200	0.206
Capital Grants & contributions	1.546	1.121
Reserves & revenue contributions	5.976	4.031
Total financing	7.722	5.358
Borrowing requirement	64.788	17.750

#### **Worthing Borough Council**

	<b>2022/23 Original Estimate</b>	<b>2022/23 Revised Estimate</b>
	<b>£m</b>	<b>£m</b>
Total Capital Expenditure	74.896	63.627
Financed by:		
Capital receipts	0.918	0.023
Capital grants & contributions	6.385	7.259
Reserves & revenue contributions	2.398	0.266
Total financing	9.701	7.547
Borrowing requirement	65.195	56.079

### **7.3 Changes to the Prudential Indicators for the Capital Financing Requirement (CFR), External Debt and the Operational Boundary**

The tables below show the CFR, which is the underlying external need to incur borrowing to fund the capital programme. They also show the expected debt position over the period, which is termed the Operational Boundary.

#### **Prudential Indicator - Capital Financing Requirement**

As explained above, the CFR forecasts change with the capital expenditure forecasts, to the extent that the expenditure is not funded. Due to the reprofiling of capital expenditure, partly due to Covid 19, the CFR is below the

forecast for both Adur and Worthing.

**Prudential Indicator - the Operational Boundary for external debt  
Adur District Council**

	<b>2022/23 Original Estimate</b>	<b>Actual at 30 Sept 2022</b>	<b>2022/23 Revised Estimate</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Prudential Indicator Capital Financing Requirement</b>			
CFR - HRA	95.226	65.251	72.041
CFR - Non HRA	161.638	106.736	112.607
Total CFR	256.864	171.987	184.648
Net movement in CFR	64.788	3.214	15.875
	<b>Operational Boundary</b>	<b>Actual Debt</b>	<b>Operational Boundary</b>
Borrowing	248.000	156.678	248.000
Other long term liabilities	1.000	0.000	1.000
Total debt	249.000	156.678	249.000

**Worthing Borough Council**

	<b>2022/23 Original Estimate</b>	<b>Actual at 30 Sept 2022</b>	<b>2022/23 Revised Estimate</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Prudential Indicator Capital Financing Requirement</b>			
CFR - Non HRA	175.400		
CFR - Strategic	68.791	172.806	209.256
Total CFR	244.191	172.806	209.256
Net movement in CFR	65.195	17.936	54.386
	<b>Operational Boundary</b>	<b>Actual Debt</b>	<b>Operational Boundary</b>
Borrowing	229.000	158.170	229.000
Borrowing re Worthing Homes	10.000	10.000	10.000
Borrowing re GB Met College	5.000	4.605	5.000
Other long term liabilities	1.000	0.000	1.000
Total debt	245.000	172.775	245.000

#### 7.4 Limits to Borrowing Activity: CFR and debt

The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital investment purpose. **Gross external borrowing** should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2022/23 and the next two financial years. This allows some flexibility for limited early borrowing for future years. The Councils have approved a policy for borrowing in advance of need which will be adhered to if this proves prudent. The Chief Financial Officer reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

##### Adur District Council

	2022/23 Original Estimate	Actual at 30 Sept 2022	2022/23 Revised Estimate
	£m	£m	£m
Borrowing	247.304	156.678	170.276
Other long term liabilities	0.000	0.000	0.000
Total debt	247.304	156.678	170.276
CFR	256.864	171.987	184.648

##### Worthing Borough Council

	2022/23 Original Estimate	Actual at 30 Sept 2022	2022/23 Revised Estimate
	£m	£m	£m
Borrowing	242.272	172.775	207.946
Other long term liabilities	0.000	0.000	0.000
Total debt	242.272	172.775	207.946
CFR	244.191	172.806	209.256

#### 7.5 Limits to Borrowing Activity: Authorised Limit and debt

A further prudential indicator controls the overall level of borrowing. This is the **Authorised Limit** which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing

need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

### Adur District Council

	2022/23 Original Indicator	Actual debt at 30 Sept 2022	2022/23 Revised Indicator
<b>Authorised Limit for external debt</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Borrowing	252.000	156.678	252.000
Other long term liabilities	1.000	0.000	1.000
<b>Total</b>	<b>253.000</b>	<b>156.678</b>	<b>253.000</b>

### Worthing Borough Council

	2022/23 Original Indicator	Actual debt at 30 Sept 2022	2022/23 Revised Indicator
<b>Authorised Limit for external debt</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Borrowing re Worthing Homes and GB Met	14.500	14.500	14.500
Other Borrowing	233.000	157.775	233.000
Other long term liabilities	1.000	0.000	1.000
<b>Total</b>	<b>248.500</b>	<b>172.775</b>	<b>248.500</b>

## 8 BORROWING

- 8.1 The Capital Financing Requirement (CFR) denotes the Councils' underlying need to borrow for capital purposes. If the CFR is positive the Councils may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. For both Adur and Worthing Councils capital expenditure in 2022/23 is funded from grants, capital receipts, contributions, reserves and revenue contributions as well as borrowing. This is a prudent and cost effective approach in the current economic climate but will require ongoing monitoring in the event that any upside risk to gilt yields prevails.
- 8.2 Adur District Council's revised CFR forecast for 2022/23 is £184.648m. The relevant table in 7.4 shows the Council has borrowings of £156.678m at 30 September 2022 and has utilised £15.309m of cash flow funds in lieu of borrowing.

Worthing Borough Council's revised CFR for 2022/23 is £209.256m. The relevant table in 7.4 shows the Council has borrowings of £172.775m at 30

September 2022 and has utilised £0.031m of cash flow funds in lieu of borrowing.

- 8.3 Due to the overall financial position, the payments made on repayment loans and the underlying need to borrow for capital purposes, new external borrowing was undertaken for both councils as detailed in the tables below. It is anticipated that further borrowing will be undertaken by both Councils during this financial year to fund capital expenditure and any debt refinancing needs.

The capital programme is being kept under regular review in particular due to the effects of inflationary pressures, and the materials and labour market challenges facing both Council's capital programmes. Our borrowing strategy will, therefore, also be regularly reviewed for both councils and then revised, if necessary, in order to achieve optimum value and manage interest rate risk exposure in the long-term. Both Councils have made some use of short-term borrowing from other local authorities because interest rates in this market have been competitive.

8.4 **PWLB maturity certainty rates (the equivalent gilts yields plus 80bps) year to 30 September 2022**

Gilt yields and the linked PWLB rates were on a generally rising trend throughout the first 6 months of 2022, the exception being a short rally in gilts in July/August. However, they rose exceptionally sharply towards the end of September. The 50-year PWLB target certainty rate for new long-term borrowing started 2022/23 at 2.20% and finished the half year at 4.80%, albeit we forecast rates to fall back to 3.10% by the end of September 2025.

The current PWLB rates are set as margins over gilt yields as follows (100 basis points is equivalent to 1%):-

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

## 9.0 DEBT RESCHEDULING

Debt rescheduling opportunities have been very limited in the current economic climate for both councils and following the various increases in the margins added to gilt yields which have impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year. However, now that the whole of the yield curve has shifted higher there may be better opportunities in the future, although only prudent and affordable debt rescheduling will be considered.



## **10.0 COMPLIANCE WITH TREASURY AND PRUDENTIAL LIMITS**

It is a statutory duty for each Council to determine and keep under review the affordable borrowing limits. During the half year ended 30th September 2022, the both Councils operated within the treasury and prudential indicators set out in their respective Treasury Management Strategy Statements for 2022/23.

However, on the 31st of October 2022 a procedural error occurred. This caused the Worthing Council's investment balance to exceed the agreed counterparty limit of £3m with Federated Investments MMF for 2 days, at its peak the size of the breach was £425,000. Following recognition of the error, corrective action was taken to return the balance within limits. There was no loss of funds or additional expense to the Council as a result of this breach. A full review of controls has been completed and additional measures have now been implemented to mitigate future risk.

The Chief Financial Officer reports that no difficulties are envisaged for either Council in the current or future years in complying with these indicators.

All treasury management operations have also been conducted in full compliance with the Council's Treasury Management Practices.

## **11.0 ANNUAL INVESTMENT STRATEGY**

11.1 The Treasury Management Strategy Statement (TMSS) for 2022/23, which includes the Annual Investment Strategy, was approved by Adur Council on 24 February 2022 and by Worthing Council on 22 February 2022. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Councils' investment priorities as being:

- Security of capital
- Liquidity
- Yield

The Councils will aim to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity and with the respective Councils' risk appetite. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit rated financial institutions. The shared Treasury Service uses information supplied by the Treasury advisers, Link Asset Services, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information.

As shown by the interest rate forecasts in the Appendix, investment rates have continued to rise. There have been 4 meetings of the MPC in the 6 months to 30th September 2022, at each meeting the decision has been made to increase the base rate. Following the September meeting the rate was set at

2.25%, its highest since 2008's Global Financial Crisis. It is widely anticipated that the bank rate will continue to increase throughout the remainder of 2022 and into early 2023, before stabilising and subsequently returning to around 2% gradually over the course of 2024 and 2025. Inflationary pressures continue to be driven by global fossil fuel markets, largely in response to sanctions placed on Russia as a result of its invasion and subsequent occupation of Ukrainian territory.

The UK government's "fiscal event" presented on September 23rd received a shock response from Gilt markets and prompted a fall and instability in Sterling against most world currencies, including a very strong US dollar.

In general the factors above present both opportunities and risks in our investment activities, chiefly it prompts a need for agility. Therefore our investments continue to follow a low risk and largely short term strategy for both councils. This increases our ability to respond to changes in market conditions and to changes in risk; which we continue to monitor closely. It is expected that as a result of increased market rates our investment income for the year will improve comparative to 2021/22 for both councils.

