

Audit and Standards Committee

17 March 2020



Time and venue:

10.00am in the Ditchling Room, Southover House, Southover Road, Lewes, East Sussex, BN7 1AB

Membership:

Councillor Julian Peterson (Chair); Councillors Stephen Gauntlett (Vice-Chair) Christine Brett, Roy Burman, Roy Clay, Phil Davis and Adrian Ross

Quorum: 4

Published: Monday, 9 March 2020

Agenda

1 Minutes (Pages 5 - 8)

To confirm and sign the minutes of the previous meeting held on 20 January 2020 (attached herewith).

2 Apologies for absence/declaration of substitute members

3 Declarations of interest

Disclosure by councillors of personal interests in matters on the agenda, the nature of any interest and whether the councillor regards the interest as prejudicial under the terms of the Code of Conduct.

4 Urgent items

Items not on the agenda which the Chair of the meeting is of the opinion should be considered as a matter of urgency by reason of special circumstances as defined in Section 100B(4)(b) of the Local Government Act 1972.

5 Written questions from councillors

To deal with written questions from councillors pursuant to Council Procedure Rule 12.3 (page D8 of the Constitution).

6 Inspection of surveillance governance arrangements (Pages 9 - 12)

Report of Assistant Director of Legal and Democratic Services

7 Strategic Risk Register quarterly review (Pages 13 - 22)

Report of Chief Internal Auditor

8 Internal Audit and Counter Fraud report for the three quarters of the financial year 2019-2020 to the end of December (Pages 23 - 32)

Report of Chief Internal Auditor

9 Draft Internal Audit plan for 2020/21 (Pages 33 - 42)

Report of Chief Internal Auditor

10 Delay to the External Audit of the 2018/19 Statement of Accounts

Verbal update by Deputy Chief Finance Officer (Corporate Finance)

11 Treasury Management (Pages 43 - 56)

Report of Chief Finance Officer

12 Date of next meeting

To note that the next meeting of the Audit and Standards Committee is scheduled to be held on Monday, 6 July 2020 in the Telscombe Room, Southover House, Southover Road, Lewes, East Sussex, BN7 1AB, commencing at 10:00am.

Information for the public

Accessibility: Please note that the venue for this meeting is wheelchair accessible and has an induction loop to help people who are hearing impaired. This agenda and accompanying reports are published on the Council's website in PDF format which means you can use the "read out loud" facility of Adobe Acrobat Reader.

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Public participation: Please contact Democratic Services (see end of agenda) for the relevant deadlines for registering to speak on a matter which is listed on the agenda if applicable.

Information for councillors

Disclosure of interests: Members should declare their interest in a matter at the beginning of the meeting.

In the case of a disclosable pecuniary interest (DPI), if the interest is not registered (nor the subject of a pending notification) details of the nature of the interest must be reported to the meeting by the member and subsequently notified in writing to the Monitoring Officer within 28 days.

If a member has a DPI or other prejudicial interest he/she must leave the room when the matter is being considered (unless he/she has obtained a dispensation).

Councillor right of address: A member of the Council may ask the Leader, a Cabinet Member or the Chair of a committee or sub-committee any question without notice upon an item of the report of the Cabinet or a committee or subcommittee when that item is being received or under consideration by the Council.

A member of the Council may ask the Chair of a committee or sub-committee a question on any matter in relation to which the Council has powers or duties or which affect the District and which falls within the terms of reference of that committee or subcommittee.

A member must give notice of the question to the Head of Democratic Services in writing or by electronic mail no later than close of business on the fourth working day before the meeting at which the question is to be asked.

Democratic Services

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Audit and Standards Committee

Minutes of the meeting held in the Ditchling Room, Southover House, Southover Road, Lewes, East Sussex, BN7 1AB, on 20 January 2020 at 10.00am

Present:

Councillor Julian Peterson (Chair)

Councillors Stephen Gauntlett (Vice-Chair), Christine Brett, Roy Burman, Roy Clay and Adrian Ross

Officers in attendance:

Oliver Dixon (Senior Lawyer and RIPA Monitoring Officer)

Jackie Humphrey (Chief Internal Auditor)

Jennifer Norman (Committee Officer, Democratic Services)

Ola Owolabi (Deputy Chief Finance Officer, Corporate Finance)

26 Minutes

The minutes of the meeting held on 23 September 2019 were submitted and approved, and the Chair was authorised to sign them as a correct record.

27 Apologies for absence/declaration of substitute members

There were none.

28 Declarations of interest

There were none.

29 Written questions from councillors

There were none.

30 Update on Lewes District Council's use of covert surveillance powers

The Committee received the report which provided an overview of the Council's recent use of covert surveillance powers.

The RIPA (Regulation of Investigatory Powers Act 2000) MO (Monitoring Officer) summarised the annual report, reminding the Committee that it had oversight on the Council's use of covert surveillance and intelligence

gathering. He explained that for legal reasons, the report could only provide an overview of surveillance activity and it could not disclose personal data or details of individual cases that were still the subject of active investigation.

The Committee queried whether the RIPA MO had a record of all of the online investigations and how many had been carried out. The RIPA MO explained that the process for conducting online investigations lawfully was in place, but it hadn't actually been used yet.

The Committee queried what period the annual report covered. The RIPA MO clarified that the report covered 1 January 2019 to 31 December 2019. The Committee commented that it would be helpful for future reports to list the dates covered and details regarding number of activities carried out within the calendar year. The RIPA MO agreed to format future annual reports this way.

Resolved:

That the report be noted.

31 Strategic Risk Register quarterly review

The Committee received the report which summarised the outcomes of the quarterly review of the Strategic Risk Register (SRR) by the Corporate Management Team (CMT).

The Chief Internal Auditor (CIA) explained that as the report was a quarterly report, it wouldn't normally come to the January meeting of the Committee. She further explained that the report should have been presented to the Committee at its meeting in November 2019, but the meeting was cancelled due to Purdah prior the General Election in December 2019.

The CIA highlighted that at its last meeting, the Committee requested that a separate risk for a potential personal data breach be added to the SRR. Whilst it had originally been felt that this risk sat under SR_028, failure to meet regulatory or legal requirements, it was agreed to add this as a risk in its own right. The risk now appears as SR_030 in Appendix 1.

Resolved:

That the report be noted.

32 Internal Audit report for the first two quarters of the financial year 2019/2020

The Committee received the report which provided a summary of the activities of Internal Audit and Counter Fraud for the first quarter of the financial year, 1 April 2019 to 30 September 2019.

The CIA summarised the report and reminded the Committee that as the majority of service areas now provided services across both Lewes District Council (LDC) and Eastbourne Borough Council (EBC), the results of work carried out by Internal Audit and Counter Fraud would be reported to both the

LDC Audit & Standards Committee and the EBC Audit & Governance Committee. She highlighted, however, that when any findings related specifically to one Authority, then the findings would be reported to the relevant Council's Audit committee.

Resolved:

That the report be noted.

33 Delay to the External Audit of the 2018/19 Statement of Accounts

The Committee received the report which updated Members in respect of the delay in issuing the final and audited Statement of Accounts for the year 2018/19.

The Deputy Chief Finance Officer (Corporate Finance) summarised the report which detailed the issues surrounding the reasons for the delay in reporting the 2018/19 Statement of Accounts. He explained that following discussions with Deloitte, the Council's External Auditors, a statement regarding delay to the External Audit of the 2018/19 Statement of Accounts was published on the Council's website in compliance with Regulation 10, paragraph (2a) of the Accounts and Audit Regulations 2015, and which was detailed in Appendix 1.

The Committee wished to express its disappointment in relation to the reasons for the delay in the final audit of the Statement of Accounts 2018/19, and requested that Officers contact the Public Sector Audit Appointments Limited (PSAA) to relay the Committee's displeasure. Officers agreed.

The Committee also requested that Deloitte be present at future meetings of the Committee, as was practice by the Council's previous External Auditors. The Deputy Chief Finance Officer (Corporate Finance) confirmed that he would request that a member of Deloitte's team be present at future meetings.

The Committee wished to thank the Deputy Chief Finance Officer (Corporate Finance) for presenting the report and reasons for delay in the final audit of the 2018/19 Statement of Accounts in a way that was clear and concise.

Resolved:

- 1) That the report be noted;
- 2) That Officers be requested to contact the PSAA to express the Committee's disappointment in relation to the reasons for delay in the final audit of the Statement of Accounts 2018/19; and
- 3) That Officers contact the Council's External Auditors, Deloitte, to request that they be present at future meetings of the Committee.

34 Treasury Management

The Committee considered the report which presented details of recent Treasury Management activity for the period of 1 November 2019 to 31 December 2019.

The Deputy Chief Finance Officer (Corporate Finance) brought the Committee's attention to section 3 of the report which he explained was a fairly new addition that detailed compliance with treasury and prudential limits. He also highlighted section 5 which provided an update on the Environmental, Social and Governance Issues (ESG) and responsible investment (Arlingclose), and explained that this was an area that would be reviewed and reported back to the Committee on a quarterly basis going forward.

Resolved:

That Cabinet be recommended to accept the Treasury Management activity from 1 November 2019 to 31 December 2019 has been in accordance with the approved Treasury Strategy for the period, with the exception of items detailed in paragraph 2.10 of the report.

35 Date of next meeting

Resolved:

That the next meeting of the Audit and Standards Committee that is scheduled to be held on Tuesday, 17 March 2020 in the Ditchling Room, Southover House, Southover Road, Lewes, East Sussex, BN7 1AB, commencing at 10:00am, be noted.

The meeting ended at 11.50am.

