



Lewes District Council

To all Members of the Audit and Standards Committee

A meeting of the **Audit and Standards Committee** will be held in the **Ditchling Room, Southover House, Southover Road, Lewes Southover House, Southover Road, Lewes** on **Monday, 20 June 2016** at **10:00** which you are requested to attend.

Please note the venue for this meeting which is wheelchair accessible and has an induction loop to help people who are hearing impaired.

This meeting may be filmed, recorded or broadcast by any person or organisation. Anyone wishing to film or record must notify the Chair prior to the start of the meeting. Members of the public attending the meeting are deemed to have consented to be filmed or recorded, as liability for this is not within the Council's control.

15/06/2016

Catherine Knight
Assistant Director - Corporate Services

Agenda

- 1 Minutes**
To approve the Minutes of the meeting held on 14 March 2016 (copy previously circulated)
- 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 Members pursuant to Council Procedure Rule 12.3 (page D8 of the Constitution)

- 6 Committee Training Requirements (page 4)**
To consider the Report of the Assistant Director of Corporate Services
(Report No 76/16 herewith)
- 7 Annual Report on Internal Audit Performance and Effectiveness 2015/16 (page 6)**
To receive the Report of the Head of Audit, Fraud and Procurement
(Report No 77/16 herewith)
- 8 Annual Report on the Council's Systems of Internal Control 2015/16 (page 17)**
To consider the Report of the Head of Audit, Fraud and Procurement
(Report No 78/16 herewith)
- 9 Annual Report on the Council's work to combat Fraud and Corruption 2015/16 (page 22)**
To receive the Report of the Head of Audit, Fraud and Procurement
(Report No 79/16 herewith)
- 10 Interim Report on the Council's Systems of Internal Control 2016/17 (page 30)**
To receive the Report of the Head of Audit, Fraud and Procurement
(Report No 80/16 herewith)
- 11 Annual Governance Statement 2016 (page 38)**
To consider the Report of the Head of Audit, Fraud and Procurement
(Report No 81/16 herewith)
- 12 Annual Report on Risk Management (page 50)**
To consider the Report of the Director of Corporate Services
(Report No 82/16 herewith)
- 13 Lewes District Council - Planning Letter 2016/17 (page 62)**
To consider the Report of BDO Accountants and Business Advisers
(Report No 83/16 herewith)
- 14 Lewes District Council - Grant Claims and Returns Certification (page 66)**
To consider the Report of BDO Accountants and Business Advisers
(Report No 84/16 herewith)
- 15 Statement of Accounts 2015/2016 (page 73)**
To receive the Report of the Director of Corporate Services
(Report No 85/16 herewith)
- 16 Treasury Management (page 77)**

To consider the Report of the Director of Corporate Services
(Report No 86/16 herewith)

17 Date of Next Meeting

To note that the next meeting of the Audit and Standards Committee is scheduled to be held on Monday, 26 September 2016 in the Ditchling Room, Southover House, Southover Road, Lewes commencing at 10.00am

For further information about items appearing on this Agenda, please contact Zoe Downton at Southover House, Southover Road, Lewes, East Sussex BN7 1AB Telephone 01273 471600

Distribution: Councillors M Chartier (Chair), N Enever, S Gauntlett, I Linington, R Robertson and T Rowell

(Members of the Committee who are unable to attend this meeting or find a substitute councillor to attend on their behalf should notify Zoe Downton, Committee Officer, zoe.downton@lewes.gov.uk)

Agenda Item No: 6 **Report No:** 76/16

Report Title: Committee Training Requirements

Report To: Audit and Standards Committee **Date:** 20 June 2016

Report By: Catherine Knight, Assistant Director of Corporate Services

Contact Officer(s)-

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Purpose of Report:

To enable the Committee to identify any training needs for the coming year.

Officers Recommendation(s):

- 1 To identify any training requirements that the Committee feels need to be addressed so that it can carry out its functions over the coming municipal year.
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Reasons for Recommendations

- 1 To enable councillors to be properly trained to carry out the functions of the Committee.

Information

- 2 The results of the recent training needs analysis exercise that was carried out indicated that councillors would like committee specific training to assist them in their role as members of Committees.
- 3 As part of the ongoing training support for councillors, each year all the formal Committees of the Council are being asked to consider their known work programme and to identify any training requirements that would assist them during that programme.
- 4 This is an opportunity to identify any general training requirements for the Committee as a whole or what may be useful for any new Committee members.
- 5 Examples of previous training sessions that Audit and Standards Committee members have received and found beneficial are:
 - The Role of the Audit Committee
 - The Roles of Internal and External Audit
 - Audit Committees – Practical Guidance for Local Authorities

Financial Appraisal

- 6** It is anticipated that any training needs identified will be provided in house or met using the councillors' training budget. In the event that overall demand from all Committees etc. exceeds the capacity of that budget, CMT and Cabinet will be asked to address the issue, by either agreeing more resources if appropriate or by prioritising the requests.

Legal Implications

- 7** None over and above those set out in the body of this Report.

Risk Management Implications

- 8** There are no risk management implications arising as a result of this Report. If the recommendations are not implemented, the main risk will be that the Council's Committees are unable to carry out their functions fully due to a lack of sufficiently trained members.

Equality Screening

- 9** This is a routine, procedural Report with no potential for negative impacts. Therefore, an Equality Analysis is not required.

Background Papers

- 10** None

Appendices

- 11** None

Agenda Item No: 7 **Report No:** 77/16

Report Title: Annual Report on Internal Audit Performance and Effectiveness 2015/16

Report To: Audit and Standards Committee **Date:** 20 June 2016

Ward(s) Affected: All

Report By: Head of Audit, Fraud and Procurement

Contact Officer
Name: David Heath
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Tel no: 01273 484157

Purpose of Report:

To inform Councillors of the Internal Audit work of the Audit and Performance Division for 2015/16.