## 11.2 Creditworthiness

Following the Government's fiscal event on 23rd September, both S&P and Fitch have placed the UK sovereign debt rating on Negative Outlook, reflecting a downside bias to the current ratings in light of expectations of weaker finances and the economic outlook.

### Investment Counterparty criteria

The current investment counterparty criteria selection approved in the TMSS is meeting the requirements of the treasury management function.

### Credit Default Swap prices

Credit Default Swaps (CDS) are credit derivative contracts that enable investors to swap credit risk on a company with another counterparty. They are market indicators of credit risk. Although CDS prices for UK banks spiked at the outset of the pandemic in 2020, they then subsequently returned to near pre-pandemic levels. **However, sentiment can easily shift, so it remains important to undertake continual monitoring of all aspects of risk and return in the current circumstances.**

## 11.3 Investment balances

The average level of funds available for investment purposes, excluding the Local Authorities' Property Fund, during the half year for Adur was £18.5m and for Worthing was £46.1m, excluding long term loans to Worthing Homes and GB Met College. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept

payments, receipt and payment of grants and progress on the capital programme.

#### **11.4 Investment performance – Adur District Council**

The investment portfolio yield for the first 6 months of the year is 1.21% p.a. against the average benchmark rate (supplied by Link) of 1.11% for 30 day deposits. This rate excludes the £3m investment in the Local Authorities' Property Fund, for which we project a return of 3.36% p.a. over the 6 months. The portfolio is shown in Appendix 1. Adur District Council's budgeted investment return for 2022/23 for both the General Fund and the HRA is £135k and the current forecast will result in a significant over achievement of about £228k. This is due mainly to the significant increases in interest rates available in the market as well as the additional liquidity arising from government grants held in respect of Covid and energy rebates grants. The interest payable budget is currently expected to underspend by around £69k for the General Fund and overspend by around £72k for the HRA by the year end.

#### **11.5 Investment performance – Worthing Borough Council**

The investment portfolio yield for the first 6 months of the year is 1.87% p.a. against the average benchmark rate (supplied by Link) of 1.11% for 30 day deposits. The portfolio yield excludes the £1.5m investment in the Local Authorities' Property Fund, for which we project a return of 3.36% p.a. over the 6 months.

In the previous years the Council has made two loans which are treated as capital expenditure rather than treasury investments:

- £10m to Worthing Homes at 0.7% above the rate at which the funds were borrowed, generating £70k p.a. for the Council
- £5m repayment loan to GB Met College at 2% above the rate at which funds were borrowed; the balance is now £4.605m, which will generate £213k in 2022/23 for the Council.

Worthing Borough Council's budgeted investment income for 2022/23, excluding the Worthing Homes and GB Met loans, is £62k and the current forecast will result in an over achievement of about £241k, this is in part due to the level of government grants still held at this time by the Council, in addition recent changes in economic conditions have improved the outlook for investment return. The use of internal borrowing and the reprofiling of the capital programme contribute to a saving in the interest payable budget which is currently expected to be overspent by £61k. This is largely due to increasing interest rates and Gilt market volatility following the UK Governments 'fiscal event' in late September 2022; both of which have contributed to increased borrowing costs.

## **Investment Performance – Approved Limits**

The Chief Financial Officer confirms that the approved limits within the Annual Investment Strategy were not breached during the period ended 30 September 2022. The Local Authority Property Funds gave a briefing for Members on the 27th October 2021 to update them and answer any questions.

### **11.6 Counterparty commitment to sustainability**

The Councils are committed to ethical investments and the use of counterparties which have appropriate sustainability, carbon reduction or ethical plans.

## **12. ENGAGEMENT AND COMMUNICATION**

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

12.2 The Adur and Worthing Councils' treasury management team has also provided treasury services to Arun District Council through a shared services arrangement (SSA) since 1st March 2021 under a Service Level Agreement which defines the respective roles of the client and provider authorities for a period of three years.

12.2 Information and advice is supplied throughout the year by Link Treasury Services Ltd, the professional consultants for the Councils' shared treasury management service. This contract is due to be re-procured for 1st April 2024.

## **13. FINANCIAL IMPLICATIONS**

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

## **14. LEGAL IMPLICATIONS**

14.1 The presentation of the Half Year Report is required by regulations issued under the Local Government Act 2003 to review the treasury management activities, the actual prudential indicators and the treasury related indicators for 2022/23.

## **Background Papers**

**Joint Treasury Management Strategy Statement and Annual Investment Strategy** Report 2022/23 to 2024/25 (Adur Council 24th February 2022 and Worthing Council 22 February 2022)

**Annual Joint In-House Treasury Management Operations Report** 1 April 2021 – 31 March 2022 (JGC 28 July 2022 JSC 11 October 2022)

**Link Treasury Services Ltd Half Year Report Template 2022/23**

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

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

## **SUSTAINABILITY & RISK ASSESSMENT**

### **1. ECONOMIC**

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

### **2. SOCIAL**

#### **2.1 Social Value**

Matter considered and no issues identified.

#### **2.2 Equality Issues**

Matter considered and no issues identified.

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

Matter considered and no issues identified.

#### **2.4 Human Rights Issues**

Matter considered and no issues identified.

### **3. ENVIRONMENTAL**

Matter considered and no issues identified.

### **4. GOVERNANCE**

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

4.2 The operation of the treasury management function is as approved by the Councils' Treasury Management Strategy and Annual Investment Strategy 2022/23 - 2024/25, submitted and approved before the commencement of the 2022/23 financial year.

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

**APPENDIX 1**  
**Investment Portfolios at 30 September 2022**  
**Adur District Council:**

Counterparty	Issue Date	Maturity Date	Principal	Interest Rate	Long Term Rating
CCLA MMF	n/a	n/a	£10,000	var	AAA
Black Rock MMF	n/a	n/a	£10,000	var	AAA
Close Brothers Limited	09.08.22	09.08.23	£1,000,000	2.80%	A-
Close Brothers Limited	06.09.21	06.03.23	£1,000,000	0.60%	A-
Close Brothers Limited	09.08.22	09.08.24	£1,000,000	3.20%	A-
Federated Investments MMF	n/a	n/a	£10,000	var	AAA
Goldman Sachs Int Bank	06.04.22	06.04.23	£2,000,000	1.95%	A+
Handelsbanken call account	n/a	n/a	£5,000	0.02%	AA
HSBC ESG MMF	n/a	n/a	£350,000	var	AAA
NatWest Bank PLC	11.05.22	06.02.23	£1,000,000	1.65%	A+
Invesco MMF	n/a	n/a	£170,000	var	AAA
Standard Chartered Bank	05.07.22	19.12.22	£1,000,000	2.00%	A+
Standard Chartered Bank	14.04.22	13.01.23	£1,000,000	1.65%	A+
Clydesdale Bank PLC	20.07.22	20.01.23	£2,000,000	2.35%	A-
Nationwide Building Society	17.08.22	25.11.22	£2,000,000	1.90%	A+
Local Authority Property Fund	25.04.17	n/a	£3,000,000	var	n/a
Boom Credit Union	06.03.15	n/a	£25,000	n/a	n/a
<b>TOTAL</b>			<b>£15,580,000</b>		

**Investment Portfolio - Worthing Borough Council**

Counterparty	Issue Date	Maturity Date	Principal	Interest Rate	Long Term Rating
CCLA MMF	n/a	n/a	£3,000,000	var	AAA
Black Rock MMF	n/a	n/a	£3,000,000	var	AAA
HSBC ESG MMF	n/a	n/a	£3,000,000	var	AAA
Close Brothers Limited	05.01.22	05.01.23	£1,000,000	0.75%	A-
Close Brothers Limited	08.09.22	11.09.23	£1,000,000	3.90%	A-
Federated Investors MMF	n/a	n/a	£2,650,000	var	AAA
Goldman Sachs Int Bank	06.04.22	06.04.23	£3,000,000	1.95%	A+
Nationwide Building Society	29.06.22	05.10.22	£1,000,000	1.37%	A+
Nationwide Building Society	07.09.22	05.12.22	£1,000,000	2.23%	A+
Handelsbanken call account	n/a	n/a	£5,000	0.02%	AA
NatWest Bank PLC	09.03.22	06.03.23	£1,000,000	1.67%	A+
Invesco MMF	n/a	n/a	£3,000,000	var	AAA
Clydesdale Bank PLC	20.07.22	20.10.22	£2,000,000	1.80%	A-
Debt Management Office	28.09.22	03.10.22	£8,820,000	1.97%	AA-
Debt Management Office	30.09.22	03.10.22	£1,780,000	1.85%	AA-
Standard Chartered Bank	23.05.22	23.05.23	£1,000,000	2.13%	A+
Standard Chartered Bank	01.06.22	05.10.22	£2,000,000	1.38%	A+
Local Authority Property Fund	27.04.17	n/a	£1,500,000	var	n/a
Boom Credit Union	Various	n/a	£50,000	n/a	n/a
<b>TOTAL</b>			<b>£39,805,000</b>		

## Appendix 2

### New loans taken out by the Councils

#### Adur District Council – new loans

Lender	Principal	Type	Interest Rate	Maturity
Halton Borough Council	£1.0m	Fixed interest rate	1.90%	20/06/2024

#### Worthing Borough Council – new loans

Lender	Principal	Type	Interest Rate	Maturity
Great Yarmouth Borough Council	£3.0m	Fixed interest rate	0.30%	19/04/2024
Gloucestershire County Council	£5.0m	Fixed interest rate	1.70%	05/07/2024
Bedford Borough Council	£2.0m	Fixed interest rate	1.85%	30/09/2022
Vale of Glamorgan Council	£2.0m	Fixed interest rate	2.45%	29/09/2023
Public Works Loan Board	£2.0m	Fixed interest rate	2.50%	09/08/2031
Public Works Loan Board	£5.0m	Fixed interest rate	3.82%	13/09/2072
Public Works Loan Board	£5.0m	Fixed interest rate	4.00%	21/09/2067
Public Works Loan Board	£5.0m	Fixed interest rate	4.05%	21/09/2062