Councillor Julian Peterson (Chair)

Report to:	Audit and Standards Committee
Date:	17 March 2020
Title:	Inspection of Surveillance Governance Arrangements
Report of:	Assistant Director of Legal and Democratic Services
Ward(s):	All
Purpose of report:	To summarise the surveillance inspector's findings and the council's proposed response.
Officer recommendation(s):	That the Committee notes the outcome of the Investigatory Powers Commissioner's Office inspection conducted in 2019.
Reasons for recommendations:	The Committee is responsible for overseeing the Council's policy on the use of covert surveillance powers.
Contact Officer(s):	Name: Oliver Dixon Post title: Senior Lawyer and RIPA Monitoring Officer E-mail: oliver.dixon@lewes-eastbourne.gov.uk Telephone number: (01323) 415881

1 Introduction

- 1.1 The Investigatory Powers Commissioner's Office (IPCO) provides independent oversight of the use of investigatory powers by intelligence agencies, police forces and other public authorities. Its purpose is to oversee how these powers are used, taking account of the public interest and ensuring that investigations are conducted in accordance with the law, primarily the Regulation of Investigatory Powers Act 2000 (RIPA).
- 1.2 IPCO's oversight includes the inspection of public authorities. Lewes and Eastbourne Councils are inspected once every three years, and this report summarises their findings from the inspection carried out in December 2019. The report also outlines the Councils' proposed response.
- 1.3 The inspection included a review of the Councils' RIPA policies, procedures and management controls; and interviews with (i) personnel responsible for RIPA management, and (ii) officers who conduct the surveillance itself.

2 IPCO inspection findings

- 2.1 IPCO complimented the Councils' standard of documentation relating to the use of RIPA and their social media guidance document for officers.

- 2.2 IPCO found no significant areas of non-compliance with surveillance legislation or the Home Office code of practice. They did, however, identify certain areas for improvement, in particular over the potential deployment of Covert Human Intelligence Sources (CHIS).

For reference, a CHIS is someone who establishes a personal relationship with a person (the suspect) for the covert purpose of obtaining intelligence or disclosing information relating to the behaviour of the suspect. Local authorities such as Lewes District Council may use a CHIS only for the purpose of preventing or detecting crime or for preventing disorder.

- 2.3 IPCO recommends that the Councils update their RIPA policy to provide guidance on the use of CHIS, including arrangements for the appointment of persons fulfilling the role of 'handler' and 'controller' if and when a CHIS is deployed. IPCO further recommend that the policy explains how the role of a CHIS differs from a person volunteering information to the Council.

- 2.4 IPCO's other key areas for improvement require the Councils–

(i) to specify their controls over the use of covert online profiles if surveillance is conducted online;

(ii) to include in their RIPA policy a short paragraph highlighting their stance on the use of communications data for investigative purposes.

- 2.5 The RIPA Monitoring Officer (MO) will draft the required policy amendments and submit the revised document to Audit and Standards Committee for approval at its next meeting.

- 2.6 To give effect to these policy updates, the RIPA Monitoring Officer will identify appropriate training and the relevant officers who should attend.

- 2.7 The MO will also submit the Councils' formal inspection response to IPCO by the end of March 2020.

3 Financial implications

- 3.1 The cost of implementing IPCO's recommendations will be met from existing service budgets.

4 Legal implications

- 4.1 The Council is strongly advised to follow IPCO's recommendations, so as to improve compliance with RIPA and the Home Office codes of practice on covert surveillance and the use of CHIS. Doing so reduces the Council's exposure to risk of evidence from surveillance being ruled inadmissible; and the risk of civil claims from individuals in connection with their right to respect for their private and family life.

Lawyer consulted 03.03.20

Legal ref: 005383-JOINT-OD

5 Risk management implications

- 5.1 The Council's arrangements for the management of covert surveillance, in terms of policies, procedures and designated roles (e.g. RIPA MO and RIPA authorising officers) should ensure that activity is fully compliant with RIPA and human rights legislation.

6 Equality analysis

- 6.1 There are no equality issues associated with this report.

7 Appendices

- 7.1 None.

8 Background papers

The background papers used in compiling this report were as follows:

- The Regulation of Investigatory Powers Act 2000:
<http://www.legislation.gov.uk/ukpga/2000/23/contents>
- Home Office Code of Practice on Covert Surveillance and Property Interference (August 2018):
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/742041/201800802_CSPI_code.pdf
- Home Office Code of Practice on Covert Human Intelligence Sources (August 2018):
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/742042/20180802_CHIS_code_.pdf

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Report to:	Audit and Standards Committee
Date:	17th March 2020
Title:	Strategic Risk Register quarterly review
Report of:	Chief Internal Auditor
Ward(s):	All
Purpose of report:	To report to Committee the outcomes of the quarterly review of the register by the Corporate Management Team.
Officer recommendation(s):	To receive and note the update to the Strategic Risk Register.
Reasons for recommendations:	The Council is committed to proper risk management and to regularly updating the committee with regard to the Strategic Risk Register.
Contact Officer(s):	Name: Jackie Humphrey Post title: Chief Internal Auditor E-mail: Jackie.humphrey@lewes-eastbourne.gov.uk Telephone number: 01323 415925

1 Introduction

- 1.1 The Strategic Risk Register is a high level document that records the key risks facing the council: those risks that would prevent the authority from achieving its overall strategies and objectives.
- 1.2 Maintaining the Strategic Risk Register is a vital part of the governance arrangements of the authority and, as such, it is overseen by the Corporate Management Team who review it on a quarterly basis.
- 1.3 The risk register shows the risk, a description of the risk, the risk score if no action is taken (original risk score), the internal controls put in place to mitigate the risk and the risk score after these controls are in place (current risk score).
- 1.4 The risk register is brought to the committee when any changes have been made to it following review by the Corporate Management Team.

2 February 2020 review

- 2.1 The Strategic Risk Register was taken to Corporate Management Team on the 11th February 2020 for the latest quarterly review.

2.2 SR_002 (changes to the economic environment) and SR_007 (civil contingency) risk scores were increased owing to the concerns around a No Deal Brexit. Whilst the withdrawal from the European Union has now occurred the full implications are not yet fully understood and so it has been agreed to leave the score at the higher level until more is understood. The reference to “Brexit” has also been altered.

2.3 SR_007 has also had the description updated to include a reference to the council being impacted by a viral pandemic. This has been added because of the spread of Covid-19 (coronavirus). It is felt that the mitigating actions listed do not require amending and that the risk level should currently remain the same. However, this will be reviewed if the Covid-19 virus becomes pandemic.

3 Financial appraisal

3.1 There are no financial implications arising from this report.

4 Legal implications

4.1 This report demonstrates compliance with regulation 3 of The Accounts and Audit Regulations 2015, which requires the Council to operate a sound system of internal control, including effective arrangements for the management of risk.

Lawyer consulted 18.02.20

Legal ref: 008895-LDC-OD

5 Risk management implications

5.1 If the Council does not have an effective risk management framework that is subject to proper oversight by Councillors it will not be able to demonstrate that it has in place adequate means to safeguard Council assets and services, and it could be subject to criticism from the Council’s external auditor or the public.

6 Equality analysis

6.1 An equalities impact assessment is not considered necessary because the report is for information only and involves no key decisions.

7 Appendices

Appendix A - Strategic Risk Register

8 Background papers

None



Strategic Risk Register Position Table (Lewes)

Report Type: Risks Report
Generated on: 12 February 2020

Code & Title	SR_020 Strategic Risk Register (Lewes)
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Current Risk Matrix		<p>LIKELIHOODIMPACT 1 - Unlikely 1 - Minor 2 - Possible 2 - Moderate 3 - Likely 3 - Significant 4 - Highly Likely 4 - Major 5 - Almost Certain 5 - Critical</p>
	<p>The numbers relate to the amount of risks currently positioned in each box.</p>	

Strategic Risk Register (Lewes)



Report Type: Risks Report
Generated on: 12 February 2020

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
SR_02 1	No political and partnership continuity/consensus with regard to organisational objectives	Sudden changes of political objectives at either national or local level renders the organisation, its current corporate plan and Medium Term Financial Strategy unfit for purpose.	4	4	16	<u>Reduces Likelihood</u> 1. Create inclusive governance structures which rely on sound evidence for decision making. <u>Reduces Impact</u> 2. Annual review of corporate plan and Medium Term Financial Strategy 3. Creating an organisational architecture that can respond to changes in the environment.	Chief Executive	3	3	9	Amber	05-May-2020
SR_02 2	Changes to the economic environment makes the Council economically less sustainable	1. Economic development of the town suffers. 2. Council objectives cannot be met.	5	5	25	<u>Reduces Impact</u> 1. Robust Medium Term Financial Strategy reviewed annually and monitored quarterly. Refreshed in line with macro economic environment triennially. 2. Creating an organisational architecture that can respond	Chief Finance Officer	5	5	25	Red	05-May-2020

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
						to changes in the environment. This risk has been given a higher score owing to the uncertainty over the withdrawal from the European Union. It will be reviewed once more is known.						
SR_023	Unforeseen socio-economic and/or demographic shifts creating significant changes of demands and expectations.	1. Unsustainable demand on services. 2. Service failure. 3. Council structure unsustainable and not fit for purpose. 4. Heightened likelihood of fraud.	3	4	12	<u>Reduces Impact</u> 1. Grounding significant corporate decisions based on up to date, robust, evidence base. (e.g. Census; Corporate Plan Place Surveys; East Sussex in Figures data modelling). 2. Ensuring community and interest group engagement in policy development (e.g. Neighbourhood Management Schemes; Corporate Consultation Programme)	Director or Service Delivery	3	3	9	Amber	01-May-2020
SR_024	The employment market provides unsustainable employment base for the	Employment market unable to fulfil recruitment and retention requirements of the Council resulting in a	4	4	16	<u>Reduces Likelihood</u> 1. Changes increase non-financial attractiveness of EBC to current and future staff. 2. Appropriate reward and	Asst Dir of HR and Transformation	3	2	6	Amber	01-May-2020