To inform Councillors on the outcome of the review of the effectiveness of Internal Audit for 2015/16.

Officers Recommendation(s):

- 1 To note that the Internal Audit coverage in 2015/16 has been sufficient to enable the Head of Audit, Fraud and Procurement (HAFP) to issue an unqualified opinion on the overall adequacy and effectiveness of the Council's control environment (see paragraph 3.1).
 - 2 To note the satisfactory outcome of the review of the effectiveness of Internal Audit for 2015/16 (see paragraph 3.3).
-

Reasons for Recommendations

- 1 The remit of the Audit and Standards Committee includes a duty to consider the annual report by the HAFP, and to keep the work of Internal Audit under review to ensure that it is able to discharge its functions effectively.

2 Background

- 2.1 The Internal Audit function at Lewes previously operated in accordance with the Code of Practice for Internal Audit published by the Chartered Institute of Public Finance and Accountancy (CIPFA). CIPFA has, with the other governing bodies that set auditing standards for the various parts of the public sector, adopted a common set of Public Sector Internal Audit Standards (PSIAS) that have applied from 1 April 2013. The HAFP advised the Audit and Standards Committee of the effect of the standards at its March 2013 meeting.

- 2.2** The requirements of the PSIAS overlap with those of the Accounts and Audit (England) Regulations 2011, which require that the organisation conducts a review of the effectiveness of Internal Audit at least annually. This requirement has been met by an internal study carried out by the HAFP, with the results reviewed by the Director of Corporate Services and now reported to the Audit and Standards Committee. The review has drawn on the results of the quality review processes that form part of the PSIAS and the associated Local Government Application Note (LGAN) issued by CIPFA.

3 Overall conclusions on Internal Audit Performance and Effectiveness 2015/16

- 3.1** The work carried out by Internal Audit during 2015/16 is outlined in Section 4 of this report. The audit coverage has been sufficient to enable the HAFP to issue an unqualified opinion on the overall adequacy and effectiveness of the Council's control environment. This opinion is included in the Annual Report on the Council's Systems of Internal Control 2015/16 that is presented separately to this meeting of the Committee.
- 3.2** In the past year Internal Audit has continued to focus on the Council's main financial systems and the HB subsidy grant claim, whilst at the same time providing resources to assist in the projects that form part of the Council's work on restructuring and regeneration. This approach helps to ensure the adequacy of internal control in key areas, safeguards the Council's subsidy payments, ensures that the work of internal audit is integrated with the work of the external auditors (BDO), and helps to provide assurance on quality and controls in key Council developments. The HAFP believes that these are necessary priorities, which also assist in the Council's management and control of risk.
- 3.3** The review of the effectiveness of Internal Audit has taken into account the work carried out by the section during 2015/16 and the results of the performance and quality assurance processes that are outlined in Sections 5 to 7 of this report. The results of the review enable the HAFP to report that the Internal Audit service at Lewes is fully effective, is subject to satisfactory management oversight and has complied with the PSIAS in all major areas.

4 Work of Internal Audit 2015/16

- 4.1** This section of the report informs Councillors of the work undertaken by Internal Audit during the year, compared against the annual programme that was agreed by the Audit and Standards Committee in March 2015.

Use of Internal Audit resources

- 4.2** Table 1 shows the total planned audit days compared to the actual audit days spent. As requested by Councillors, Table 1 includes comparative data for 2014/15.
- 4.3** Table 1 shows that for 2015/16 a total of 602 audit days have been undertaken compared to the budget of 667 days. The variance of 65 days is mainly due to staffing changes and other issues that reduce the time available for audit work. These were reported to the January 2016 meeting of the Committee, and are outlined at 4.4 to 4.6 below.

Table 1: Plan audit days compared to actual audit days for 2015/16

Audit Area	Actual audit days for 2014/15	Plan audit days for 2015/16	Actual audit days for 2014/15
Main Systems	336	285	360
Central Systems	25	50	57
Departmental Systems	79	105	68
Performance and Management Scrutiny	39	45	27
Computer Audit	28	55	2
Management Responsibilities/Unplanned Audits	176	127	88
Days Total	683	667	602

- 4.4** From 1 January 2016, the Principal Audit Manager (PAM) has been taking flexible retirement, which has resulted in a reduction of 20 planned audit days in the period up to the end of March 2016. The Internal Audit Manager at Eastbourne BC has agreed to work for the Council for the equivalent of one day per week, with the time spent on specific audit projects – in the period January to March 2016 this arrangement provided 10 days of audit work. This joint working has helped to deliver progress on shared services between the two councils, and has generated a saving of approximately £8,400 per annum.
- 4.5** One of the Senior Auditors at LDC retired and left the Council on 19 November 2015. The vacancy was filled and the officer commenced work with the Council on 1 March 2016. The impact of the vacancy has been a reduction of 45 days in the time available for audit work in 2015/16.
- 4.6** During 2015/16, HAFP has been involved in a number of studies of procurement and governance issues and, in particular, has been a member of the Core Group that is overseeing the Council's role in the Joint Transformation Programme (JTP). This work has involved 10 days more of HAFP's time than was envisaged in March 2015.
- 4.7** As was anticipated when the Audit Plan 2015/16 was prepared, the ongoing restructuring of the Council necessitated a review of the annual programme. The results of this review exercise were reported to the January 2016 meeting of the Committee. The appropriate sections of that report are included below to remind Committee members of the changes that were agreed.