## APPENDIX 3

*This commentary has been supplied by **Link Treasury Services Ltd**, the professional consultants for the Councils' shared treasury management services. The context is significant as it describes the backdrop against which treasury management activity has been undertaken during the year.*

### Economics update

- The second quarter of 2022/23 saw:
  - GDP revised upwards in Q1 2022/23 to +0.2% q/q from -0.1%, which means the UK economy has avoided recession for the time being;
  - Signs of economic activity losing momentum as production fell due to rising energy prices;
  - CPI inflation ease to 9.9% y/y in August, having been 9.0% in April, but domestic price pressures showing little sign of abating in the near-term;
  - The unemployment rate fall to a 48-year low of 3.6% due to a large shortfall in labour supply;
  - Bank Rate rise by 100bps over the quarter, taking Bank Rate to 2.25% with further rises to come;
  - Gilt yields surge and sterling fall following the “fiscal event” of the new Prime Minister and Chancellor on 23rd September.
- The UK economy grew by 0.2% q/q in Q1 2022/23, though revisions to historic data left it below pre-pandemic levels.
- There are signs of higher energy prices creating more persistent downward effects in economic activity. Both industrial production (-0.3% m/m) and construction output (-0.8% m/m) fell in July 2022 for a second month in a row. Although some of this was probably due to the heat wave at the time, manufacturing output fell in some of the most energy intensive sectors (e.g., chemicals), pointing to signs of higher energy prices weighing on production. With the drag on real activity from high inflation having grown in recent months, GDP is at risk of contracting through the autumn and winter months.
- The fall in the composite PMI from 49.6 in August to a 20-month low preliminary reading of 48.4 in September points to a fall in GDP of around 0.2% q/q in Q3 and consumer confidence is at a record low. Retail sales volumes fell by 1.6% m/m in August, which was the ninth fall in 10 months. That left sales volumes in August just 0.5% above their pre-Covid level and 3.3% below their level at the start of the year. There are also signs that households are spending their excess savings in response to high prices. Indeed, cash in households' bank accounts rose by £3.2bn in August, which was below the £3.9bn rise in July and much smaller than the 2019 average monthly rate of £4.6bn.

- The labour market remained exceptionally tight. Data for July and August provided further evidence that the weaker economy is leading to a cooling in labour demand. Labour Force Survey (LFS) employment rose by 40,000 in the three months to July (the smallest rise since February). But a renewed rise in inactivity of 154,000 over the same period meant that the unemployment rate fell from 3.8% in June to a new 48-year low of 3.6%. The single-month data showed that inactivity rose by 354,000 in July itself and there are now 904,000 more inactive people aged 16+ compared to before the pandemic in February 2020. The number of vacancies has started to level off from recent record highs but there have been few signs of a slowing in the upward momentum on wage growth. Indeed, in July, the 3my/y rate of average earnings growth rose from 5.2% in June to 5.5%.
- CPI inflation eased from 10.1% in July to 9.9% in August, though inflation has not peaked yet. The easing in August was mainly due to a decline in fuel prices reducing fuel inflation from 43.7% to 32.1%. And with the oil price now just below \$90pb, we would expect to see fuel prices fall further in the coming months.
- However, utility price inflation is expected to add 0.7% to CPI inflation in October when the Ofgem unit price cap increases to, typically, £2,500 per household (prior to any benefit payments). But, as the government has frozen utility prices at that level for two years, energy price inflation will fall sharply after October and have a big downward influence on CPI inflation.
- Nonetheless, the rise in services CPI inflation from 5.7% y/y in July to a 30-year high of 5.9% y/y in August suggests that domestic price pressures are showing little sign of abating. A lot of that is being driven by the tight labour market and strong wage growth. CPI inflation is expected to peak close to 10.4% in November and, with the supply of workers set to remain unusually low, the tight labour market will keep underlying inflationary pressures strong until early next year.
- During H1 2022, there has been a change of both Prime Minister and Chancellor. The new team (Liz Truss and Kwasi Kwarteng) have made a step change in government policy. The government's huge fiscal loosening from its proposed significant tax cuts will add to existing domestic inflationary pressures and will potentially leave a legacy of higher interest rates and public debt. Whilst the government's utility price freeze, which could cost up to £150bn (5.7% of GDP) over 2 years, will reduce peak inflation from 14.5% in January next year to 10.4% in November this year, the long list of tax measures announced at the "fiscal event" adds up to a loosening in fiscal policy relative to the previous government's plans of £44.8bn (1.8% of GDP) by 2026/27. These included the reversal of April's national insurance tax on 6th November, the cut in the basic rate of income tax from 20p to 19p in April 2023, the cancellation of next April's corporation tax rise, the cut to stamp duty and the removal of the 45p tax rate, although the 45p tax rate cut announcement has already been reversed.
- Fears that the government has no fiscal anchor on the back of these announcements has meant that the pound has weakened again, adding further upward pressure to interest rates. Whilst the pound fell to a record low of \$1.035 on the Monday following the government's "fiscal event", it has since recovered to

around \$1.12. That is due to hopes that the Bank of England will deliver a very big rise in interest rates at the policy meeting on 3rd November and the government will lay out a credible medium-term plan in the near term. This was originally expected as part of the fiscal statement on 23rd November but has subsequently been moved forward to an expected release date in October. Nevertheless, with concerns over a global recession growing, there are downside risks to the pound.

- The MPC has now increased interest rates seven times in as many meetings in 2022 and has raised rates to their highest level since the Global Financial Crisis. Even so, coming after the Fed and ECB raised rates by 75 basis points (bps) in their most recent meetings, the Bank of England's latest 50 basis points hike looks relatively dovish. However, the UK's status as a large importer of commodities, which have jumped in price, means that households in the UK are now facing a much larger squeeze on their real incomes.
- Since the fiscal event on 23rd September, we now expect the Monetary Policy Committee (MPC) to increase interest rates further and faster, from 2.25% currently to a peak of 5.00% in February 2023. The combination of the government's fiscal loosening, the tight labour market and sticky inflation expectations means we expect the MPC to raise interest rates by 100bps at the policy meetings in November (to 3.25%) and 75 basis points in December (to 4%) followed by further 50 basis point hikes in February and March (to 5.00%). Market expectations for what the MPC will do are volatile. If Bank Rate climbs to these levels the housing market looks very vulnerable, which is one reason why the peak in our forecast is lower than the peak of 5.50% - 5.75% priced into the financial markets at present.
- Throughout 2022/23, gilt yields have been on an upward trend. They were initially caught up in the global surge in bond yields triggered by the surprisingly strong rise in CPI inflation in the US in May. The rises in two-year gilt yields (to a peak of 2.37% on 21st June) and 10-year yields (to a peak of 2.62%) took them to their highest level since 2008 and 2014 respectively. However, the upward trend was exceptionally sharply at the end of September as investors demanded a higher risk premium and expected faster and higher interest rate rises to offset the government's extraordinary fiscal stimulus plans. The 30-year gilt yield rose from 3.60% to 5.10% following the "fiscal event", which threatened financial stability by forcing pension funds to sell assets into a falling market to meet cash collateral requirements. In response, the Bank did two things. First, it postponed its plans to start selling some of its quantitative easing (QE) gilt holdings until 31st October. Second, it committed to buy up to £65bn of long-term gilts to "restore orderly market conditions" until 14th October. In other words, the Bank is restarting QE, although for financial stability reasons rather than monetary policy reasons.
- Since the Bank's announcement on 28th September, the 30-year gilt yield has fallen back from 5.10% to 3.83%. The 2-year gilt yield dropped from 4.70% to 4.30% and the 10-year yield fell back from 4.55% to 4.09%.
- There is a possibility that the Bank continues with QE at the long-end beyond 14th October or it decides to delay quantitative tightening beyond 31st October, even as it raises interest rates. So far at least, investors seem to have taken the Bank

at its word that this is not a change in the direction of monetary policy nor a step towards monetary financing of the government's deficit. But instead, that it is a temporary intervention with financial stability in mind.

After a shaky start to the year, the S&P 500 and FTSE 100 climbed in the first half of Q2 2022/23 before falling to their lowest levels since November 2020 and July 2021 respectively. The S&P 500 is 7.2% below its level at the start of the quarter, whilst the FTSE 100 is 5.2% below it as the fall in the pound has boosted the value of overseas earnings in the index. The decline has, in part, been driven by the rise in global real yields and the resulting downward pressure on equity valuations as well as concerns over economic growth leading to a deterioration in investor risk appetite.

### Interest rate forecasts

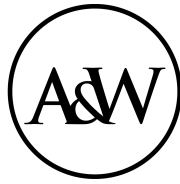
The Council has appointed Link Group as its treasury advisors and part of their service is to assist the Council to formulate a view on interest rates. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1st November 2012.

The latest forecast on 27th September sets out a view that both short and long-dated interest rates will be elevated for some little while, as the Bank of England seeks to squeeze inflation out of the economy, whilst the government is providing a package of fiscal loosening to try and protect households and businesses from the ravages of ultra-high wholesale gas and electricity prices.

The increase in PWLB rates reflects a broad sell-off in sovereign bonds internationally but more so the disaffection investors have with the position of the UK public finances after September's "fiscal event". To that end, the MPC has tightened short-term interest rates with a view to trying to slow the economy sufficiently to keep the secondary effects of inflation – as measured by wage rises – under control, but its job is that much harder now.

Our PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps, calculated as gilts plus 80bps) which has been accessible to most authorities since 1st November 2012.