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
	needs of the organisation	decline in performance standards and an increase in service costs.				recognition policies reviewed on a regular basis. <u>Reduces Likelihood and Impact</u>						
SR_025	Not being able to sustain a culture that supports organisational objectives and future development.	<ol style="list-style-type: none"> Decline in performance. Higher turnover of staff. Decline in morale. Increase in absenteeism. Service failure Increased possibility of fraud. 	4	4	16	<u>Reduces Likelihood</u> <ol style="list-style-type: none"> Deliver a fit for purpose organisational culture. Continue to develop our performance management capability to ensure early intervention where service and/or cultural issues arise. Continue to develop communications through ongoing interactions with staff. 	Asst Dir of HR and Transformation	3	4	12	Amber	01-May-2020
SR_026	Council prevented from delivering services for a prolonged period of time.	<ol style="list-style-type: none"> Denial of access to property Denial of access to technology/information 	3	5	15	<u>Reduces Likelihood</u> <ol style="list-style-type: none"> Adoption of best practice IT and Asset Management policies and procedures. <u>Reduces Likelihood and Impact</u>	Chief Executive	2	4	8	Amber	01-May-2020

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
		3. Denial of access to people				2. Joint Transformation programme has created a more flexible, less locationally dependent service architecture. <u>Reduces Impact</u> 3. Regularly reviewed and tested Business Continuity Plans. 4. Regularly reviewed and tested Disaster Recovery Plan.						
SR_027	Council materially impacted by the medium to long term effects of an event under the Civil Contingencies Act	1. Service profile of the Council changes materially as a result of the impact of the event. 2. Cost profile of the Council changes materially as a result of the impact of the event. 3. Work adversely affected by reduced staff numbers owing to effects of pandemic virus.	3	5	15	<u>Reduces Likelihood and Impact</u> 1. Working in partnership with other public bodies. 2. Robust emergency planning and use of Council's emergency powers. <u>Reduces Impact</u> 3. Ongoing and robust risk profiling of local area (demographic and geographic). 4. Review budget and reserves in light of risk profile. This risk has been given a higher score owing to the uncertainty over the	Asst Dir for Corporate Governance	2	3	6	Amber	01-May-2020

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
						withdrawal from the European Union. It will be reviewed once more is known.						
SR_028	Failure to meet regulatory or legal requirements	<p>1. Trust and confidence in the Council is negatively impacted.</p> <p>2. Deterioration of financial position as a result of regulatory intervention/penalties .</p> <p>3. Deterioration of service performance as a result of regulatory intervention/penalties</p>	3	4	12	<p><u>Reduces Likelihood</u></p> <p>1. Developing, maintaining and monitoring robust governance framework for the Council.</p> <p>2. Building relationships with regulatory bodies.</p> <p>3. Develop our Performance Management capability to ensure early intervention where service and/or cultural issues arise.</p> <p>4. Take forward the recommendations of the CIPFA Asset Management report to ensure we meet regulatory/legal requirements regarding the management of property.</p> <p>5. Ensure there is full understanding the impact of new legislation.</p> <p>6. All managers are required</p>	Asst Dir Legal and Democratic Services	2	4	8	Amber	01-May-2020

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
						to abide by the Council's procurement rules. 7. Ensure that fire risk regulations are adhered to and that Fire Risk Assessments are regularly reviewed.						
SR_029	Commercial enterprises that are fully controlled by the authority do not deliver financial expectations or do not meet governance requirements.	1. Unfamiliar activity with staff inexperienced in this area 2. Council finances affected if projects do not meet financial expectations. 3. Reputational damage if governance procedures are inadequate. 4. Failure to abide by company law.	3	4	12	<u>Reduces Likelihood</u> 1. Hire suitably qualified/experienced staff to give legal and specialist support. 2. Appoint Head of Commercial Activities. 3. Ensure that projects meet core principles. 4. Up or re-skill staff to maximise commercial opportunities. 5. Ensure governance processes are set up and adhered to.	Director of Regeneration and Planning And Director of Tourism and Enterprise	3	3	9	Amber	01-May-2020
SR_030	The Council suffers a personal data breach by inadequate	1. Trust and confidence in the Council is negatively impacted.	3	4	12	<u>Reduces Likelihood</u> 1. Ongoing corporate training for data protection. 2. Ensure all staff complete	Asst Dir Legal and Democratic	2	4	8	Amber	01-May-2020

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
	handling of data or by an IT incident	<p>2. Deterioration of financial position as a result of regulatory intervention/penalties</p> <p>3. Deterioration of service performance as a result of regulatory intervention/penalties</p> <p>4. Increased probability of compensation claims by persons affected by a personal data breach.</p>				<p>the e-learning Data Protection course.</p> <p>3. Ensure that the Data Protection Policy is regularly reviewed.</p> <p>4. Ensure the Data Protection Officer is afforded the resources to discharge their statutory functions.</p> <p>5. Ensure that managers regularly remind staff of their responsibilities under data protection, including personal data breach reporting arrangements.</p> <p>6. Ensure the suite of IT policies is kept up to date.</p> <p>7. Ensure that IT security is in place and regularly tested.</p> <p><u>Reduces Impact</u></p> <p>1. Incident management procedures to mitigate loss or breach of data are in place.</p>	Services					

Agenda Item 8

Report to	Audit and Standards Committee
Date:	17th March 2020
Title:	Internal Audit and Counter Fraud report for the three quarters of the financial year 2019-2020 to the end of December
Report Of:	Chief Internal Auditor
Ward(s):	All
Purpose of report:	To provide a summary of the activities of Internal Audit and Counter Fraud for the three quarters of the financial year - 1st April 2019 to 31st December 2019
Officer recommendation(s):	That the information in this report be noted and that the Committee identify any further information requirements.
Reasons for recommendations:	The remit of the Audit and Standards Committee includes the duties to agree an Annual Audit Plan and keep it under review, and to keep under review the probity and effectiveness of internal controls, both financial and operational, including the Council's arrangements for identifying and managing risk.
Contact:	Name: Jackie Humphrey Post title: Chief Internal Auditor E-mail: jackie.humphrey@lewes-eastbourne.gov.uk Telephone number: 01323 415925

1.0 Introduction

- 1.1 The quarterly report includes a review of work undertaken by Internal Audit and Counter Fraud. At the end of the financial year the Chief Internal Auditor will state their opinion of the control environment of the authority based on this work.
- 1.2 In March 2019 the Audit and Standards Committee agreed the first annual audit plan to cover work across the two authorities.
- 1.3 As the majority of service areas now provide services to both authorities the results of work carried out by Internal Audit and Counter Fraud will be reported to both committees. However, when any findings relate specifically to one authority then this will be reported to the appropriate council's committee only.

2.0 Review of the work of Internal Audit carried out in the three quarters of 2019-2020

2.1 A list of all the audit reports issued in final from 1st April 2019 to 31st December 2019 is as follows:

Benefits and CTR (18/19)	Substantial Assurance
Cash and Bank (18/19)	Substantial Assurance
Council Tax (18/19)	Full Assurance
NNDR (18/19)	Substantial Assurance
Treasury Management (18/19)	Substantial Assurance
Creditors (18/19)	Partial Assurance
Housing Rents (18/19)	Full Assurance
Payroll (18/19)	Substantial Assurance
IT (18/19)	Partial Assurance
Debtors (18/19)	Partial Assurance
Main Accounting (18/19)	Partial Assurance
Internet and telephone payments	Partial Assurance
HR – Recruitment	Substantial Assurance
HR – Apprenticeships and staff retention	Substantial Assurance
Project Management	Substantial Assurance

NB. These are the Assurance Levels given at the time of the initial report and do not reflect findings at follow up.

2.2 Below are the descriptions of the levels of assurance referred to above.

Assurance Level	Description
Full Assurance	Full assurance that the controls reduce the risk to an acceptable level.
Substantial Assurance	Significant assurance that the controls reduce the level of risk, but there are some reservations; most risks are adequately managed, for others there are minor issues that need to be addressed by management.
Partial Assurance	Partial assurance that the controls reduce the level of risk. Only some of the risks are adequately managed; for others there are significant issues that need to be addressed by management.
Minimal Assurance	Little assurance that the controls reduce the level of risk to an acceptable level; the level of risk remains high and immediate action is required by management.
No Assurance	No assurance can be given. The reasons will be explained thoroughly in the report.

2.3. Appendix A is the list of all reports issued in final during the year which were given an assurance level below “Substantial”. This list includes brief bullet points of the issues highlighted in the reviews which informed the assurance level given.