Review of the 2015/16 Audit Plan (reported January 2016)

- 4.8** The review has taken place at the nine month stage, and the results of the review are now presented to the Committee. The review was scheduled to take account of a range of issues, in particular the ongoing restructuring and the impact of the significant extra work on the Benefits subsidy claim with BDO. The HAFP plans the following adaptations to the programme of work in the Audit Plan for 2015/16.
- The audits of Change Control and Disaster Recovery from the programme for Computer Audit will be scheduled for future dates in the audit cycle.
 - The audits of Homelessness and Housing Strategy, and Planning and Development Control, from the programme for Departmental Systems will be scheduled for a future dates in the audit cycle.

- The audit of Right to Buy (RTB) from the programme for Departmental Systems will be carried out by the Internal Audit Manager at Eastbourne BC.

Other audits in the programme for 2015/16 that are planned or underway will continue to a normal conclusion.

Audit Work Undertaken

- 4.9** The paragraphs below summarise the main functional areas reviewed in the year and the key audits undertaken and completed. More detailed information on the audits completed in 2015/16 has been provided to each meeting of the Audit and Standards Committee.
- 4.10 *Main Systems:*** The testing of the major financial systems for 2014/15 was completed, and a final report issued. The results provided assurance on the adequacy of internal controls for the Annual Governance Statement (AGS), and helped to inform BDO's work on the Council's accounts. The corresponding work by Internal Audit and BDO for 2015/16 is at the draft report stage.
- 4.11** The summary report on the work to test the Council's subsidy claim for Benefits for 2013/14 was finally issued. The priority work to test the Council's subsidy claim for Benefits for 2014/15 was started in June 2015. Initial results were passed to BDO for evaluation, and BDO confirmed that significant extra testing would be required to determine the impact of the errors noted in processing some HB applications. The timetabled date for BDO to have signed off and submitted the audited claim was at the end of November 2015, but that date was not met because of the extra work that was required. The claim was eventually submitted to DWP, together with a letter of qualification, in March 2016. There was a marginal DWP adjustment to the submitted claim, which was agreed at a total value of approximately £35.8m. The work for the 2015/16 claim is at the initial planning stage.
- 4.12 *Central Systems:*** Final reports were issued for the audits of Ethics 2014/15 and Health and Safety. The audits of Insurance, Electoral Registration and Elections, and Ethics 2015/16 are nearing completion. The audit of Cemeteries is underway.
- 4.13 *Departmental Systems:*** The final reports from the audit of Building Control, Trade Waste and Housing Management were issued. The audit of Right to Buy (RTB) is at the draft report stage.
- 4.14 *Performance and Management Scrutiny:*** Earlier in the year, PAM was part of the officer group that was evaluating the tenders for the systems comprising the New Service Delivery Model (NSDM). HAFP was regularly involved as a member of the project team for the procurement. The procurement of the NSDM systems was halted because it was not consistent with the strategy for shared services with Eastbourne BC. During October 2015, it was confirmed that the Council will integrate staff and services with Eastbourne BC (EBC) under the Joint Transformation Programme (JTP). A full JTP business case has been prepared and agreed by the respective Cabinets at EBC and LDC. All members of the HAFP team have been involved in some capacity in the workshops, activity analysis and oversight of this key project.

- 4.15 Computer Audit:** Internal Audit completed the IT aspects of the testing of the main financial systems. As noted at 4.8 above, the majority of the planned coverage of IT has been rescheduled.
- 4.16 Management Responsibilities and Unplanned Audits:** This category provides resources for activities such as support for the Audit and Standards Committee, managing the Fraud Investigations Team, liaison with BDO, managing the Follow Up procedures, as well as for special projects or investigations.
- 4.17** The major project in this category has been Internal Audit's coordination of the Council's response to the 2014/15 NFI data matching exercise. Preparations for the 2104/15 exercise began in April 2014, and the base data was forwarded to the Audit Commission in October 2014. The first matches were returned to LDC in January 2015, detailed across 56 reports. The reports set out the potential frauds among Housing Benefit (HB) claimants, housing tenants, and anyone receiving payments or discounts from the Council. Each report highlighted a number of 'Recommended' matches that appeared to indicate the greatest likelihood of fraud.
- 4.18** Council services nominated officers to investigate the matches in their areas. Because the work is resource intensive, services targeted their efforts with the initial focus on those matches that were recommended for review. The work required the weeding out those matches that were the result of error or coincidence, and then the examination of the remaining matches to assess the likelihood of fraud. Any suspected cases of fraud would be passed to the LDC Investigation Team for action, with any suspected cases of HB fraud referred to DWP.
- 4.19** The exercise ended on 14 April 2016, with the Council required to declare that the recorded results were a reasonable reflection of the current position. In June 2016 the Cabinet Office will issue a national report on the outcome of NFI 2014/15, after which the Council will receive an assessment of its own response to the exercise. As previously, the assessment is likely to say that the Council has not examined all the reported matches. There is no sanction for the Council only partially completing the exercise.
- 4.20** Of the 1,524 reported matches LDC has examined 1,135 (75%). There have been no instances of fraud found on any of the reports, although the exercise has identified 42 HB overpayments resulting from error with a total value of approximately £15,700. These results include the examination of 343 of the 370 recommended matches. The outstanding recommended matches cover student loans – the service examined more than half of the recommended matches for student loans with no errors or frauds found. Services assessed that the results obtained from the work did do not justify further resources being assigned to the examination of more matches, and Internal Audit supports this view.
- 4.21** The conduct and progress of the NFI 2014/15 has been regularly reported to the Audit and Standards Committee.