Link Group Interest Rate View 27.09.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
BANK RATE	4.00	5.00	5.00	5.00	4.50	4.00	3.75	3.25	3.00	2.75	2.75	2.50
3 month ave earnings	4.50	5.00	5.00	5.00	4.50	4.00	3.80	3.30	3.00	2.80	2.80	2.50
6 month ave earnings	4.70	5.20	5.10	5.00	4.60	4.10	3.90	3.40	3.10	3.00	2.90	2.60
12 month ave earnings	5.30	5.30	5.20	5.00	4.70	4.20	4.00	3.50	3.20	3.10	3.00	2.70
5 yr PWLB	5.00	4.90	4.70	4.50	4.20	3.90	3.70	3.50	3.40	3.30	3.20	3.20
10 yr PWLB	4.90	4.70	4.60	4.30	4.10	3.80	3.60	3.50	3.40	3.30	3.20	3.20
25 yr PWLB	5.10	4.90	4.80	4.50	4.30	4.10	3.90	3.70	3.60	3.60	3.50	3.40
50 yr PWLB	4.80	4.60	4.50	4.20	4.00	3.80	3.60	3.40	3.30	3.30	3.20	3.10



ADUR & WORTHING  
COUNCILS

Joint Audit and Governance Committee  
29 November 2022

Ward(s) Affected: All

## Risks & Opportunities Update Report

### Report by the Director for Digital, Sustainability & Resources

#### Officer Contact Details

Mark Lowe, Scrutiny & Risk Officer, 01903 221009

[mark.lowe@adur-worthing.gov.uk](mailto:mark.lowe@adur-worthing.gov.uk)

## Executive Summary

### 1. Purpose

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

### 2. Recommendations

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

2.2 That the Committee agree to receive a further progress report in March 2023.

### **3. Context**

- 3.1 The Committee receives regular update reports on the general management of the Councils' Risks and Opportunities to assist the Committee in its role monitoring the effective development and operation of risk management and corporate governance in the Councils. This report provides the Committee with the detail of the updates including information on the 'High/Red' Service Risks for each Directorate. The last report to the Committee was on 31 May 2022. Further information on the management of Risks and Opportunities by the Councils is contained in the Risk and Opportunity Management Strategy.

### **4. Issues for consideration**

- 4.1 The Councils have been impacted this year by a number of issues where the outcomes are uncertain which could lead to an impact on the delivery of the long and short term objectives if no action was taken to mitigate these risks. The Councils have needed to be proactive in the management of these business risks and there have been significant challenges in setting the budgets this year and it has been a long time since the Council had any certainty during budget setting. Having come through a pandemic, the Councils have now had to address the challenge of high inflation which is impacting on a number of costs significantly. The impact of any fairer funding review is now looking likely to be deferred yet again for a least a further year, but the councils do not know what will replace it for 2023/24; the Councils have had to address the impact of the industrial dispute and the additional costs required to meet the recently agreed national pay agreement for staff. A proactive programme of job evaluation review at the lower grades is also underway. All of this continues to influence costs; and inevitably the difficult economic climate will continue to influence a number of budget lines, from Council Tax revenues to income for services such as car parks.
- 4.2 The Councils have a clear strategy for facing the challenges of rapidly changing local government finance and will build on the strategy to meet the new and emerging challenges but within the context of supporting our local communities and economies. Careful financial management is being applied to ensure that the Councils manage both the emerging in-year pressures and the implications for the future, whilst driving forward with the new Corporate Plan. The financial strategy includes managed and prudent increases in council tax, and a clear focus on driving efficiency and productivity. The Councils will be increasingly reliant on council tax income, business rate income, and our own income generating services.

- 4.3 Reports are regularly provided to the Councils and the Joint Strategic Committee (JSC) on how the Councils have been managing finances and responding to the pandemic. During these challenging times it is important that the Councils continue to monitor and review the full Risk and Opportunity registers. Corporate Risks and Opportunities which reflect the aims and activities set out in the Corporate Plan are reported regularly to the Council Leadership Team. The Service Risk registers are regularly updated in consultation with Directors, Heads of Service and Departmental Management Team meetings.
- 4.4 This report includes changes required to the Risks and Opportunities since the last report to the Committee in May 2022. At the request of the Committee a new Corporate risk has now been added which relates to staffing issues 'Our People - Resource levels, health and wellbeing, skills and learning'. A Corporate Risk has also been added relating to Adur Homes - 'Risk that Adur Council will fail to comply with statutory health and safety obligations as a social landlord (Adur Homes)' - Information on this risk is set out in Appendix B to this report. Following on from the launch of the new Corporate Plan for the Councils it will also be an ongoing process for the Councils to review the current Corporate Risks and Opportunities to make sure that they continue to align closely with the new Corporate Priorities. Changes will be reported to the Committee on a regular basis.

## **5. Engagement and Communication**

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

## **6. Financial Implications**

- 6.1 There are no direct financial implications as a result of this report but there are financial implications associated with some of the Risks and Opportunities referred to in the report and contained elsewhere in the Risk registers.

## **7. Legal Implications**

- 7.1 There are no direct legal implications arising from this report but there are potential legal, compliance, regulation and public protection implications for the Councils if any of the risk events do occur. The Joint Audit and

Governance Committee has the responsibility for monitoring the effective development and operation of risk and opportunity management.

**Background Papers**

Adur & Worthing Risk and Opportunity Management Strategy 2021 - 2023  
Risk and Opportunity Management updates report to the Joint Governance  
Committee on 31 May 2022



## **Sustainability & Risk Assessment**

### **1. Economic**

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

### **2. Social**

#### **2.1 Social Value**

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

#### **2.2 Equality Issues**

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

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

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

#### **2.4 Human Rights Issues**

Matter considered and no direct issues identified.

### **3. Environmental**

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

### **4. Governance**

Matter considered. As part of good governance the Councils need to manage Risks and Opportunities. The Councils Risk and Opportunity Management Strategy sets out clear governance controls for the management of Risks and

Opportunities and part of these include provision for the Service Risks and Opportunities to be considered three times a year by the Joint Audit and Governance Committee.

## APPENDIX A


### Joint Audit and Governance Committee - 29 November 2022

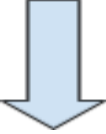
### Updates on Risk and Opportunity Management

	May 2022 update	November 2022 update
<b><u>Corporate Risks and Opportunities</u></b>	12 Risks - Plus 1 5 Opportunities - No change	12 Risks - No change 5 Opportunities - No change
<b><u>Service Risks and Opportunities</u></b>		
<b><u>Communities Directorate</u></b>		
Housing	4 Risks - No change	4 Risks - No change
Adur Homes	2 Opportunities - No change	2 Opportunities - No change
Wellbeing	5 Risks - No change	5 Risks - No change
	6 Risks - Minus 1	6 - No change
<b><u>Digital, Sustainability &amp; Resources Directorate</u></b>		
Customer, Digital, Waste & Recycling	9 Risks - No change	9 Risks - No change
Financial Services	6 Risks - No change	6 Risks - No change
Human Resources/ Organisational Development and Design	1 Opportunity - No change	1 Opportunity - No change
Legal Services	6 Risks - No change	6 Risks - No change
Revenues & Benefits	3 Risks -Minus 1	4 Risks - Plus 1
	3 Risks - No change	3 Risks - No change

<b><u>Economy Directorate</u></b>  Facilities & Technical Services Major Projects & Investment Place & Economy Planning & Development  Leisure	6 Risks - Minus 1 10 Risks - No change 8 Risks - Plus 1 19 Risks - No change  1 Risk - No change	6 Risks - No change 10 Risks - No change 8 Risks - No change 19 Risks - No change  1 Risk - No change
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<b><u>High Risks on Service Risk registers</u></b>  Housing Adur Homes Financial Services	<b><u>May 2022 update</u></b>  2 - No change 2 - No change 4 - No change	<b><u>November 2022 update</u></b>  2 - No change 2 - No change 4 - No change
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 Risks where assessment score has increased since the last report	<p><b>Wellbeing</b> - Bathing water quality - Risk of not achieving 'good' bathing water quality - Risk increased to Medium from Low Risk because of the possibility that the November testing results will reveal a drop in the classification due to the storm water releases in August and September.</p> <p><b>Customer &amp; Digital &amp; Waste Services</b> - Risk relating to 'increasing households leads to additional costs for providing the refuse and recycling service' - Risk increased to Medium from Low risk on the basis of the potential increase in impact if additional crews and vehicles are required to service additional rounds.</p> <p><b>Human Resources/Organisational Development and Design</b> - Risk - Failure to manage talent results in loss of talent and increased hiring costs etc and affects ability to undertake succession planning - Risk increased to Medium Risk from Low because the potential for staffing reductions and loss of talent has increased due to the ongoing service planning work.</p> <p><b>Major Projects and Investment</b> - Risk - Development of Adur Civic Centre Phase 1 and Phase 2 - Risk likelihood increased to Moderate from unlikely. Overall Risk increased to Medium.</p>
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	<b>Planning &amp; Development</b> - Shoreham Harbour regeneration risk increased to Medium from Low because of the possibility that a lower density for the sites might mean that the sites do not come forward for development.
 Risks where assessment score has reduced since the previous report.	<b>None</b> .
New Risks/Opportunities added since last report or changes to Risk descriptions	<p><b>Corporate Risk</b> - Risk that Adur Council will fail to comply with statutory health and safety obligations as a social landlord (Adur Homes) - High Risk</p> <p><b>Corporate Risk</b> - Wider economic uncertainty in relation to inflation, interest rates and workforce shortages which are impacting on local businesses, including energy costs, upward pressure on wages, inability to fill vacancies, skills shortages - High Risk (Amalgamated with previous 'economic uncertainty' risk)</p> <p><b>Corporate Risk</b> - Our People - Resource levels, health and wellbeing, skills and learning - Medium Risk (Amalgamated with Learning and development risk)</p> <p><b>Legal Services</b> - New risk added relating to Legal Services capacity - High Risk</p>
Risks/Opportunities removed since last report.	<b>Corporate Risk</b> - Covid-19 - Impact on the operations of the Councils to meet demand for normal services and the recovery efforts