- 2.4 The work of carrying out the 18/19 annual audits was hindered by training two new members of staff. However, all reviews had been completed by November. From January 2020 work begins on the annual audits for 19/20 and these should be completed in a more timely manner.
- 2.5 This year the scope of the annual audits is also being reviewed as they have not changed for some years. It is important that the working programmes for each audit are up to date and relevant to the work being audited as well as ensuring that controls are in place and working correctly.
- 2.6 Work is still ongoing on the project to review the work that feeds into the Housing Subsidy claim. The aim is to improve the work at the point of input so that fewer errors are made which will enable the subsidy claim to be completed in a more timely manner.
- 2.7 A piece of work was due to be carried out reviewing the issues that had arisen from problems with the implementation of the new housing software and how these were being managed. In a meeting to scope this work the Audit team were asked by the Head of Homes First to carry out an audit review of Housing Needs. Both these pieces of work are now currently underway.
- 2.8 The table below shows the work carried out by the Internal Audit team in the first three quarters of the year by percentage across the main areas services. The style of reporting of our work has changed so that it now reflects that the team is flexible and the work changeable and more responsive to requests for work which are made throughout the year.

Area	% of days on audits	% of days on advice/consultancy etc	% of total audit time
Annual audits	43.5	0	40.65
Claims	34.02	0	31.8
Corporate Services	12.12	70.28	15.91
Regeneration and Planning	7.35	0.3	6.9
Service Delivery	2.51	18.28	3.54
Tourism and Enterprise	0.5	11.14	1.2
TOTAL	100	100	100
% of total audit time	93.48	6.52	100

3.0 Counter Fraud

- 3.1 An experienced Investigator on the team moved to a post in Homes First in September and the post has been filled by recruiting an officer who has 30 years' experience working in the Police force. The Fraud and Audit Liaison Officer has almost completed her studies for the Accredited Counter Fraud Specialist qualification which will further enable the team to expand joint corporate projects in new and emerging areas.

- 3.2 The team continue to target the high value and risk areas of tenancy housing while also undertaking other exercises as detailed below.
- 3.3 Right to Buy – After an investigation and legal proceedings, which took around 18 months, the first Right to Buy prosecution that Lewes District Council have taken to Crown Court resulted in a 20 month sentence (suspended for 18 months) for fraud by false representation. This case has generated widespread publicity across local press and within the housing industry and is testament to expertise, hard work and dedication of the team. The articles have appeared in the Sussex Express, the Argus and Inside Housing.
- RTB applications have remained relatively consistent within this quarter – four cases have been checked to prevent the council being a victim to money laundering with one case withdrawn providing a net saving of £82,800 to the authority. A total of 17 other former and current RTB cases are being monitored for potential social housing fraud. One other case is currently with legal for consideration of criminal prosecution.
- 3.4 Housing Tenancy – The team continue to work closely with colleagues in Homes First and legal with 19 ongoing sublet/abandonment tenancy cases at various stages. Due to the significant work involved in bringing a RTB case to crown court in December, the team's focus and efforts have been devoted to the preparation and requirements of our legal team and barrister to bring this case to a successful outcome. However, a separate civil case was brought against the same tenant which has resulted in the Judge awarding possession of the property which has resulted in a net saving to the authority to the value of £93,000.00.
- 3.5 Tenancy fraud awareness – A joint working campaign has begun with Homes First and the Communication and Engagement team to develop a series of publicity articles via community posters, social media and local press to raise the awareness of social fraud with the public. A fraud awareness poster has been designed and circulated throughout council noticeboards across Lewes and Eastbourne in early January 2020 with a plan to include further publicity within quarterly rent statements to all tenants shortly.
- 3.6 Housing Tenancy Successions – A joint working project has begun to include the Counter Fraud team to verify any applications received for Housing successions. As part of the team's involvement, Homes First will now arrange for an application form to be completed to help prevent a false or fraudulent claim. Two cases have so far been passed to Counter Fraud to check.
- 3.7 Housing Options – Work has been undertaken with Homes First looking at a number of potentially fraudulent homeless presentations as well as the implementation of using the National Anti-Fraud Network facilities for credit checks for all new applications as a preventative measure. Planned work to look at Housing Allocations is due to begin in January 2020.
- 3.8 Council Tax – An extract of Council Tax Exemptions and Disregards has been produced which will be used to consider areas of weakness and risk where reviews have not been completed for some time. It is anticipated this item of work will commence within the next quarter. The Counter Fraud team have also been included in a test trial of Datatank (a software company) smart referrals as part of

the authority's Single Person Discount review. Depending on the success of this trial, East Sussex County Council may consider funding a wider exercise across the rest of the county. So far a small sample base of eight cases has resulted in a £564.49 income increase and a preventative saving of £136.71 until the end of the financial year.

- 3.9 Housing Benefit – The team have worked closely with the Department for Work and Pensions (DWP) and our colleagues in the benefit section, unfortunately due to resources restrictions and training needs the DWP have been unable to complete the same volume of cases as in previous quarters. This has resulted in the closure of 19 cases with a net income of £2k generated and a weekly incorrect benefit (WIB) preventative saving of £4802.24. Joint working with the Case Management team has also increased the volume of referrals; there are around 100 outstanding cases with the DWP to consider.
- 3.10 National Fraud Initiative - Work continues on the 2018/19 extract using a test sample of 10% of cases, this has been brought about due to the limited results found in previous activities – 543 cases have been cleared so far with 13 awaiting further investigation, no additional financial savings beyond the £14k found in the first quarter have been found so far.
- 3.11 Requests for personal data – The team take an active role in supporting colleagues in other organisations to prevent fraud and tackle criminal activity. In this period the Fraud and Audit Liaison Officers has dealt with seven requests from the Police and seven from other authorities for disclosure of relevant personal data held by the council.
- 3.12 A table showing the savings made by the Counter Fraud team in the first three quarters of the year 2019-2020 can be found at Appendix B.

4.0 Financial appraisal

- 4.1 There are no financial implications relating to expenditure arising from this report.

Details of savings generated by the Counter Fraud team are included in Appendix B.

5.0 Legal implications

- 5.1 This report demonstrates compliance with regulation 5 of The Accounts and Audit Regulations 2015, which requires Lewes District Council to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance. *Lawyer consulted 24.01.20* *Legal ref: 008904-LDC-OD*

6.0 Risk management implications

- 6.1 If the Council does not have an effective governance framework that is subject to proper oversight by Councillors it will not be able to demonstrate that it has in place adequate means to safeguard Council assets and services, and it could be subject to criticism from the Council's external auditor or the public.

7.0 Equality analysis

7.1 An equalities impact assessment is not considered necessary because the report is for information only and involves no key decisions.

8.0 Appendices

Appendix A – list of all reports issued in final during the year which were given an assurance level below “Substantial” with any issues highlighted in the reviews which informed the assurance level given.

Appendix B – Counter Fraud work and savings.

9.0 Background papers

9.1 Audit reports issued throughout the year.

APPENDIX A**Reasons for original assurance levels given (below Substantial)**

N.B. The issues noted here may have been addressed since the original report was issued.

AUDIT REVIEW	ASSURANCE LEVEL	ISSUES NOTED	Level at follow up
Creditors (18/19)	Partial	<ul style="list-style-type: none"> • Knowledge transfer issues – audit carried out at time of change in the Finance section • Authorisation levels – list and Cafi require updating • Purchase orders not being raised at time goods and services are ordered • Too many staff with access to set up new creditors • Evidence of checks made on requests to change bank account details not being retained. 	
IT (18/19)	Partial	<ul style="list-style-type: none"> • Some staff set up as Systems Administrators are also staff using Finance Systems • Some password parameters do not require a mix of alpha and numeric characters • PSN Code of Connection Certificate had not been obtained • Joint Disaster Recovery Strategy and Plan needs to be adopted and tested • IT need to address issues highlighted in an IT Health Check carried out by an external company 	
Debtors (18/19)	Partial	<ul style="list-style-type: none"> • Two out of 20 invoices tested were raised six weeks after the goods/services had been provided. • No supporting evidence retained for some advertising rates invoiced. • No debts passed to Legal in 18/19. • Minimal evidence retained for cancellation of invoices. 	

APPENDIX A**Reasons for original assurance levels given (below Substantial)**

N.B. The issues noted here may have been addressed since the original report was issued.

AUDIT REVIEW	ASSURANCE LEVEL	ISSUES NOTED	Level at follow up
Main Accounting (18/19)	Partial	<ul style="list-style-type: none"> • Journals over £100k had not been checked and authorised by a second officer. • Monthly trial balances were not carried out. • Evidence for investigating variances is not sufficiently documented. 	
Internet/Telephone Payments	Partial	<ul style="list-style-type: none"> • Lewes District Council is not PCIDSS compliant. • Some staff taking phone payments had their mobile phones on the desk. • The web pages for making payments is not clear enough about which authority the payment is being made to. • Documents are being retained beyond the timescale laid down in the Retention and Disposal Schedule. 	

	QUARTER ONE		QUARTER TWO		QUARTER THREE		QUARTER FOUR		YEAR TOTAL	
	Income	Savings	Income	Savings	Income	Savings	Income	Savings	Income	Savings
Tenancy Housing										
Recovery of council properties		£93,000.00				£93,000.00			£0.00	£186,000.00
RTB value saved through intervention		£248,400.00		£82,800.00		£82,800.00			£0.00	£414,000.00
Housing intervention/fraud									£0.00	£0.00
Revenues										
NNDR									£0.00	£0.00
Council Tax			£720.84		£564.49				£1,285.33	£0.00
Value of ongoing CT increase per week					£136.71				£136.71	£0.00
Council Tax Penalties									£0.00	£0.00
CTR & Housing Benefit										
SPOC Cases									£0.00	£0.00
Council Tax Reduction									£0.00	£0.00
CTR weekly incorrect benefit (WIB)									£0.00	£0.00
Housing Benefit	£11,674.77				£1,932.67				£13,607.44	£0.00
HB weekly incorrect benefit (WIB)						£4,802.24			£0.00	£4,802.24
Income from Adpen collection									£0.00	£0.00
NFI										
Number of open matches									£0.00	£0.00
Number of closed matches									£0.00	£0.00
Awaiting Processing									£0.00	£0.00
Overpayments identified	£14,460.69								£14,460.69	£0.00
Weekly incorrect benefit identified									£0.00	£0.00
OTHER INVESTIGATIONS										
Procurement									£0.00	£0.00
Internal									£0.00	£0.00
DPA									£0.00	£0.00
Income from court costs									£0.00	£0.00
TOTALS	£26,135.46	£341,400.00	£720.84	£82,800.00	2,633.87	180,602.24	£0.00	£0.00	£29,490.17	£604,802.24

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Report to: Audit and Standards Committee

Date: 17TH March 2020

Title: Draft Internal Audit plan for 2020/21

Report of: Chief Internal Auditor

Ward(s): All

Purpose of report: To propose an Internal Audit plan for 2020/21

Officer recommendation(s): (1) To consider and agree the proposed plan.