Follow Up of Audit Recommendations

- 4.22** As part of the control procedures detailed in the Internal Audit Manual all audit recommendations are followed up. The purpose of this is to check whether all

accepted recommendations have been implemented. The early focus for follow up in 2015/16 was on confirming the implementation of the recommendations that had been agreed in the previous year. The results of this work were reported to the June 2015 meeting of this Committee. Since then the follow up procedures have concentrated on the recommendations due to be actioned during 2015/16.

- 4.23** Of the 21 recommendations due to be implemented during the year, 18 have been actioned. This represents an implementation rate of 86% which is slightly lower than the target of 90%. The factors behind the shortfall are organisational and staffing changes which have delayed some new initiatives.

5 Review of the Internal Audit Service against its aims, strategy and objectives

- 5.1** The LGAN requires that the Internal Audit service is periodically reviewed against its aims, strategy and objectives. The aim, objectives and strategy for the service for 2015/16 were set out in the Strategic Audit Plan 2015/18 that was presented to the March 2015 meeting of the Audit and Standards Committee, as outlined below.

Service Aim

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

Service Objectives

The Internal Audit function is provided internally, and has the following service objectives:

- To provide an efficient and effective Internal Audit function which achieves its service standards, and improves performance where possible.
- To deliver the Council's Annual Audit Plan and Strategic Audit Plan.
- To provide an efficient and effective Investigations Team that supports the Council's Anti-Fraud and Corruption Strategy by carrying out a planned programme of work to help prevent and detect fraud, and provide resources to investigate suspected fraud cases.

The desired outcome is for the Council to be able to demonstrate an effective control environment with no significant control issues, and to provide a satisfactory and unqualified audit opinion in its Annual Governance Statement (AGS).

The Council's AGS reports on the effectiveness of the governance framework, and is approved by the Audit and Standards Committee. The AGS is based upon the results from the Council's assurance arrangements, and the work by Internal Audit and the Council's external auditors, BDO.

Internal Audit Strategy

The Internal Audit service is provided internally. The staffing is set at the level necessary to ensure audit coverage of the key areas within the three year audit cycle based on a detailed risk assessment. From January 2016, the staffing of

Internal Audit has been set at 2.9 FTE, but with support from the Internal Audit Manager at Eastbourne BC adding the equivalent of an extra 0.2 FTE.

The staffing of the service has been enhanced by 1.4 FTE with the addition of the Fraud Investigations Team since November 2014 (see Section 10).

- 5.2** The HAFP has compared the performance of the Internal Audit service with the aim, objectives and strategy, and has examined the organisation, working methods, performance and quality standards of the service. The review results, together with the details given in the Annual Report on the Council's Systems of Internal Control 2015/16, demonstrate that the Internal Audit service achieves its service aim, objectives and expected outcome, and operates in accordance with the Internal Audit Strategy as approved by the Audit and Standards Committee.

6 Review of Internal Audit Charter

- 6.1** The PSIAS require that HAFP periodically reviews the Charter and present it to senior management and the Audit and Standards Committee for approval. The Charter for Internal Audit and Internal Audit Code of Ethics were updated to comply with the PSIAS in March 2013, and the revised documents were approved by the Audit and Standards Committee and circulated to senior managers.
- 6.2** HAFP reviews the documents annually to confirm that they remain valid and up to date, and that Internal Audit activities are operated in accordance with the requirements of the documents. HAFP has confirmed that the documents remain largely as approved in March 2013, except for minor changes made in May 2015 to reflect new job titles for some senior positions. If there is a need for more significant changes to the documents they will be presented to the Audit and Standards Committee for approval, and circulated to senior managers.

7 Quality Assurance and Improvement Programme (QAIP)

- 7.1** The PSIAS require that HAFP develops and maintains a QAIP that covers all aspects of Internal Audit activity, and which includes periodic assessments of quality, performance and conformance with the standards. The main elements of the QAIP are set out below.
- 7.2** The results of the quality reviews and assessments have been considered by HAFP, who confirms that the standards of Internal Audit work comply with the audit manual and the PSIAS.

Review by external auditors BDO

- 7.3** BDO make use of Internal Audit's work for their audits of key financial systems and the audits of the grant subsidy claim for HB, and use Internal Audit results to inform their opinion of the Council's control environment.

Quality reviews by Internal Audit

- 7.4** Each audit assignment is subject to quality reviews by the Principal Audit Manager (PAM) to establish that the field work and audit reports have been prepared and completed in accordance with audit manual procedures, quality standards and the objectives of the audit.

External assessment

- 7.5** The PSIAS set new requirements in terms of external assessments, which must be conducted at least every five years by a qualified, independent assessor (or assessment team) from outside the organisation. LDC has until March 2018 to have carried out an external assessment.
- 7.6** HAFP has previously agreed with the Audit and Standards Committee that he will put in place suitable arrangements for an external assessment, and will report the arrangements to the Committee. As anticipated the most economic arrangements will involve the internal audit services in neighbouring authorities in a shared assessment process. During March 2015, the outline arrangements for the assessments were agreed with the authorities comprising the Sussex Audit Group. Following a pilot assessment at a neighbouring authority, Lewes is scheduled to be assessed later in 2016/17.

Internal assessment

- 7.7** The PSIAS require that there are annual internal assessments that are carried out by people external to Internal Audit, but with a sufficient knowledge of internal audit practices, including knowledge of the PSIAS, the LGAN and/or IIA practice guidance.
- 7.8** The PAM has carried out the internal assessment for 2015/16, comparing Internal Audit processes and procedures with the requirements of the PSIAS and LGAN. The PAM is not external to internal audit but has the necessary knowledge of internal audit practices, PSIAS, LGAN and IIA practice guidance.
- 7.9** HAFP has reviewed the results of the internal assessment, and confirms that Internal Audit works in accordance with the detailed requirements of the PSIAS and LGAN in the planning, management, conduct and reporting of engagements.