## APPENDIX B - CORPORATE /DIRECTORATE HIGH (RED) RISKS

Category	Ref	Risk / Opportunity	Latest update and Internal Controls	Owner	Impact	Likelihood	Risk rat	Status
Corporate	C1	Risk that Adur Council will fail to comply with statutory health and safety obligations as a social landlord (Adur Homes)	<p>November 2022. Significant focus on this programme to set out and action mitigating measures to ensure compliance with statutory health and safety measures. Additional resources have been identified to accelerate this work in the short term. A renewed focus on governance for this work is being implemented to ensure corporate oversight. A medium/longer term plan around HRA resourcing and capacity will be developed to ensure this programme is maintained and improved over the next few years.</p> <p>Some key actions have been undertaken to address these compliance measures, including:</p> <p>A contract procured for electrical safety inspections and associated remedial works and a programme for installation of smoke and CO alarms. 220 fire doors will have been installed by Dec 2022. A procurement process for the identification and removal of asbestos across the council's properties is underway, as are similar procurements for protection against Legionella and fire safety equipment and maintenance.</p> <p>The financial pressures on the Housing Revenue Account represent a significant challenge. A 2 year capital investment planned works is being drawn up. Health and safety issues and issues relating to the external fabric of buildings are being prioritised.</p>	CLT	Major	Very Likely	High	New Risk added November 2022

**APPENDIX B - CORPORATE /DIRECTORATE HIGH (RED) RISKS**

Category	Ref	Risk / Opportunity	Latest update and Internal Controls	Owner	Impact	Likelihood	Risk rat	Status
Corporate	C2	Cost of living crisis	October 2022 - The pandemic has already impacted residents who are experiencing health and wellbeing inequality and has increased those inequalities. Now other cost of living pressures such as higher energy bills and housing costs are further increasing those pressures and the Councils are continuing to work in a number of ways to support and assist residents that are experiencing difficulties. New LIFT data shows a real spike in the number of people coming under pressure and there is a concern for autumn 2022. Proactive Programme being used to assist and support residents. The approach uses the LIFT platform to identify households with low financial resilience and our Customer Service team members then telephone households to explore ways of increasing household income, reducing household debt and also addressing issues such as depression, anxiety and loneliness that often accompany financial exclusion. One Stop Money Coaches programme supporting the work of Proactive and supporting the community more widely. The situation in respect of the impact of Universal Credit on the live Housing Benefit caseloads remains unchanged in that it is reducing by approximately 0.75% each month. The volume of new claims for Council Tax Support has reduced whilst the live Council Tax Support caseload in both Adur and Worthing is reducing and is now below pre-COVID levels. More than £65,000 payments totalling £9.8M (£3.7M in Adur and £6.1M in Worthing) has been awarded in respect of the Council Tax Energy Rebate scheme. Confirmation about the local criteria for the discretionary schemes is pending Member authorisation.	CLT	Major	Very Likely	High	Worse
Corporate	C3	Wider economic uncertainty in relation to inflation, interest rates and workforce shortages which are impacting on local businesses, including energy costs, upward pressure on wages, inability to fill vacancies, skills shortages	November 2022. The Councils have navigated these pressures carefully in order to set a balanced budget for 23/24, and schemes like the Worthing Heat Network are aiming to provide options for other organisations, such as Worthing Hospital to achieve energy security. The Councils have developed an Economy theme in the new corporate plan called "Thriving Economy" which will work to ensure "A varied and resilient economy that works for everyone. Our local business strengths are known worldwide. Businesses create jobs to support local people and create aspiration in our communities. They respect and nurture the environment." A delivery plan will be developed early in 2023.	CLT	Major	Likely	High	New Risk added November 2022

## APPENDIX B - CORPORATE /DIRECTORATE HIGH (RED) RISKS

Category	Ref	Risk / Opportunity	Latest update and Internal Controls	Owner	Impact	Likelihood	Risk rat	Status
Corporate	C4	Council Finances - Risk that Councils finances will continue to be under pressure	October 2022 - The Councils are under significant financial pressure due to a number of in-year issues emerging including the outcome of the waste dispute, a higher than expected national pay award, massive increases to energy costs and interest rate rises. Over the summer 2022, the senior leadership team has worked successfully to generate significant savings options, and the next stage of service planning has now launched. This will develop proposals from across our services for change, including income generation, procurement and contract opportunities, rapid digital change, and options to re-scope services. Following the service planning exercise, options for savings have been identified which are due to be discussed with members in October / November.	CLT	Major	Very Likely	High	No change



**APPENDIX B - CORPORATE /DIRECTORATE HIGH (RED) RISKS**

Category	Ref	Risk / Opportunity	Latest update and Internal Controls	Owner	Impact	Likelihood	Risk rat	Status
Corporate	C5A	Housing supply - Limited housing supply in all areas and all tenures is a key risk for the Councils in terms of both discharging its statutory duty to prevent homelessness and support those at risk, as well as placing critical budgetary pressures on the Councils. Managing this demand is challenging and places additional capacity pressures on the operational teams.	Nov 2022 - The number of households presenting homeless continues to increase, and this is likely to be the case given the prevailing situation in the country. The impending increased regulation of the sector is resulting in more private sector landlords either selling their properties or seeking higher rents and tenants who are not on welfare benefits. This has impacted on the number of homeless prevention successes and the number of properties available to the Open Doors Scheme. While the Scheme has successfully 'floated off' 21 households so far, the number of new landlords the scheme has not matched that number. There are currently 53 landlords on the scheme. It is also becoming increasingly challenging to find suitable temporary accommodation, especially locally. Work continues to identify those at risk of becoming homeless as early as possible. Opportunities to secure more suitable temporary accommodation locally are being explored. A 'Landlords Roundtable' event is planned to bring together small and large scale developers and social housing landlords to explore opportunities to increase supply of temporary accommodation and permanent affordable homes locally. Overall housing supply in the District and Borough remains low with both local plans identifying shortfalls against Objectively Analysed Needs and each area unable to demonstrate a five year supply of housing for planning purposes. As a result each area's housing stock has continued to exceed a suitable price point relative to median wages. Increasing the number of homes overall, and affordable homes is therefore a continuing focus for the Councils. In terms of internal controls an Affordable Housing Delivery Group continues to meet to coordinate direct delivery of new affordable homes by the Councils, along with coordinating other levers of support such as the strategic relationship with Homes England and funneling S106 commuted sums received to increase the number of affordable homes within the areas. Additionally work along side private developers to deliver good quality, local temporary accommodation continues. Continuing to deliver good customer service within the planning service remains important as a means to create overall supply, by providing an environment where developers perceive the area as open to working in collaboration to ensure planning consents are granted.	CLT	Major	Very Likely	High	Worse

## APPENDIX B - CORPORATE /DIRECTORATE HIGH (RED) RISKS

Category	Ref	Risk / Opportunity	Latest update and Internal Controls	Owner	Impact	Likelihood	Risk rat	Status
Corporate	C5B	Housing supply - Limited housing supply in all areas and all tenures is a key risk for the Councils in terms of both discharging its statutory duty to prevent homelessness and support those at risk, as well as placing critical budgetary pressures on the Councils. Managing this demand is challenging and places additional capacity pressures on the operational teams.	May 2022 The mitigation measures reported in September 2021 continue but demand for emergency accommodation continues to be very high. In 20/21, the average monthly caseload in Adur was 45 households and in Worthing it was 157. The increasing costs of living means some landlords are selling up and so evicting tenants, or rents are increasing, while at the same time tenants are less able to afford to spend on housing and keep up with utility bills. This means continued reliance on spot purchased accommodation (hotels/self contained flats) to meet our accommodation needs. The Opening Doors portfolio is currently 60 properties with 3 more in the pipeline. This is in addition to 16 properties which, having reached the end of the two year Opening Doors Contract, were floated off back to be managed by the property owners, with the tenancies still in place. The role of Acquisitions and Landlord Support Officer is temporarily vacant following the departure of the previous post holder. Telljo - the tool to identify residents in need of support or at risk of homelessness that will link with our Proactive work - is in its final phase of development and should enable us to support families earlier and offer a wider range of support. . In terms of building more affordable and social housing to reduce the length of time tenants have to spend in TA, it is worth noting that the Levelling Up and Regeneration Bill introduced in the Queen's Speech will incorporate some proposals to reform the planning system including the introduction of an infrastructure levy, which would be locally set and non-negotiable and to be spent on housing, schools, GPs and new roads. This could provide more funds for the Council to build more properties in the future but how it would operate is still uncertain.	CLT	Major	Very Likely	High	Worse

**APPENDIX B - CORPORATE /DIRECTORATE HIGH (RED) RISKS**

Category	Ref	Risk / Opportunity	Latest update and Internal Controls	Owner	Impact	Likelihood	Risk rat	Status
Corporate	C6	IT Disaster recovery - Risk that hosting applications locally carries increasing risks given the pace of technological change. As for most councils, we have limited resilience in the team, and too much dependence on key personnel. Our data centre cannot be sufficiently protected from physical threats.	<p>September 2022</p> <p>Whilst a recent internal audit found limited assurance regarding disaster recovery, a detailed follow up report has been presented to Joint Governance Committee by the Director for Digital, Sustainability &amp; Resources, providing a host of additional information. The report sets out the significant progress that has been made with moving all major systems to the cloud and away from the Town Hall data centre. New equipment is being installed in the data centre and a new network will provide significant additional security. We now have a dedicated cybersecurity officer in post. There is more work to do on documentation and testing regimes and this is being developed at pace. A comprehensive IT Security Policy was implemented in February 2022 and sits alongside an up to date Data Protection Policy. In both domains staff training is in place.</p>	CLT	Extreme	Moderate	High	Improved
Corporate	C7	Risk that major projects are not delivered.	<p>October 2022 -</p> <p>The impact of recent inflation to build costs is likely to have an impact on a number of the major projects. Supply of certain materials such as steel, labour and timber has been difficult with a resultant increase in prices. A number of the major projects are market facing so dependent on rental income or disposable income to make their business cases suitable. Should inflation sustain without a commensurate increase in commercial income then the viability of some projects will be challenging. Interest rates are increasing which is undermining the viability of the invest to save proposals.</p>	CLT	Major	Likely	High	No change