Reasons for recommendations: The remit of the Audit and Standards Committee includes the duties to agree an Annual Audit Plan and keep it under review and to keep under review the probity and effectiveness of internal controls, both financial and operational, including the council's arrangements for identifying and managing risk.

Contact Officer(s): **Name:** Jackie Humphrey
Post title: Chief Internal Auditor
E-mail: jackie.humphrey@lewes-eastbourne.gov.uk
Telephone number: 01323 415925

1.0 Introduction

1.1 The internal audit function contributes to the Council's overall governance arrangements through the audits carried out in the annual internal audit plan.

1.2 The annual audit plan includes a number of managed audits which are required to be carried out annually.

2.0 New Approach

2.1 During the past few years it has been noted that senior managers are more willing to approach Internal Audit to request various audit reviews be carry out in their areas. As these requests usually involve issues which are a high risk, or are of immediate importance, these have been carried out by the team. There have also been times where an audit review of one area has been proposed but, at the time of scoping the review, the relevant senior manager has requested that the scope be changed to cover a different area with which they have concerns.

- 2.2 It is important that Internal Audit add value to the council and ensure that any emerging areas of concern are considered. The work of the team must add value and be flexible whilst still ensuring that there is an adequate breadth of cover to the work that is carried out.
- 2.3 In order to try to address all these points a new approach to the annual audit plan is being taken this year. The total number of areas that can be audited has been divided into the departments under which they sit. The number of areas by department have then been calculated as a percentage of the total number of areas as shown below:

Department	No of areas	% of total
Regeneration	12	12%
Tourism and Enterprise	9	9%
Service Delivery	36	37%
Corporate Services	41	42%
TOTAL	98	100%

These percentages will then be used to inform the contents of the plan and this is explained in more detail below.

3.0 The Audit Universe

- 3.1 The Audit Universe is the list of all areas across the councils which can be reviewed; this includes areas across both Eastbourne Borough and Lewes District Councils so that a full joint audit plan can be produced.
- 3.2 This universe has been used to develop a risk assessment of these areas. The risks level is calculated taking into account the financial materiality of the area, the system stability (frequency of change) and the internal controls (level of assurance given at the last review).
- 3.3 With the level of transformation that has been happening across both authorities in the last few years it has been difficult to audit all areas that have been subject to changes. Therefore the approach has been to audit areas where there has been a manageable size of change but for more significant change Internal Audit has been involved in or kept track of the programme of change as it occurs. An example of this has been the Housing software system where Internal Audit have kept abreast of work ongoing to sort out issues but will actually carry out an audit review when this work is complete in order to give assurance on whether the system is then working correctly.

4.0 Production of the draft audit plan for 2020/21

- 4.1 The internal audit plan for each year begins by calculating the number of audit days available. This takes the number of work days of each member of staff less non-chargeable time (e.g. annual leave, public holidays, sick leave, admin etc.). From the remaining days, 36 are allocated for audits for Eastbourne Homes and 5 for South East Environmental Services Ltd – both of which are paid for.

- 4.2 There are twelve “managed” audits which have to be undertaken every year as these cover our main financial systems and their controls. The time taken for these days is also taken off the remaining number along with some allocation for special pieces of work, advice, consultancy etc.
- 4.3 The work on the subsidy claim for Lewes is now being carried out by Branch and Lee and this is being paid for by Service Delivery but the Internal Audit team continue to carry out the testing of the subsidy claim for Eastbourne.
- 4.4 The Audit Manager and one Auditor are undertaking apprenticeship scheme training with the Institute of Internal Auditors this year which has reduced the audit time available while they undertake the training. Also, there is currently a vacancy in the Audit team which it is envisaged will be filled at the beginning of the new financial year. As this person is likely to require training in the post, and with an actual start date unknown at this stage, this post has been shown as a ¾ post for the year.
- 4.5 The total number of days available for audits having been arrived at (see Appendix A) these have then been split by the percentages shown at 2.3. This is as follows:

Total days available		382 audit days
Regeneration	12%	46 audit days
Tourism and Enterprise	9%	34 audit days
Service Delivery	37%	142 audit days
Corporate Services	42%	160 audit days

- 4.6 The risk assessed audit universe was then used to identify the audits to be included on the plan taking into account risk levels and the length of time since an area was last audited. The majority of services are now shared across the authorities so the audit plan reflects this as well. The draft plan therefore is flexible, covers the work in both authorities and reflects the risk levels around internal controls. This draft plan can be found at Appendix B.
- 4.7 The plan is in place to provide a list of audits that will be carried out if no other work is requested from the team. However, by using the percentage approach when other work is requested, it will be carried out within the time allocated for that department and will mean that one of the lower risk audits will be carried forward to be undertaken within a future audit plan. The aim is to ensure that the breadth of audit work across all areas is maintained whilst still being able to be flexible to requests. Should work be requested that would take the department beyond the percentage allocated then a conversation would be held to decide on the importance of the piece of work being requested.
- 4.8 Quarterly reporting of the work of Internal Audit will be based on this percentage approach.
- 5.0 Counter Fraud**
- 5.1 The plan for Counter Fraud work has also been based on the time available from Counter Fraud staff across the two authorities.

	Days	Priority
Housing Allocations	65	High
Tenancy Fraud	347	High
Right to Buy	180	High
Council Tax/CTR	78	Medium
Housing Benefit	25	Low
Private Sector Housing/DFG	5	Medium
NNDR	40	Medium
Procurement	15	Low
Data Matching/Other	20	Low

- 5.2 Tenancy fraud work includes building up relationships with Homes First and Account Management in order to elicit more referrals and then to investigate these.
- 5.3 Council Tax and Council Tax Reduction work results in lower amounts of savings than other work. However, these savings are actual cashable savings to the council.
- 5.4 Disabled Facility Grants and Procurement are areas where no fraud work has yet been undertaken so work will be carried out to see how best any investigations can be approached. There has been little work being passed to the Counter Fraud team in respect of Private Sector Housing and Disabled Facility Grants.
- 5.5 Projects to be undertaken within the days listed above include tenancy succession, Council Tax discounts and Housing Applications.
- 5.6 During the year there will be some work carried out by the Counter Fraud Investigations Manager into areas where income can be generated. These will be reviewing the chasing of potential bad debts on rent and deposit loans, and consideration of training a member of staff to be a financial investigator. Having a trained financial investigator would involve some expenditure at first for the training, however they could investigate proceeds of crime from housing fraud etc. and this money can be retained by the council. This would also be a resource that could be offered to other authorities, perhaps for a fixed fee or for a percentage of the monies identified.

6.0 Financial Appraisal

- 6.1 There are no financial implications.

7.0 Legal Implications

- 7.1 This report takes account of regulation 5 of the Audit and Accounts Regulations 2015 which requires the Council to “undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.”

8.0 Risk Management Implications

- 8.1 If the council does not have an effective governance framework that is subject to proper oversight by Councillors it will not be able to demonstrate that it has in place adequate means to safeguard council assets and services, and it could be subject to criticism from the council's external auditor or the public.

9.0 Equality Analysis

- 9.1 An equalities impact assessment is not considered necessary.

10.0 Appendices

- 10.1 Appendix A - Calculation of audit resources for the draft plan
Appendix B - Draft Audit plan for 2020/2021

11. Background Papers

- 11.1 Audit universe risk assessment.

Jackie Humphrey
Chief Internal Auditor

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	Head of Service	Audit Man	Senior Auditor	Senior Auditor	Auditor	Auditor	Auditor considered for 3/4 or year
Total days		260	260	260	260	260	210
Non charge		202	94	94	124	77	93
Actual days	100	58	166	166	136	183	117
Gross total	926						
Less EHL	36						
Less SEESL	5						
Total audit days available	885						
Subsidy and subsidy project			140				
Annual audits			183				
Follow ups of audits from previous years			15				
Contingency			40				
Advice/specials			10				
Fraud/Audit projects			15				
Consultancy and CIA projects			100				
Total			503				
Available for operational audits			382				

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	No of areas		% of universe		Actual days	Rounded days
Regeneration	12		12		45.84	46
Tourism and Enterprise	9		9		34.38	34
Service Delivery	36		37		141.34	142
Corporate Services	41		42		160.44	160
					Total days	382
						382

INTERNAL AUDIT DRAFT PLAN 2020/21

Regeneration and Planning

High	Commercial Ventures	20	
Medium	Planning	16	
Medium	Prevent and Protect	10	46

Tourism and Enterprise

High	Events	17	
Medium	Catering (Stage Door and EDGC)	17	34

Service Delivery

High	Housing Software	20	
High	Service Charges for Purchased Properties	20	
High	Tenancy Management (including succession and mutual exchanges)	20	
High	Rechargeable Repairs	20	
Medium	Voids Management	15	
Medium	Leaseholder Management and Recharges	17	
Medium	Civil Contingency	15	
Medium	Community Grants	15	142

Corporate Services

High	Arrears Collection	20	
High	Business Continuity Planning and Disaster Recovery	20	
High	Contracts	20	
Medium	Implementation of new systems	15	
Medium	Complaints	10	
Medium	Data Protection	15	
Medium	Members Allowances	15	
Medium	Ethics	15	
Medium	IT Security and Networks	15	
Medium	Officers Expenses	15	160

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Report To: Audit and Standards Committee

Date: 17 March 2020

Report Title: Treasury Management

Report of: Chief Finance Officer

Ward(s): All

Purpose of report To present details of recent Treasury Management activity.