8 Feedback from Users

- 8.1** Customer satisfaction surveys have been part of Internal Audit's quality assurance measures since 2001. The PSIAS and LGAN require that performance monitoring arrangements include obtaining feedback from stakeholders.
- 8.2** During May 2016, feedback questionnaires were sent to the Chief Executive and members of the Corporate Management Team (CMT), and to those service managers who have had direct contact with Internal Audit during 2015/16. All comments from that exercise were reported as Very Good, Good or Satisfactory.

9 Performance Indicators (PIs)

- 9.1** Proposals for a revised set of PIs for Internal Audit were agreed at the September 2013 meeting of the Committee, and the new PIs formed the framework for the report on Internal Audit Benchmarking that was presented to the December 2013 meeting of the Committee.
- 9.2** The Performance Indicator (PI) results for 2014/15, 2015/16 and the targets for 2016/17 are detailed at Appendix A. The main factors leading to variances from the performance targets for 2015/16 can be summarised as:

- The staffing changes that have taken place during 2015/16.
- The need to apply significant additional resources to the work on the HB subsidy claim with BDO that has impacted on the resources available for other audits in the 2015/16 programme.

10 Fraud Investigation Team

10.1 Each meeting of the Audit and Standards Committee receives a full update on the work of the Fraud Investigations Team, and normally this report would include details of their work during 2015/16. This meeting of the Committee is receiving a detailed Annual Report on the Council's work to Combat Fraud and Corruption 2015/16. To avoid duplication, no further comment on the work of the Fraud Investigation Team is included here.

11 Financial Appraisal

11.1 There are no additional financial implications arising from this report.

12 Sustainability Implications

12.1 I have not completed the Sustainability Implications Questionnaire as this report is exempt from the requirement because it is a progress report.

13 Risk Management Implications

13.1 The risk assessment shows that if the Audit and Standards Committee does not ensure that Internal Audit is able to discharge its functions effectively there is a risk that a key aspect of the Council's internal control arrangements will not comply fully with best practice. At present, this risk is mitigated by an effective Internal Audit service that is subject to proper management oversight and monitoring by the Audit and Standards Committee.

14 Equality Screening

14.1 I have given due regard to equalities issues and, as this is an internal progress monitoring report with no key decisions, screening for equalities is not required.

15 Background Papers

[Strategic Audit Plan](#)

16 Appendices

Appendix A: Performance Indicators (PIs) for Internal Audit.

APPENDIX A PERFORMANCE INDICATORS (PIs) FOR INTERNAL AUDIT

Performance Indicator	Actual 2014/15	Target 2015/16	Actual 2015/16	Target 2016/17
Input of resources				
1 Staffing FTE	3.38	3.25	3.00	3.1
2 Employee costs	£164,592	£154,662	£140,412	£145,290
3 Total costs	£191,750	£187,962	£166,994	£173,620
4 Cost per chargeable day	£280.75	£281.80	£277.39	£273.00
5 Total external audit fee	£73,510	£62,878	£62,878	tbc
Productivity and Efficiency				
6 Number of core systems audits carried out in the year	14	14	14	14
7 Number of days spent on core systems audits	336	285	360	290
8 Number of audits/reviews in original plan	33	39	30	37
9 % of original plan carried out	89%	90%	77%	90%
10 Number of audits/reviews in revised plan	39	-	40	-
11 % of revised plan carried out	90%	90%	82%	90%
12 Number of chargeable days	683	667	602	636
13 Number of non-chargeable days	178	171	222	158
14 % of draft reports issued within 15 days of the end of the audit	90%	95%	86%	90%
Outcome and degree of influence of the service				
15 % of recommendations implemented by the agreed date.	67%	90%	86%	90%
16 All comments from client satisfaction questionnaires in Categories 1 (Very Good), 2 (Good) or 3 (Satisfactory).	100%	100%	100%	100%

Notes

All the PIs are for the Internal Audit service. There are no PIs for the Fraud Investigations Team.

The list of PIs has been adapted to remove the item dealing with the statement provided by BDO on the work of Internal Audit. This statement no longer forms part of the BDO Management Letter.

Items 1 to 4, and 12 – The results reflect the staffing changes that have taken place during 2015/16.

Items 7 to 11 – The time spent on core systems audits reflects the significant additional resources required for the work on the HB subsidy claim with BDO, and this has impacted on the resources available for other audits in the 2015/16 programme.

Item 10 - This reflects the position by the end of the year, with audits having been added to/taken from the plan. No target or forecast is appropriate.

Item 13 – The result for 2015/16 includes 49 days in respect of staff vacancies. The result excluding staff vacancies is 173 days, which is close to target.

Item 15 - The factors behind the shortfall for 2015/16 are organisational and staffing changes which have delayed some new initiatives.

Item 16 – This includes results from questionnaires sent to audit clients, and members of the Corporate Management Team.

Agenda Item No: 8 **Report No:** 78/16

Report Title: Annual Report on the Council's Systems of Internal Control 2015/16

Report To: Audit and Standards Committee **Date:** 20 June 2016

Ward(s) Affected: All

Report By: Head of Audit, Fraud and Procurement

Contact Officer
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Post Title: Head of Audit, Fraud and Procurement
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Tel no: 01273 484157

Purpose of Report:

To inform Councillors on the adequacy and effectiveness of the Council's systems of internal control for 2015/16.