## APPENDIX B - CORPORATE /DIRECTORATE HIGH (RED) RISKS

Category	Ref	Risk / Opportunity	Latest update and Internal Controls	Owner	Impact	Likelihood	Risk rat	Status
Corporate	C8	Climate emergency risk - Councils need to mitigate climate change, adapt to climate change and prepare for more frequent extreme climate events and impacts.	November 2022. An annual carbon emissions report for 2021/22 was presented to Adur and Worthing Joint Strategic sub-committees in November 2022 which set out the significant progress being made on the net zero 2030 target. The report sets out the success the Councils have had in securing funding from the public sector decarbonisation fund (PSDF) and the projects that have been delivered in the last year, including solar panel installations, heat pump installations and excellent progress with the Worthing Heat Network which is on target for contract award to a concessionaire in early 2023. The Heat Network will provide heat to civic quarter buildings in Worthing, and also to Worthing Hospital and other sites in the future in the town centre. Excellent progress is also being made in relation to nature and biodiversity, with a £1.5m bid to National Heritage Lottery Fund for New Salts Farm in Adur passing the EOI stage, and NSF and Pad Farm forming part of a successful £500k DEFRA Landscape Scale Recovery pilot to start next year in partnership with Knepp Estate. Community involvement work has also been undertaken at Cissbury Fields where we are exploring Biodiversity Net Gain payments from developers to fund chalk grassland restoration there. Finally Sussex Bay, a major vision for seascape restoration being led by our Councils is developing strongly with interest being generated from private investors to help restore the kelp forest and other projects.	CLT	Major	Likely	High	Improved
Corporate	C9	Delivery of partnership working and joint services  Risk effect - Delivery of Adur & Worthing Councils partnership working arrangements model and the provision of joint services is impacted by the different competing priorities being set by the new administrations which leads to a failure to deliver strategic objectives, potential reputational damage, an impact on the budget costs for both Councils. A potential risk of the breakdown of partnership arrangements which would be unaffordable.	November 2022 - New governance arrangements being introduced following the review of the Constitutions to enable decisions to be taken, and scrutiny undertaken, by individual authorities for sole matters, while retaining joint management and scrutiny of shared operational services. Regular meetings of both Leaders with the Chief Executive to support good working relationships. Regular meetings between the Councils Leadership Team and both Executive teams, and meetings between Director and portfolio holders. Development of shared objectives where possible, such as climate, cost of living crisis and a range of other key agendas. Individual Council priorities now agreed and supported by a new Corporate Plan (Our Plan).	CLT	Major	Likely	High	Improved

# APPENDIX B - CORPORATE /DIRECTORATE HIGH (RED) RISKS

Category	Ref	Risk / Opportunity	Latest update and Internal Controls	Owner	Impact	Likelihood	Risk rat	Status
Housing	H1	<p>Risk of the rising costs of emergency and temporary accommodation - Risk that it puts an Increased pressure on general funds</p> <p>Councils have to spend money on expensive B&amp;B type accommodation.</p>	<p>November 2022</p> <p>The cost of living crisis and impending changes in the private rented sector continues to drive the increasing demand for temporary housing. With several local authorities competing for limited supply of suitable units to temporary accommodation, placements are being made further out of the area. The Councils' cost of providing temporary accommodation continues to increase due to the increasing number of placements, temporary accommodation providers transferring the increased cost of delivering the accommodation to the Councils and the lack of competition in the market.</p> <p>Opportunities to secure more suitable temporary accommodation locally are being explored including increasing the Councils ownership of this form of accommodation (either by developing or buying accommodation) and leasing suitable accommodation. A 'Landlords Roundtable' event is planned to bring together small and large scale developers and social housing landlords to explore opportunities to increase supply of temporary accommodation and permanent affordable homes locally.</p>	AA	Major	Very Likely	High	No change

## APPENDIX B - CORPORATE /DIRECTORATE HIGH (RED) RISKS

Category	Ref	Risk / Opportunity	Latest update and Internal Controls	Owner	Impact	Likelihood	Risk rat	Status
Housing	H2	Overall Risk of increasing demand for housing advice and homelessness applications	<p>November 2022</p> <p>The number of households presenting homeless continues to increase, and this is likely to be the case given the prevailing situation in the country. The impending increased regulation of the sector is resulting in more private sector landlords either selling their properties or seeking higher rents and tenants who are not on welfare benefits. This has impacted on the number of homeless prevention successes and the number of properties available to the Open Doors Scheme. While the Scheme has successfully 'floated off' 21 households so far, the number of new landlords the scheme has not matched that number. There are currently 53 landlords on the scheme. It is also becoming increasingly challenging to find suitable temporary accommodation, especially locally.</p> <p>Work continues to identify those at risk of becoming homeless as early as possible. Opportunities to secure more suitable temporary accommodation locally are being explored. A 'Landlords Roundtable' event is planned to bring together small and large scale developers and social housing landlords to explore opportunities to increase supply of temporary accommodation and permanent affordable homes locally.</p> <p>Ongoing plans to implement a Triage system to increase opportunities to prevent homelessness as well as interventions to increase move on from temporary accommodation.</p> <p>TellJO will be used to improve opportunities to identify and support those at risk of homelessness. Ongoing plans to commence a campaign to reach private sector landlords with information about support Councils can provide as an alternative to evicting their tenants. Additional posts created to support increasing numbers of households in bed &amp; breakfast accommodation, improve early identification and intervention and support increased move on from temporary accommodation.</p>	AA	Major	Very Likely	High	No change

**APPENDIX B - CORPORATE /DIRECTORATE HIGH (RED) RISKS**

Category	Ref	Risk / Opportunity	Latest update and Internal Controls	Owner	Impact	Likelihood	Risk rat	Status
Adur Homes	AH1	Adur Homes - Compliance - Fire, Gas, electrical and water quality (Adur Homes)	<p>November 2022 Work underway to address compliance areas and reduce risks. Additional resources being requested to accelerate this work. Governance structure to be set up to focus and support efforts to achieve compliance</p> <p>Contract procurement for electrical inspections and smoke and CO alarms ongoing. Battery Operated CO alarms to be installed as an interim measure. 220 fire doors will have been installed by Dec 2022, going out to market for a larger contract.</p> <p>Asbestos contract procured, contract arrangements being finalised.</p> <p>Contract procurement processes for Door Entry maintenance and installation, Legionella, Fire Safety Equipment maintenance in progress,</p>	AA	Extreme	Very Likely	High	Improved
Adur Homes	AH2	Housing Revenue Account - Financial sustainability as a result of Rent Reduction Policy and Rent collection levels - Impact on budget and service provision	<p>November 2022 The government's announcement on 17 November 2022 that the maximum social rent increase will be capped at 7% (with inflation at 11.1%) will increase the pressure on the HRA. With the cost of living crisis, rent collection is predicted to drop as households struggle with their finances but inflation will increase the cost of delivering services. Given the forecasted challenges for the Country's economy for the next few years, the pressure on the HRA is likely to continue for a while. A review of services offered will be undertaken with the likelihood that their will be a reduction in service offer. Housing Transformation Programme has been absorbed into corporate change, which will look at achieving the right balance of staffing, optimised processes and procedures to ensure efficiency and balance budget.</p>	AA	Major	Likely	High	Worse
Financial Services	F1	Risk to overall financial position - Known areas of risk within the budget eg Income from demand led services, outcomes of job evaluation, Pay award higher than assumed.	<p>October 22 - Inflationary pressures - Impact of excess inflation in staffing costs likely due to 2022/23 pay award and the renewal of the energy contracts. Risk still persists due to economic uncertainty and inflation. cts.</p>	SG	Major	Very Likely	High	Worse

APPENDIX B - CORPORATE /DIRECTORATE HIGH (RED) RISKS								
Category	Ref	Risk / Opportunity	Latest update and Internal Controls	Owner	Impact	Likelihood	Risk rat	Status
Financial Services	F2	Future spending requirements are under-estimated - Budgets are insufficient to fund core costs leading to an overspend.	October 22 - Risk remains and is increasing due to both energy costs and increasing interest rates New risks are emerging associated with inflation and the waste dispute. Council has set a balanced budget for 2022/23 including building in capacity to fund Covid 19 risks. Closely monitor progress through Budget/ Performance Monitoring. • Where issues are identified build into budget for the following year.	SG	Major	Likely	High	Worse
Financial Services	F3	Risk that future resources from Government are less than assumed	October 22 - This continues to be a problem particularly in the light of the Chancellors recent comments (17/10/22) Budget shortfall is understated leading to a greater level of savings. Particular issue in 23/24 Financial Year is likely due to fairer funding review	SG	Major	Likely	High	Worse
Financial Services	F4	General risk of not finding significant budget savings from both Councils.	October 22 - Good progress made on both budgets for 23/24 but the Worthing budget in particular remains unbalanced. Sufficient savings were identified to meet 2022/23 budget pressures.  Introduced Medium Term Financial Plan Tracker to check savings over 3 years.	SG	Major	Likely	High	No change
Legal Services	L1	Legal Services capacity - Team is severely stretched as a demand led service. Cannot reduce the level of service and are dependent upon those instructing the Team to reduce demand.	October 22 - Stop some areas of service or additional resources will have to be found to fill the posts potentially at a higher grade to advertise.  Alternative locum staff or private sector staff to be recruited both of which incur considerably greater costs to the authorities.  Business case has been presented as part of the overall view seeking authority to increase posts. Although the level of advertising creates an expectation that risk will not diminish in the near future.	JL	Major	Likely	High	October 22 - New Risk added in consultation with Head of Service