Officer

Recommendations: To confirm to Cabinet that Treasury Management activity for the period 1 January to 29 February 2020 has been in accordance with the approved Treasury Strategies for that period.

Reasons for recommendations: The Council's approved Treasury Strategy Statement requires the Audit and Standards Committee to review details of Treasury Strategy transactions against the criteria set out in the Strategy and make observations to Cabinet as appropriate.

Contact Officer(s): Name: Ola Owolabi
Post title: Deputy Chief Finance Officer
E-mail: Ola.Owolabi@lewes-eastbourne.gov.uk
Telephone number: 01273 415083

1. Introduction

- 1.1 The Council's approved Treasury Strategy Statement requires the Audit and Standards Committee to review details of Treasury Strategy transactions against the criteria set out in the Strategy and make observations to Cabinet as appropriate.
- 1.2 The Treasury Strategy Statement also requires the Audit and Standards Committee to review a formal summary report after the year end before it is considered by Council, in accordance with best practice and guidance issued by the Chartered Institute of Public Finance and Accountancy.

2. Treasury Management Activity

- 2.1 The timetable for reporting Treasury Management activity in 2019/20 is shown in the table below. This takes into account the timescale for the publication of each Committee agenda and is on the basis that it is preferable to report on activity for complete months. Any extraordinary activity taking place between the close of the reporting period and the date of the Audit and Standards Committee meeting will be reported verbally at that meeting.

Meeting date	Reporting period for transactions
16 July 2019	1 March to 30 June 2019
23 September 2019	1 July to 31 August 2019
18 November 2019	1 September to 31 October 2019
20 January 2020	1 November to 31 December 2019
17 March 2020	1 January to 29 February 2020

2.2 Fixed Term Deposits pending maturity

The following table shows the fixed term deposits held at 29th February 2020 and identifies the long-term credit rating of counterparties at the date of investment. It is important to note that credit ratings are only one of the criteria that are taken into account when determining whether a potential counterparty is suitable. All of the deposits met the necessary criteria/minimum rating required for deposits.

Ref	Counterparty	Date From	Date To	Days	Principal £	Int Rate %	Long-term Rating
243419	Thurrock Borough Council	14 Jun 19	16 Mar 20	276	3,000,000	0.88	*
245020	Thurrock Borough Council	25 Feb 20	25 Mar 20	29	3,000,000	0.95	*
245120	West Berkshire Council	25 Feb 20	10 Mar 20	14	3,000,000	1.00	*
					9,000,000		

*UK Government body and therefore not subject to credit rating

2.3 Fixed Term Deposits which have matured in the reporting period

Fixed term deposits that have matured during the reporting period:

Ref	Counterparty	Date From	Date To	Days	Principal £	Int Rate %	Long-term Rating
244719	Stockport Met. Borough Council	3 Dec 19	3 Feb 20	62	5,000,000	0.68	*
244819	Cheltenham Borough Council	12 Dec 19	12 Feb 20	62	3,000,000	0.70	*
244920	Thurrock Borough Council	23 Jan 20	24 Feb 20	32	6,000,000	0.75	*
					14,000,000		

*UK Government body and therefore not subject to credit rating

At no stage did the total amount held by any counterparty exceed the approved limit set out in the Investment Strategy. The average rate of interest earned on deposits held in the period 1 January to 29 February 2020 was 0.83%. The bank rate was 0.75% for the period.

2.4 Use of Deposit accounts

In addition to the fixed term deposits, the Council has made use of the following interest bearing accounts in the period covered by this report, with the average amount held being £9.539m generating interest of approximately £0.009m.

	Balance at 29 Feb '20 £'000	Average balance £'000	Current interest rate %
Santander Business Reserve Account	2,000	2,304	0.40
Lloyds Bank Corporate Account	3,441	7,235	0.65

2.5 Use of Money Market Funds

Details of the amounts held in the two Money Market Fund (MMF) accounts used by the Council are shown below. The approved Investment Strategy allows a maximum investment of £3m in each fund, and at no time was this limit exceeded.

	Balance at 29 Feb '20 £'000	Average balance £'000	Average return %
Goldman Sachs Sterling Liquid Res. Fund	1,000	1,000	0.85
Deutsche Managed Sterling Fund	1,500	1,500	0.78

2.6 Treasury Bills (T-Bills)

There were no Treasury Bills held at 29 February 2020, and there was no activity in the period.

2.7 Secured Investments

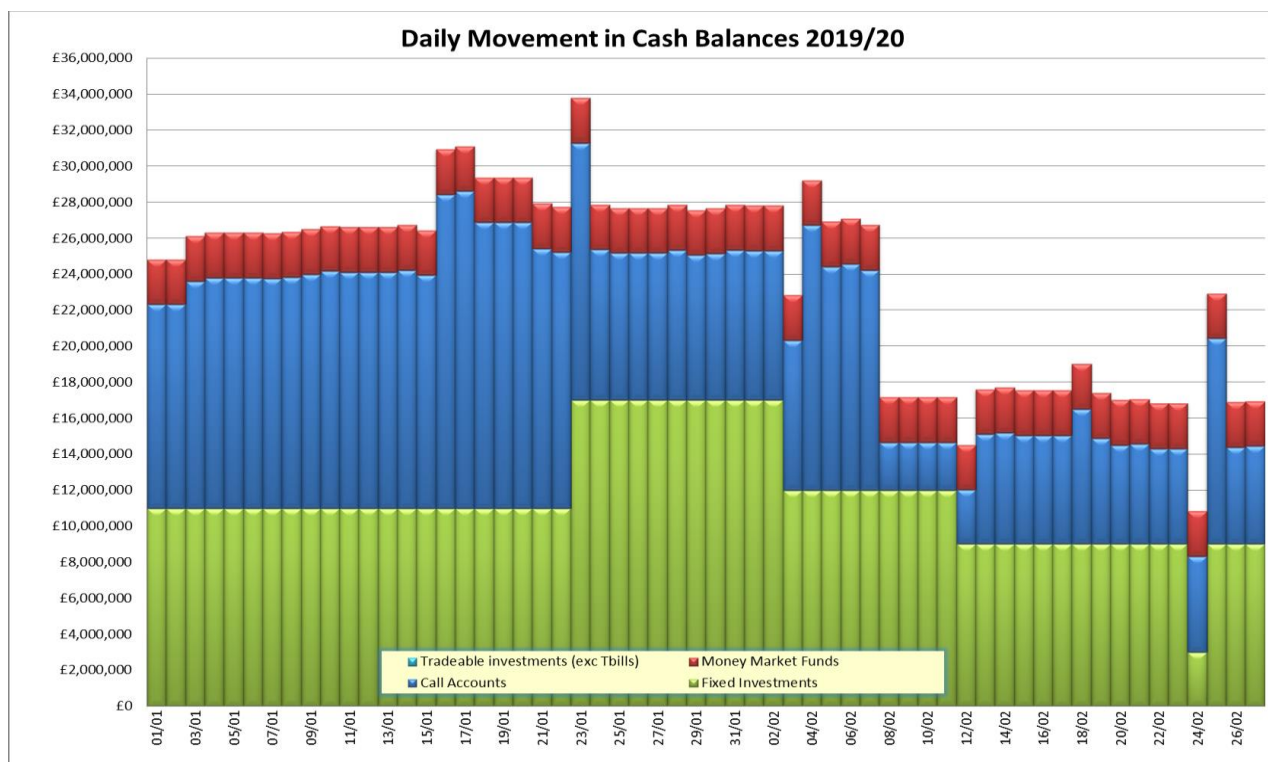
There were no Secured Investments at 29 February 2020.

2.8 Tradeable Investments

There were no Tradeable Investments at 29 February 2020, and there was no activity in the period.

2.9 Overall investment position

The chart below summarises the Council's investment position over the period 1 January to 29 February 2020. It shows the total sums invested each day as Fixed Term deposits, Treasury Bills, amounts held in Deposit accounts, Money Market Funds and Tradeable Investments.



2.10 Borrowing













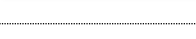


The current account with Lloyds Bank generally remained with credit limits throughout most of the period with the following exceptions:

Exceptions:

Wednesday 1 January to Friday 28 February 2020 – excess funds of between £3m and £15m. The Council's long term borrowing in the reporting period is £56.673m.

3. Compliance with Treasury and Prudential Limits

- 3.1 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators (affordability limits) are included in the approved TMSS.
- 3.2 As at 29 February 2020, the Council has operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices.