Officers Recommendation(s):

- 1 To receive the annual report by the Head of Audit, Fraud and Procurement (HAFP).
 - 2 To note that the overall standards of internal control were satisfactory during 2015/16 (as shown in Section 3).
 - 3 To note that the satisfactory opinion on internal control is taken forward into the draft Annual Governance Statement (AGS) 2016 that is presented separately to this meeting of the Committee. The approved AGS is to be included with the Statement of Accounts 2015/16 that will be published in September 2016 (see Section 7).
 - 4 To report to the Cabinet on the Council's systems of internal control.
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Reasons for Recommendations

- 1 The remit of the Audit and Standards Committee includes a duty 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. There is a further duty to consider the annual report by the HAFP, and to report annually to the Cabinet on the adequacy and effectiveness of internal controls within the Council.

2 Background

- 2.1** The Chartered Institute of Public Finance and Accountancy (CIPFA) has, with the other governing bodies that set auditing standards for the various parts of the public sector, adopted a common set of Public Sector Internal Audit Standards (PSIAS) that have applied since 1 April 2013. HAFP advised the Audit and Standards Committee of the effect of the standards at its March 2013 meeting.
- 2.2** The requirements of the PSIAS overlap with those of the Accounts and Audit Regulations, which require that there be an annual report on the internal control environment. This requirement has been met by an internal study carried out by HAFP, with the results independently reviewed by the Director of Corporate Services and now reported to the Audit and Standards Committee.

3 Opinion of the Head of Audit, Fraud and Procurement on the Internal Control Environment at Lewes District Council for the year ended 31 March 2016

- 3.1** The overall standards of internal control are satisfactory. This opinion is based on the work of Internal Audit, other internal reviews and external assurance bodies, and the Council's work on risk management. The risk management process has identified that most risks are mitigated by the effective operation of controls or other measures. Whilst recommendations have been made to improve procedures and controls in some areas, there were no instances in which internal control problems created significant risks for Council activities or services. In most cases managers have addressed the control issues since the respective audits, and within those recommendations not yet implemented there are no issues that create significant risks for the Council.
- 3.2** This report outlines the work on which the above opinion is based, including high level summaries of the external review processes and their results.

4 Internal Audit Work 2015/16

- 4.1** The work carried out by Internal Audit has been sufficient to enable HAFP to issue an unqualified opinion on the overall adequacy and effectiveness of the Council's control environment. The work carried out by Internal Audit is summarised in the Annual Report on Internal Audit Performance and Effectiveness 2015/16 that is presented separately to this meeting of the Committee.

5 Risk Management

- 5.1** Cabinet approved the Risk Management Strategy in September 2003. Since then risk management at the Council has been developed via a series of action plans, with the result that all the elements of the risk management framework set out in the strategy are in place and are maintained at best practice standards.
- 5.2** The Annual Report on Risk Management is presented separately to this meeting of the Committee. The Committee receives updates on risk management at every meeting. The reports during 2015/16 have noted that

most risks are mitigated by the effective operation of controls or other measures. However, there are some risks that are beyond its control, for example a major incident, a 'flu' pandemic, a downturn in the national economy or a major change in government policy or legislation. The Council has sound planning and response measures to mitigate the effects of such events, and continues to monitor risks and the effectiveness of controls.

- 5.3** The Government introduced a national deficit reduction plan for the public sector in 2011/12. In response, the Council has committed to a phased annual programme to make budget savings. The total value of savings made in the General Fund budget (which covers all services except the management and maintenance of Council-owned homes) since 2011/12 has been £3.5m with each annual savings target being successfully achieved in-year.
- 5.4** When setting the General Fund budget for 2016/17, the Council identified a requirement to make further savings, which will reduce spending by £2.8m over the four years to 2019/20. The target for 2016/17 is £685,000 of which £400,000 is to be generated from the Joint Transformation Programme (JTP) with Eastbourne BC. A budget has been allocated to finance the investment needed to implement the changes required through the JTP
- 5.5** There are also pressures to reduce spending on the management and maintenance of Council owned (HRA) housing. The Government has introduced a number of measures, starting in 2016/17, which will reduce the amount of income that it receives from tenants. The first of these measures, a 1% annual reduction in tenants' rents for each of the next four years, will incrementally reduce HRA income by £2.8m by 2019/20, the total shortfall in that period being £6.9m.
- 5.6** The system of management assurance (see Section 6) has confirmed the operation of controls and the absence of significant control issues during the period of the savings programme so far. HAFP will monitor the impact on the control environment of the Council's restructuring, and will liaise with managers who are working to ensure that the control environment keeps pace with these changes. This comment is reflected in the Annual Governance Statement (AGS) 2016 (see Section 7).
- 5.7** The overall satisfactory situation in respect of risk management has helped to inform the opinion on the internal control environment.

6 System of Management Assurance

- 6.1** The Council operates a management assurance framework. The framework has enabled senior officers to confirm the proper operation of internal controls, including compliance with the Constitution, in those services for which they were responsible in 2015/16. As part of this process all members of the Corporate Management Team (CMT) are required to consider whether there were any significant governance issues during 2015/16. At its meeting on 3 May 2016 CMT confirmed that there were no significant governance issues to report.

7 Corporate Governance

- 7.1** In March 2016 the HAFP, in consultation with key officers, reviewed the Council's Local Code of Corporate Governance, and concluded that the arrangements remain satisfactory and fit for purpose. These results were reported to the March 2016 meeting of the Committee.
- 7.2** The Council is required to produce an Annual Governance Statement (AGS), which outlines the main elements of the Council's governance arrangements and the results of the annual review of the governance framework including the system of internal control. The AGS for 2016 is reported separately to this meeting of the Committee.