APPENDIX C - MAJOR PROJECTS RISKS								
Category	Ref	Risk / Opportunity	Latest update and Internal Controls	Owner	Impact	Likelihood	Risk rat	Status
<b>Major Projects</b>								
Major Projects	MP1	Union Place development - Risk that the Council will be delayed in bringing the site forward as a mixed use development.	<p>October 2022 - Following the marketing of the site we have identified Roffey Homes as the preferred developer for the site at JSC in February 2022. The joint venture is currently being negotiated in detail and should be finalised in Summer 2022. Planning department is aware of the possible Joint Venture with developers and planning discussions to start soon. Should the joint venture be agreed a planning application would be agreed and submitted in late 2022/early 2023 with a view to commencing on site in late 2023 or early 2024.</p> <p>Should the Council choose not to proceed with the joint venture we would need to review the options ranging from direct delivery of the site, straight disposal, or procurement of a different joint venture partner. The timescales for each of these are difficult to predict at present but likely to push back commencement on site until late 2024 or early 2025.</p>	CC/JA	Minor	Unlikely	Low	No change
Major Projects	MP2	Decoy Farm development - Risk that that a new commercial/industrial development is delayed and that the commercial benefits to the Council of owning a large industrial estate are not realised.	<p>October 2022 - a final round of public consultation has taken place over September/October 2022 and the planning application will be submitted imminently. While the overall economic situation has worsened and build cost inflation continuing to increase the scheme remains viable. Business interest similarly remains buoyant. The scheme is being prepared as a net zero operational energy and likely to deliver circa 150,000 square foot of commercial and industrial space. The marketing and letting strategy has been drafted to target high value add, low carbon companies that will train local employees and create high value additional jobs within Worthing with an inbuilt approach to choosing local skills and labour.</p> <p>A number of local businesses have already expressed strong interest in taking a long lease at the site, and it has been widely communicated with the local business community in the area as a forthcoming development.</p>	CC/JA	Minor	Unlikely	Low	Improved

APPENDIX C - MAJOR PROJECTS RISKS								
Category	Ref	Risk / Opportunity	Latest update and Internal Controls	Owner	Impact	Likelihood	Risk rat	Status
Major Projects	MP3	Development of former Adur Civic Centre - Phase 1 and Phase 2 - Risk that development will not proceed or will be delayed and the social, economic and environmental benefits of development will not be realised.	October 2022 - While a planning application was submitted August 2021 and approved in February 2022 progress has been delayed securing the s106 agreement and amended plans relating to replacement trees and drainage. There is also a protest on the retention of a tree on the south-west corner of the site. This is likely to result in an amended planning application or the scheme proceeding as proposed with some reputational damage to the Council.	CC/JA	Minor	Moderate	Medium	Worse
Major Projects	MP4	Redevelopment of the Grafton development site - Risk that the development does not proceed in order to create residential units, new car parks and public realm improvements.	October 2022- recommenced soft market testing on the site to understand development and planning approach of potential partners and colleagues. Will be progressing the scheme to market it in mid-2023 reflecting new priorities emerging from the Council's Cabinet.	CC/JA	Moderate	Moderate	Medium	Worse
Major Projects	MP5	Provision of flood defence walls on the Sussex Yacht Club site - Risk that if flood defence walls are not built then there may be further flooding which will affect long term investment and growth along the Western Harbour Arm regeneration area.	October 2022 - further ground water testing being undertaken in Winter 2022 to address Environment Agency and Lead Local Flood Authority concerns about the effect of a flood defence wall on ground water inundation flooding (as opposed to sea level flooding which the scheme is designed to prevent). Coupled with a further issue about the alignment of a right of way across the site, the commencement on site for the scheme has been reprofiled to mid-2023 when the result of the testing is received and the right of way issue is resolved.	CC	Moderate	Rare	Low	No change
Major Projects	MP6	Redevelopment of the Worthing Civic Centre car park site - Risk that the redevelopment does not proceed or is delayed.	October 2022 - scheme on track and construction commenced on site with completion to take place in Summer 2023. Wider economic conditions are having an effect on some of the commercial aspects of the scheme.	CC	Moderate	Rare	Low	No change
Major Projects	MP7	Teville Gate redevelopment site - Delays in the redevelopment of the Teville Gate site or it does not proceed.	October 2022 - following a review of the Hyde Housing proposals in the course of due diligence work it was identified that not having undertaken a marketing exercise for the site placed a risk on the proposed joint venture relationship as a number of other parties could be affected by it and seek to judicially review the decision.  Officers have resolved to undertake a wider marketing exercise to secure a partner for the site which will commence in Autumn/Winter 2022.	JA/CC	Major	Unlikely	Medium	No change

APPENDIX C - MAJOR PROJECTS RISKS									
Category	Ref	Risk / Opportunity	Latest update and Internal Controls	Owner	Impact	Likelihood	Risk rat	Status	
Major Projects	MP8	New Monks Farm and Shoreham Airport - Risk that developments are delayed.	October 2022 - Planning Committee resolved to grant planning permission for reserved matters at the airport subject to resolving landscaping and drainage issues. Ikea has started the marketing of its site and it is hoped that a commercial development delivering high quality jobs will be delivered. Cala Homes has a full application for Phase II and is seeking an additional 34 dwellings this is to be considered by Planning Committee on the 30th November .	JA/CC	Moderate	Likely	Medium	No change	
Major Projects	MP9	West Sompting redevelopment - Failure to secure planning permission and delay in the delivery of a strategic housing site.	October 2022 - The s106 agreement is close to signing and developer looking to start Phase 1 next year. The delivery of this strategic housing site has been delayed and therefore it remains a risk that we do not deliver the 5 year supply of housing required.	JA	Moderate	Moderate	Medium	No change	
Major Projects	MP10	Shoreham Harbour regeneration - Risk that Harbour regeneration does not happen as development sites are unviable.	October 2022 - This risk has been reduced as a result of higher densities being approved. However there has been a public reaction to the height scale and density of recent developments and the fact that on 60% of the sites the allocation has already reached the 1100 dwellings expected. As a result Members have agreed that as part of the Local Plan review the density and supporting infrastructure for the remainder of the Western Harbour Arm sites should be re-assessed and this process is underway. A lower density could increase the risk that the remaining undeveloped sites do not come forward. Planning Committee has just refused two sites (Howard Kent and Frosts) on the grounds of overdevelopment.	JA	Moderate	Moderate	Medium	Worse	
Major Projects	MP11	Chatsmore Farm development - Risk to strategic gap and emerging Local Plan	October 2022 - The Local Plan Inspectors report has been received and fully supports the approach to Chatsmore Farm that it should remain undeveloped and allocated as a Local Green Gap. This reduces any impact on the emerging Local Plan. However, Persimmon Homes is pursuing legal action to try and secure permission for housing on the site. The Council successfully overturned the s78 appeal decision to allow 475 dwellings on the site in the High Court but the SofS and Persimmon Homes have recently secured leave to challenge the decision in the Court of Appeal. This could mean the Council would have an adopted plan but if Persimmon is successful with its challenge the site could still be developed for housing. This would undermine the Local Plan process but only in relation to this site.	JA	Minor	Moderate	Medium	Improved	

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ADUR & WORTHING  
COUNCILS

Joint Audit and Governance Committee  
29th November 2022

Key Decision [No]

Ward(s) Affected:

## **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 Audit and 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 Audit and 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 Audit and 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 Audit and 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 terminology, "going concern" refers to an organisations' ability to continue functioning as a business entity. For the Councils, it is the responsibility of the Joint Audit and 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 2021/22 and 2022/23
  - The budget monitoring and outturn reports show that both Councils continued to spend largely within the overall budget as adjusted by the additional government funding received in 2021/22 with a small overspend in Worthing.
  - Both Councils have a reasonable level of reserves and have a strategy to build reserves over the forthcoming years.

- There is a significant financial impact on the Council finances in the current year due to pressures resulting from the economic downturn and inflation. Currently it is assessed that both Council's have sufficient reserves to fund the consequences of these financial pressures in 2022/23 although the reserves within Worthing will be significantly depleted by the year end.

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 Audit and 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 2021/22, based on International Financial Reporting Standards (IFRS).
- 8.2 Section 3(1) of the Local Government Act 1999 (LGA 1999) contains a general duty on a best value authority to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 8.3 Each Council's external and internal auditors shall have the like powers set out in the Local Audit and Accountability Act 2014. Each Council shall at all reasonable times (including following the termination for whatever

reason of this Agreement) allow or procure for any auditor for the purposes of an external or internal or audit:

## **Background Papers**

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

### **Officer Contact Details:-**

Sarah Gobey – Chief Financial Officer

01903 221221

[sarah.gobey@adur-worthing.gov.uk](mailto:sarah.gobey@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 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.



## Appendix 1



Ernst & Young LLP  
Grosvenor House  
Grosvenor Square  
Southampton  
SO15 2BE  
Tel: +44 2380 382 100  
Fax: +44 2380 382 001  
ey.com

Councillor Andy McGregor  
Chair of the Joint Governance Committee  
Adur District Council  
c/o Worthing Town Hall  
Chapel Road  
Worthing, West Sussex  
BN11 1HB

7 April 2022

Direct line: 023 8038 2099

Email: hthompson2@uk.ey.com

Dear Cllr McGregor

### **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);
  - 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 the controls established for management to address any failure of

4) Is the Committee aware allegations regarding the Authority's financial reporting (including those received through a whistleblower program)? If so, what are the Committee's responses to such allegations

5) Is the Committee aware of any matters arising from the procedures implemented for the receipt, retention and treatment of allegations (including whistleblowers) regarding accounting, internal accounting controls or auditing matters? Such procedures include those for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters, and the response to such allegations.