Treasury Prudential Indicators	2019/20 Estimate Indicator	29 February Indicator	RAG Status
Authorised limit for external debt (CS 4.2.2)	£117.7m	£117.7m	
Operational boundary for external debt (CS 4.2.2)	£127.7m	£127.7m	
Gross external debt (CS 4.2.2)	£117.3m	£86.0m	
Capital Financing Requirement (TMS)	£136.9m	£136.9m	
Debt vs CFR under/(over) borrowing	£19.6m	£50.9m	
<i>Investments</i>			
Investment returns expectations	0.65	0.83	
Upper limit for principal sums invested for longer than 365 days	£3m	£0m	
<i>Maturity structure of fixed rate borrowing - upper limits:</i>			
Under 12 months	75%	75%	
12 months to 2 years	75%	75%	
2 years to 5 years	75%	75%	
5 years to 10 years	100%	100%	
10 years and above	100%	100%	
Capital expenditure (CS 2.1.4)	£11.9m	£11.4m	
<i>Ratio of financing costs to net revenue stream (CS 8.1.1):</i>			
Proportion of Financing Costs to Net Revenue Stream (General Fund)	1.68%	1.68%	
Proportion of Financing Costs to Net Revenue Stream (HRA)	18.08%	18.08%	

Key: CS – 2019/20 Capital Strategy Appendix 1

4. Non-treasury investments

4.1 The Council's 'non-treasury' investment activities include loans to the Council-owned companies or the purchase of property assets for the purpose of income generation.

4.2 Lewes Housing Investment Company

Lewes Housing Investment Company (LHIC) is a wholly owned subsidiary of the Council. Incorporated in July 2017, LHIC has been set up to acquire, improve and let residential property at market rents. Although the 2018/19 Capital programme included £2.5m as potential commercial loan funding to facilitate property purchases, this facility was not drawn down and has rolled forward into 2019/20. No payments were made to, or monies received from, LHIC during 2018/19 and no amounts were owing to, or owed by, LHIC at the end of the year. There were no transactions during the period 1 March 2019 to 30 June 2019. During the period 1 July to 31 August 2019 £35.00 was drawn down. There were no transactions in the period 1 January to 29 February 2020.

4.3 Aspiration Homes LLP

Aspiration Homes LLP (AH) is a limited liability Partnership owned equally by Lewes District Council and Eastbourne Borough Council. Incorporated in June 2017, AH has been set up for the purpose of developing housing to be let at affordable rent. Although the 2018/19 Capital programme included £17.5m as potential commercial loan funding to AH to facilitate property purchases, this facility was not drawn down and has rolled forward into 2019/20.

Aspiration homes has purchased property in Western Road, Newhaven, at a total cost of £1,261,300 which completed in September 2019. There were no transactions in the period 1 January to 29 February 2020.

A working Capital facility loan of £100,000 has been agreed, at an interest rate of 2% above Base Rate. As at 31 March 2019 £10,000 of the working Capital facility loan had been drawn down. During the period 1 March 2019 to 30 June 2019, £35,000 has been drawn down against the loan facility. There were no transactions in the period 1 January to 29 February 2020.

5. Update Economic Commentary – Arlingclose (Appendix A)

5.1 Whilst the UK growth is rebounding slightly, the Eurozone and China are starting to flag and have the potential to be a drag on the UK economy later in the year. The full effect of the novel coronavirus will become clearer. However, it appears to be having a profound effect on a plethora of industries.

5.2 Clearly, tourism has taken the brunt of the decrease that the moment, notably Chinese visitors to Hong Kong has decreased by 99. Depending on each industries supply chains, we can expect to see a slowdown in growth namely car parts made in China but assembled in Germany, winter clothes collections currently not being produced may not be available next winter and British manufacturing, particularly JCB implementing a 32 hour working week in response to a shortage of parts. In Europe, Economic confidence survey suggests a slight decrease in confidence. However still fairly robust, and over in the US, GDP growth for the quarter is an annualised rate of 2.2 % (increased from 2.1 least quarter).

6. Public Works Loan Board (PWLB) – Change of Governance

- 6.1 Local government plays a major role in the construction and maintenance of local infrastructure and other capital assets in line with local priorities. The PWLB function supports this activity by on-lending government borrowing from the capital markets to local authorities. The term 'PWLB' has historically been used to describe the statutory body of the Public Works Loan Commissioners. This Board of Commissioners once used to review individual loan applications, but has not done so since the introduction of the prudential regime in 2004, under which local authorities are responsible for their own spending and borrowing decisions.
- 6.2 HM Treasury consulted in 2016 on a proposal to keep the lending function, but reform its governance by abolishing the statutory body of Public Works Loan Commissioners and transferring their power to issue loans to HM Treasury. The rationale was that, while the role of the PWLB Commissioners was no longer required, the functions were still needed and transferring them to HM Treasury would align policy and operational responsibilities. This proposal found broad support, so government resolved to make this change, using powers set out in the Public Bodies Act 2011.
- 6.3 Parliament has now legislated to make the reform set out in the consultation, with the effect that the powers, duties, assets and liabilities were transferred to HM Treasury on 25 February 2020. No action is required by the Council as a result of this change as the day to day operation of PWLB loans will continue to be managed by the Debt Management Office.

7. Financial Implications

- 7.1 All relevant implications are referred to in the above paragraphs.

8. Risk Management Implications

- 8.1 The risk management implication associated with this activity is explained in the approved Treasury Management Strategy. No additional implications have arisen during the period covered by this report.

9. Equality Screening

- 9.1 This is a routine report for which detailed Equality Analysis is not required to be undertaken.

10. Legal Implications

- 10.1 None arising from this report.

11 Appendices

- 11.1 Appendix A – Economic outlook

Background Papers

Treasury Strategy Statements 2019/2020 and 2021/2022



Arlingclose Ltd:
Independent treasury management services

Review of the Week

24th - 28th February 2020

Economic Commentary

The main story this week is certainly COVID-19 “The Coronavirus”. As cases have spread around the world, now on every continent, an increasing number of analysts are forecasting doom and gloom. The resulting falls in equity markets and significant fall in government bond yields reflect the consensus opinion that the outbreak will have a considerable impact on global growth and trade. Already industries are seeing shortened working weeks, supply chain disruption and potentially have an inflationary effect on input prices. Once the outbreak is under control and in the past, we may see a rebalancing and diversification of world trade and production as China can no longer be relied on as *the World’s factory*. If China sneezes, the rest of the world stumbles may well turn into a political tagline from President Trump during his election campaign.

The reality is indeed bad, however let’s take stock of the current situation. The virus is highly contagious but much less deadly than previous coronavirus outbreaks such as SARS or MERS. All but essential travel to China and hotspots of affected areas, including Northern Italy, has been restricted. More than 7,000 people have been tested for the virus in the UK, and of the 15 diagnosed, 8 have been released from hospital. Subsequently, a number of schools have been closed after persons who have recently travelled to Northern Italy have returned.

The effect on underlying interest rates globally is downbeat. In the US, consensus is currently to maintain rates where they are, however if a persistent fall in equities continues, the Federal Reserve may be more inclined to cut rates. In the UK data has been relatively strong, despite recent FTSE 100 falls, with a tight labour market, strong PMIs and medium-low inflation, combined with an improvement in political uncertainty from the strong Conservative majority, leads to the level projection from Arlingclose’s Interest Rate Forecast.

Data from the US has been a bit of a mixed bag, with GDP Annualised QoQ data slightly lower than anticipated at 2.1% (expected 2.2%), however still a strong level of growth, however mortgage applications have increased (1.5%), but initial jobless claims has increased more than expected (219k actual vs 211k expected).

Market Rates Review

Money Market Interest Rates/Yields: 27/02/2020

	Current Bid Rate/Yield	Low Bid 2019- 20	High Bid 2019- 20	Ave Bid 2019- 20
Money Markets Rates				
7-day	0.755	0.700	0.875	0.765
1 month	0.700	0.640	0.780	0.740
3 month	0.765	0.630	0.895	0.797
6 month	0.735	0.690	0.965	0.854
9 month	0.815	0.750	1.080	0.955
12 month	0.835	0.825	1.195	1.031
2 year	0.950	0.150	1.450	1.133
SWAP Rates				
5 Year	0.587	0.536	1.248	0.835
10 Year	0.641	0.545	1.421	0.940
15 Year	0.705	0.570	1.520	1.023
20 Year	0.729	0.577	1.559	1.057
25 Year	0.727	0.576	1.565	1.063
Gilts				
1 year	0.499	0.386	0.798	0.619
5 year	0.338	0.216	0.944	0.546
10 Year	0.459	0.403	1.234	0.748
20 Year	0.840	0.805	1.671	1.185
30 Year	0.933	0.911	1.740	1.286
T-Bills				
1 month	0.657			
3 months	0.653			
6 months	0.637			
Base Rate				
	0.750			

Benchmark Rates and Yields

Benchmark Share Index & Banking Shares			
	Last price	Weekly Change	YoY Change
FTSE 100 Index	6,868.28	-7.64%	-3.36%
Barclays	155.44	-14.27%	-6.87%
HSBC	535.00	-4.41%	-13.23%
Lloyds	50.64	-10.45%	-19.47%
RBS	186.10	-10.40%	-22.50%