8 External assurance

- 8.1** The Government relies on external auditors to periodically review the work of the Council to make sure it is meeting its statutory obligations and performing well in its services. The results of these external reviews have helped inform the opinion on the internal control environment. The recent results are summarised below.
- 8.2** Annual Audit Letter for 2014/15 (October 2015) – This report summarised the key issues from the work carried out by BDO during the year, and was presented to the November 2015 meeting of the Committee. The key issues were:
- BDO issued an unqualified true and fair opinion on the financial statements for the period ended 31 March 2015.
 - BDO identified a number of misstatements in relation to fixed asset accounting for Property, Plant and Equipment which were corrected.
 - BDO did not identify any significant deficiencies in the Council's framework of internal controls, but signed annual related party declarations had not been received from Members who were not re-elected in the May 2015 elections.
 - BDO concluded that, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015, and issued an unqualified value for money conclusion.
 - BDO found that the Council is continuing to monitor the overall financial position, has established effective arrangements to ensure its financial resilience and is taking measures to address the budget gap identified over the period of the medium term financial plan.
 - BDO noted that good progress is being made towards the transformation programme and significant savings are being secured from planned procurements.
 - BDO were satisfied that the Annual Governance Statement (AGS) was not inconsistent or misleading with other information they were aware of from the audit of the financial statements and complies with standard guidance.
 - BDO noted that the Council's Whole of Government Accounts (WGA) submission is below the threshold for full assurance review and no audit work was necessary.

- BDO reported on the results of the grant claims and returns certification report that covered two claims and returns for 2013/14, with a total value of £37.5 million.

8.3 Only the Housing Benefit subsidy claim for 2014/15 has remained within the scope of the Audit Commission's grant certification regime. The audit of the claim was completed in March 2016 and the results of the audit are reported in the Annual Report on Internal Audit Performance and Effectiveness 2015/16 that is presented separately to this meeting of the Committee.

8.4 The results of these external reviews have helped inform the opinion on the internal control environment.

9 Financial Appraisal

9.1 There are no additional financial implications arising from this report.

10 Sustainability Implications

10.1 I have not completed the Sustainability Implications Questionnaire as this report is exempt from the requirement because it is an internal monitoring report.

11 Risk Management Implications

11.1 The risk assessment shows that if the Audit and Standards Committee does not ensure proper oversight of the adequacy and effectiveness of the Council's systems of internal control there is a risk that a key aspect of the Council's control arrangements will not comply fully with best practice.

12 Equality Screening

12.1 I have given due regard to equalities issues and, as this is an internal monitoring report with no key decisions, screening for equalities is not required.

13 Background Papers

None.

14 Appendices

None.

Agenda Item No: 9 **Report No:** 79/16

Report Title: Annual Report on the Council's work to combat Fraud and Corruption 2015/16

Report To: Audit and Standards Committee **Date:** 20 June 2016

Ward(s) Affected: All

Report By: Head of Audit, Fraud and Procurement

Contact Officer

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Purpose of Report:

To inform Councillors on the adequacy and effectiveness of the Council's systems to combat fraud and corruption during 2015/16.

Officers Recommendation(s):

- 1 To receive the report, and note the control measures that are in place to maintain a strong anti-fraud and corruption culture (see Section 3).
- 2 To note the structures within the Council that counter fraud and corruption, particularly the arrangements for preventing, detecting and investigating fraud across a range of Council services and activities (see Section 4).
- 3 To note the Council's involvement in national, regional and local counter fraud networks (Section 5).
- 4 To note the results of the Council's counter fraud activity during 2015/16 (Section 6).
- 5 To note the Council's compliance with CIPFA's Code of Practice on managing the risk of fraud and corruption (Section 8).
- 6 To reaffirm the Council's zero tolerance to fraud and corruption.

Reasons for Recommendations

- 1 The remit of the Audit and Standards Committee includes the duties to keep under review the probity and effectiveness of internal controls, and to monitor Council policies on Anti-Fraud and Corruption and Whistleblowing.

Information

2 Background

- 2.1 In simple terms, fraud is obtaining a financial or other gain by means of deception, dishonesty or theft. Similarly, corruption is the dishonest exercise of official duties or position on order to achieve financial or other gain, for example the receiving of gifts, rewards or favours from the misuse of information or influence.

- 2.2** In recent years, central and local government have sought to develop new initiatives to counter fraud and corruption. In recognition of these priorities the Chartered Institute of Public Finance and Accounting (CIPFA) published a Code of Practice on managing the risk of fraud and corruption. The Code emphasise that leaders of public services have a responsibility to embed effective standards for countering fraud and corruption in their organisations. This supports good governance and demonstrates effective financial stewardship and strong public financial management.
- 2.3** The Head of Audit, Fraud and Procurement (HAFP) has reviewed the Council's arrangements for countering fraud and corruption, and compared them to the standards and principles within the Code. This report outlines the Council's work to counter fraud and corruption in 2015/16, and how this work meets the Council's responsibilities for ensuring an effective response to these risks.
- 2.4** In September 2015, Cabinet approved a strategy for the development of shared services between Lewes District Council (LDC) and Eastbourne Borough Council (EBC) based on the integration of the majority of council services. This strategy is known as the Joint Transformation Programme (JTP). The full integration of the respective Fraud Investigation Teams in both councils will form part the wider JTP project, but progress has already been made in coordinating counter fraud activities and in sharing expertise and resources (see Sections 4, 5 and 6).