6) Is the Joint Governance Committee aware any organisational or management pressure to meet financial or operating targets?

7) 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 2021/22?

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

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

10) 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?

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

12) Is the Joint Governance Committee aware if the Authority has entered into any significant unusual transaction? If so, please provide details.

Please would you provide a response, after 1 April 2022, covering the whole of 2021/22, 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 2022.

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](mailto: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"> <li>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)?</li> <li>communicating to employees its view on business practice and ethical behaviour (for example by updating, communicating and monitoring against the Authority’s code of conduct);</li> <li>encouraging employees to report their concerns about fraud; and</li> </ul>	<p>The Joint Audit and Governance Committee has 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 Audit and 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"> <li>Code of conduct for members</li> <li>Council Policies (e.g. counter Fraud &amp; Corruption).</li> <li>Financial and Contract Standing Orders</li> <li>Staff &amp; Member declarations of interest.</li> <li>Programme of audits by Internal Audit.</li> <li>Work by External Audit.</li> </ul>

QUESTION	PROPOSED RESPONSE
<p>1. <b>How does the Joint Governance Committee, as ‘those charged with governance’ exercise oversight of management's processes in relation to:</b> (continued)</p> <ul style="list-style-type: none"> <li>communicating to you the processes for identifying and responding to fraud or error?</li> </ul>	<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 the controls established by management to address specific risks of fraud that the Authority has identified, or that otherside helps prevent, deter and detect fraud.</p>	<p>The Joint Audit and 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>
<p>3. Is the Joint Governance Committee aware of any:</p> <ul style="list-style-type: none"> <li>breaches of or deficiencies in internal control?</li> <li>Any instances of management override of controls and the nature and circumstances of such overrides; and</li> <li>actual, suspected or alleged frauds during 2021/22?</li> </ul>	<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 instances of management override of controls.</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 allegations regarding the Authority's financial reporting (including those received through a whistleblower program)? If so, what are the Committee's responses to such allegations.</p>	<p>The Committee is not aware of any allegations regarding the Authorities financial reporting.</p>

QUESTION	PROPOSED RESPONSE
<p>5. Is the Committee aware of any matters arising from the procedures implemented for the receipt, retention and treatment of allegations (including whistleblowers) regarding accounting, internal accounting controls or auditing matters? Such procedures include those for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters, and the response to such allegations.</p>	<p>The Committee is not aware of any matters arising from procedures implemented for the receipts, retention and treatment of allegations other than those brought to our attention through the work of internal audit, the monitoring officer, and the S151 Officer.</p>
<p>6. 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>7. 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 2021/22?</p>	<p>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;</p> <p>All reports must be reviewed by the legal officers and include a legal implications paragraph before any decision is made;</p> <p>A legal officer is available for all meetings of the Council to ensure that Council operates within the law;</p> <p>Legal issues are considered as part of audit work and recorded in the relevant Report presented to the Committee;</p> <p>Committee approves the constitution, delegations, financial regulations and contract standing orders which provide guidance on procedural matters to ensure Council operates within the law.</p> <p>Training is arranged by the legal team on new legislation and matters of particular significance.</p>

QUESTION	PROPOSED RESPONSE
7. 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 2021/22? (continued)	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.
8. Is the Joint Governance Committee aware of any actual or potential litigation or claims that would affect the financial statements?	<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>
9. How does the Joint Governance Committee satisfy itself that it is appropriate to adopt the 'going concern' basis in preparing the financial statements?	<p>The Committee considers the overall financial information available to it. These include:</p> <ul style="list-style-type: none"> <li>• The annual revenue budget;</li> <li>• The Councils track record in spending within the budgets set;</li> <li>• The Councils' levels of reserves.</li> <li>• The level of any contingency budgets</li> </ul> <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>
10. 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>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>
11. Does the Joint Governance Committee have concerns regarding relationships with related parties and, if so, what is the substance of those concerns?	The Committee does not have any concerns regarding relationships with related parties.

QUESTION	PROPOSED RESPONSE
12. Is the Joint Governance Committee aware if the Authority has entered into any significant unusual transaction? If so, please provide details.	The Committee is not aware of any unusual transactions

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ADUR & WORTHING  
COUNCILS

Joint Audit & Governance Committee  
29 November 2022

Ward(s) Affected: All

## Members Allowances 2022/23

### Report by the Director for Communities

#### Officer Contact Details

Neil Terry

Democratic Service Lead

01903 221073

[neil.terry@adur-worthing.gov.uk](mailto:neil.terry@adur-worthing.gov.uk)

### Executive Summary

#### 1. Purpose

- 1.1. The report provides details of the Officers' National Joint Council (NJC) pay bargaining agreement for 2022/23 and requests that the Joint Audit & Governance Committee consider the percentage rise to be applied to Members Allowances for 2022/23.

#### 2. Recommendations

- 2.1. The Joint Audit & Governance Committee is asked to consider recommending to Adur and Worthing Councils an increase in the basic allowance of either:
  - 5.82% in line with the median average of the NJC pay bargaining agreement for 2022/23; or
  - 2% in line with the amount that was budgeted for in the 2022/23 budget.

### **3. Context**

- 3.1. Adur District and Worthing Borough Councils agreed in April 2022 that Members Basic Allowance should be linked to the outcome of the Officers' NJC pay bargaining agreement for the year 2022/23 following recommendations from the Joint Independent Remuneration Panel.
- 3.2. It had been anticipated that this would result in a percentage increase which could be applied to Members Basic Allowance. The Councils had allowed for an increase of 2% in their budgets to allow for this projected rise.
- 3.3. The NJC pay bargaining agreement for 2022/23 resulted in an increase of £1,925 on all NJC pay points plus an increase of one day to all employees' annual leave entitlement from April 2023 onwards. The award was equivalent to a weighted average increase of 5.82%.
- 3.4. The nature of the 2022/23 pay award means that the recommendation of the Joint Independent Remuneration Panel (the Panel) requires interpretation of the award to be applied to members allowances.
- 3.5. The current allowance scheme is published on the Councils' website. The basic allowance is as follows for each Council:
  - Adur £4,762.10
  - Worthing £5,153.93

If the £1,925 monetary increase was applied to the basic allowance, this would be equivalent to a 40.4% increase for Adur and 37.3% for Worthing which was not the intention of the Panel when making its recommendations.

### **4. Issues for consideration**

- 4.1. The Joint Audit & Governance Committee is asked to consider the percentage increase to be applied to Members Basic Allowance for 2022/23 following the outcome of the NJC pay bargaining agreement.
- 4.2. Members could apply the mean average percentage of 5.82% in line with the NJC agreement, or, apply a 2% increase in line with the allowances budget provision for 2022/23.

## **5. Engagement and Communication**

- 5.1. The Joint Independent Remuneration Panel (JIRP) contacted group Leaders to ask for any comments they may have prior to the commencement of the review.
- 5.2. As a Panel of independent advisors, the JIRP is the body that the Councils engages and consults with when setting the level of their allowances.

## **6. Financial Implications**

- 6.1. The Councils currently have the following budgets for members expenses:
  - Adur £220,860
  - Worthing £286,780These budgets include an allowance for a 2% pay award.
- 6.2. The nature of the 2022/23 pay award meant that pay awards for Officers ranged between 10.5% and 2.28% with a weighted average increase of 5.82%.
- 6.3. If the increase of 5.82% is approved, this will result in a budget pressure of:
  - Adur £8,270
  - Worthing £10,740Provision for the impact of the 2022/23 pay award has been made in the draft budget for 2023/24.

## **7. Legal Implications**

- 7.1. An Independent Remuneration Panel is a requirement of the Local Authorities (Members' Allowances) Regulations 2003 (The 2003 Regulations).
- 7.2. The 2003 Regulations states that before an authority makes or amends a scheme, the authority shall have regard to the recommendations made in relation to it by an independent remuneration panel
- 7.3. The 2003 Regulations sets out the role of the independent remuneration panel to make recommendations to the authority as to the amount of basic allowance which should be payable to its elected members. There is also the authority to make recommendations regarding special responsibility allowances (SRA) – and the roles and

responsibilities for which the SRA applies, expenses or arranging the care of children and dependants.

**Background Papers**

- [JGC Report - Scheme of Allowances for Adur District Council in 2022/23 - 22 March 2023](#)
- [JGC Report - Scheme of Allowances for Worthing Borough Council in 2022/23 - March 2022](#)

## **Sustainability & Risk Assessment**

### **1. Economic**

- 1.1 The panel has recognised that the Members' Allowances scheme recognises that public service, rather than material reward, should remain the primary motivation for involvement in local government, whilst at the same time, it should aim to attract and retain Members who are representative of the demographic make-up of the District.

### **2. Social**

#### **2.1 Social Value**

- 2.1.1 Matter considered but no issue identified

#### **2.2 Equality Issues**

- 2.2.1 Having an allowance scheme that supports all members in covering the costs of being a member allows the Councils to attract and retain Members who are representative of the demographic make-up of the District.

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

- 2.3.1 Matter considered but no issues identified

#### **2.4 Human Rights Issues**

- 2.4.1 Matter considered but no issues identified

### **3. Environmental**

- 3.1 Matter considered but no issues identified

### **4. Governance**

- 4.1 Having a fair scheme of allowances can enable a more diverse pool of candidates and reflect a wider demographic of the District.

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