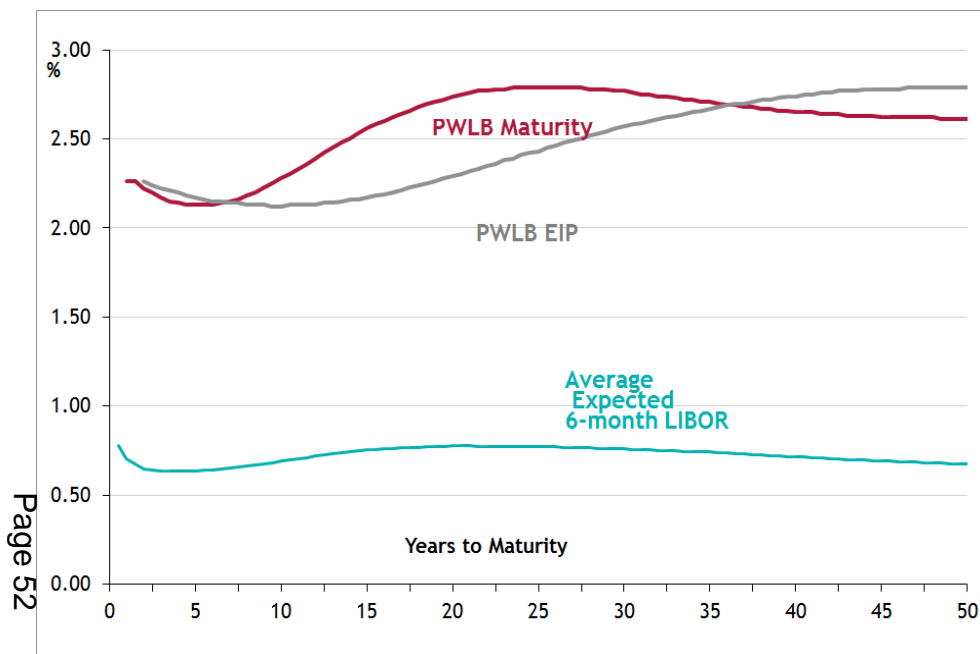
Benchmark Share Indices			
	Last price	Weekly Change	YoY Change
FTSE 100 Index	6,868.28	-7.64%	-3.36%
S&P 500 Index	3,116.39	-7.61%	11.60%
DAX 30 Index	12,452.35	-8.87%	8.40%
Nikkei 225 Index	21,948.23	-6.52%	1.82%
CAC 40 Index	5,524.14	-8.88%	5.72%

Benchmark Gilt Yields			
	Last price	Weekly Change	YoY Change
1 yr Gilt	0.50	-0.20	-0.39
5 yr Gilt	0.34	-0.26	-0.66
10 yr Gilt	0.46	-0.20	-0.64
20 yr Gilt	0.84	-0.12	-0.51
30 yr Gilt	0.93	-0.11	-0.48

Benchmark Sovereign Bond Yields			
	Last price	Weekly Change	YoY Change
10 yr Gilt	0.46	-0.20	-0.64
10 yr Germany	-0.54	0.20	-4.64
10 yr France	-0.24	0.10	-1.44
10 yr Japan	-0.11	1.52	2.58
10 yr US	1.28	-0.16	-0.52

PWLB Rates Review

PWLB Interest Rates/Yields



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The tables opposite operate a colour coding for easy interpretation when rates reach one of the levels described :

- Green when a rate is at the financial year low,
- Amber when between the financial year low and the year average
- Clear when between the average and year high
- Red when at the financial year high.

All figures shown are PWLB standard rates; please deduct 0.2 for the certainty rate and 0.4 for the project rate.

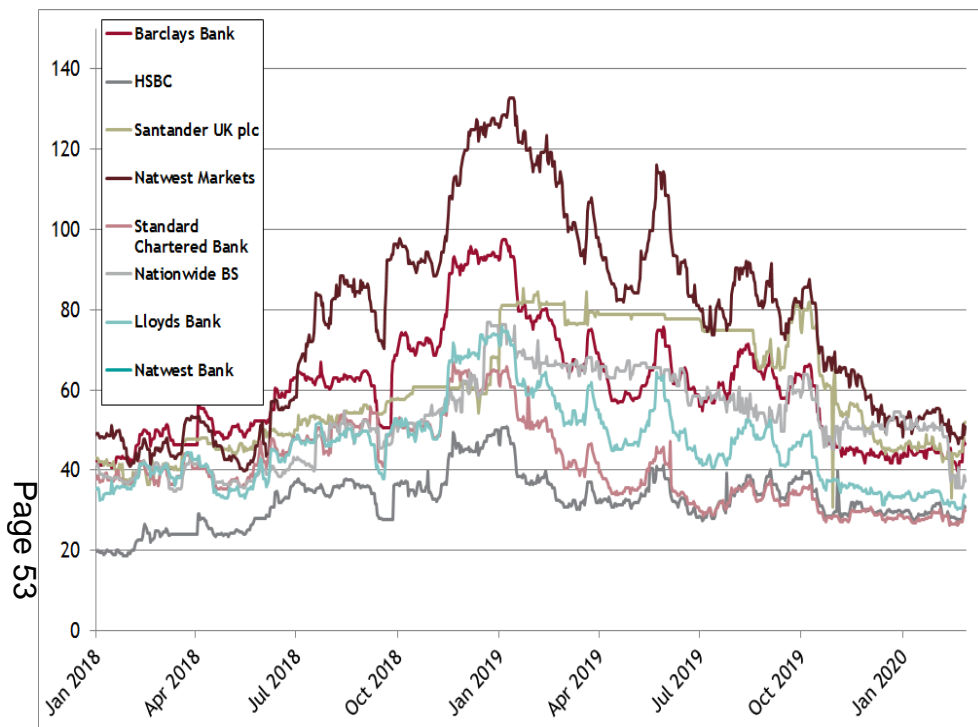
PWLB BORROWING (MATURITY)				
Maturity	27 February 2020	MINIMUM 2019-20	MAXIMUM 2019-20	AVERAGE 2019-20
1 YR	2.46	1.37	2.67	1.97
4.5 - 5 YR	2.33	1.20	2.63	1.93
6.5 - 7 YR	2.35	1.21	2.70	1.99
9.5 - 10 YR	2.48	1.33	2.87	2.16
14.5 - 15 YR	2.76	1.63	3.18	2.47
29.5 - 30 YR	2.97	1.92	3.39	2.70
49.5 - 50 YR	2.81	1.77	3.25	2.57

PWLB PREMATURE REPAYMENT (MATURITY)				
Maturity	27 February 2020	MINIMUM 2019-20	MAXIMUM 2019-20	AVERAGE 2019-20
1 YR	0.34	0.25	0.66	0.47
4.5 - 5 YR	0.20	0.07	0.79	0.39
6.5 - 7 YR	0.22	0.08	0.91	0.44
9.5 - 10 YR	0.33	0.18	1.11	0.60
14.5 - 15 YR	0.61	0.48	1.42	0.92
29.5 - 30 YR	0.84	0.79	1.63	1.18
49.5 - 50 YR	0.69	0.64	1.49	1.05

PWLB BORROWING (EIP)				
Maturity	27 February 2020	MINIMUM 2019-20	MAXIMUM 2019-20	AVERAGE 2019-20
1 YR				
4.5 - 5 YR	2.37	1.27	2.62	1.93
6.5 - 7 YR	2.34	1.23	2.62	1.92
9.5 - 10 YR	2.32	1.19	2.64	1.93
14.5 - 15 YR	2.37	1.23	2.74	2.03
29.5 - 30 YR	2.77	1.64	3.19	2.48
49.5 - 50 YR	2.99	1.93	3.42	2.73

Credit Review

CDS Movements



Credit Default Swaps Chart			
Credit Default Swaps (5 year)			
	Last price	Weekly Change	YoY Change
ANZ Banking Group	28.13	+8%	-42%
Barclays Bank	44.24	+12%	-34%
CBA	28.13	+8%	-45%
DZ Bank AG	68.67	+10%	+9%
European Investment Bank	23.84	+3%	-24%
Goldman Sachs Group	62.24	+34%	-27%
HSBC Bank	30.85	+11%	-4%
Landesbank Baden- Wuerttemberg	47.84	+0%	+19%
Landesbank Hessen-Thueringen	45.77	+0%	-4%
Lloyds Bank	33.47	+11%	-39%
NAB	29.13	+8%	-43%
Nationwide BS	37.26	+5%	-43%
Natwest Bank	29.04	+8%	-28%
Natwest Markets	54.88	+18%	-48%
Nordea Bank	22.16	+13%	-48%
Rabobank	22.07	+13%	-48%
Santander UK plc	52.08	+20%	-36%
Standard Chartered Bank	30.08	+14%	-32%

*CDS prices are shown as a tool to manage credit risk rather than indicative of buying prices

Data Review

Date	Country	Indicator/Event	Period	Expected	Previous	Actual
26/02/2020	US	MBA Mortgage Applications	Feb	--	-6.4%	1.5%
27/02/2020	EC	Consumer Confidence	Feb	--	-6.6	-6.6
27/02/2020	US	GDP Annualized QoQ	Q4	2.2%	2.1%	2.1%
27/02/2020	US	Personal Consumption	Q4	1.8%	1.8%	1.7%
27/02/2020	US	GDP Price Index	Q4	1.4%	1.4%	1.3%
27/02/2020	US	Core PCE QoQ	Q4	--	1.3%	1.2%
27/02/2020	US	Durable Goods Orders	Jan	-1.5%	2.4%	-0.2%
27/02/2020	US	Durables Ex Transportation	Jan	0.2%	-0.1%	0.9%
27/02/2020	US	Initial Jobless Claims	Feb	211k	210k	219k
28/02/2020	UK	GfK Consumer Confidence	Feb	-8	-9	Due Friday
28/02/2020	US	U. of Mich. Sentiment	Feb	100.6	100.9	Due Friday
28/02/2020	UK	Nationwide House PX MoM	Feb	0.4%	0.5%	Due Friday
28/02/2020	UK	Nationwide House Px NSA YoY	Feb	2.3%	1.9%	Due Friday

Credit Updates

There were no credit updates this week.

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