3 Strategies and policies to counter fraud and corruption

- 3.1** The Council has a long established zero tolerance of fraud and corruption. The Council expects that Councillors and staff will act with honesty and integrity in all aspects of their official duties, and that individual and organisations with which it comes into contact will act in the same way when dealing the Council.
- 3.2** The Council has had in place for some years a framework of formal strategies and policies in order to maintain a strong anti fraud and corruption culture. These include an Anti- Fraud and Corruption Strategy, an Anti – Money Laundering Policy, an Anti - Bribery Policy, a Whistleblowing Policy, Councillor and Officer Codes of Conduct, and an IT Security Policy. These strategies and policies are regularly reviewed and updated where appropriate.
- 3.3** The Council remains alert to the risk of fraud and corruption, and has in place a network of systems and procedures to protect its assets and services against these risks. The Council is committed to ensuring that the systems and procedures work properly and include effective internal control arrangements. Many of the controls are there specifically to prevent loss or fraud - they have been designed to help deter fraud and to give warning of possible fraudulent activity.
- 3.4** The effectiveness of the controls is independently monitored by Internal Audit, and the HAFP provides regular reports to the Audit and Standards Committee on the internal control environment. HAFP is reporting to the June 2016 meeting of the Audit and Standards Committee that the overall standards of internal control were satisfactory during 2015/16.

4 Structures within the Council to counter fraud and corruption

Internal Audit

- 4.1** Internal Audit assesses the risk of fraud and corruption every year as part of its annual and strategic planning processes covering the Council's key systems. Up until November 2014, Internal Audit provided the main resource for the investigation of alleged cases of corporate fraud and corruption.

Fraud Investigation Team

- 4.2** Until November 2014, the Fraud Investigation Team had focused solely on benefits fraud, and had undertaken a range of pro-active anti-fraud work. There had been uncertainty over the future of the team as it was earmarked to become part of the national Single Fraud Investigation Service (SFIS) within the Department for Work and Pensions (DWP). In order to retain a strong counter fraud service at the Council CMT approved the team becoming part of the Audit, Fraud and Procurement (AFP) Service from 1 November 2014.
- 4.3** The Fraud Investigation Team has the following service objective:
- To provide an efficient and effective Investigations Team that supports the Council's Anti-Fraud and Corruption Strategy by carrying out a planned programme of work to help prevent and detect fraud, and provide resources to investigate suspected fraud cases.
- 4.4** The Fraud Investigation Team is staffed to its approved level (1.4 FTE), and comprises two officers who are experienced, trained and fully accredited. The team provides resources for the prevention and detection of fraud across all areas of Council services including tenancy fraud, and business rates fraud. The Council believes that this level of staffing is commensurate with the levels of risk, but is seeking to make more effective use of resources by drawing on the expertise of colleagues at EBC to support LDC activities in some key areas.
- 4.5** The placement of the team within Internal Audit has enabled a greater degree of cooperation and coordination in counter fraud work, and has created more opportunities to encourage and focus efforts on the areas of potential risk. The team has unhindered access to staff, information and other resources as may be required for investigation purposes.
- 4.6** This approach has been particularly successful in the relationship with Housing Services where officers from both departments work together on joint initiatives (see 6.5 and 6.6 below). In addition, Housing Services have allocated a part time post to the role of tenancy audit, which involves a rolling programme of checks on the validity of tenancies and the identity of people living in Council properties. Future planned activities with Housing Services include a joint Internal Audit/Fraud/Housing review of the housing register procedures at the request of the Head of Customer Services. The Fraud Investigation Team will also be involved in a revised regime of checks on Right to Buy (RTB) applications as a result of an audit carried out by the Internal Audit Manager at EBC.
- 4.7** At present, countering housing tenancy fraud and abandonment is the main operational priority for the Fraud Investigation Team because of the evidence of this

being a high risk area for the Council. A development priority is the creation of a similar approach for the relationship with the NDR team in Customer Services, to enable targeted checks and joint site visits to help identify business premises that are not paying the correct business rates. This approach has been trialled but requires further work.

- 4.8** The Fraud Investigation Team continues to work with colleagues in the Benefits Team in Customer Services to counter benefit fraud, but this is now in the context of a formal Service Level Agreement (SLA) with DWP for the joint management of HB fraud cases. The major work on each HB case is the responsibility of SFIS. LDC retains a role in referring cases of suspected HB fraud to SFIS and handling requests for information, dealing with the cases of suspected CT Reduction Scheme (CTRS) fraud that are often linked to HB cases, and administering the penalties for cases that are not subject to prosecution. The LDC teams work with local DWP officers to help ensure efficient operation of the processes covered by the agreement. In an agreement with the Fraud Investigation Team at EBC, a member of that team is to take over the DWP liaison work for LDC using existing EBC procedures and thus allow the LDC team to focus on case work in other areas.
- 4.9** Under Financial Procedure Rules, the Chair of the Audit and Standards Committee is informed of the outcome of investigation into significant cases of fraud and corruption. Each meeting of the Committee receives a summary report on the work of the Fraud Investigation Team.

5 Council involvement in national, regional and local counter fraud networks

National Fraud Initiative (NFI) data matching

- 5.1** The Council takes an active role in the National Fraud Initiative (NFI) data matching exercises that, until 1 April 2015, were managed by the Audit Commission. Since then, responsibility for NFI exercises rests with the Cabinet Office.
- 5.2** Internal Audit has coordinated the Council's response to the 2014/15 NFI data matching exercise. Preparations for the 2104/15 exercise began in April 2014, and the base data was forwarded to the Audit Commission in October 2014. The first matches were returned to LDC in January 2015, detailed across 56 reports. The reports set out the potential frauds among HB claimants, housing tenants, and anyone receiving payments or discounts from the Council. Each report highlighted a number of 'Recommended' matches that appeared to indicate the greatest likelihood of fraud.
- 5.3** Council services nominated officers to investigate the matches in their areas. Because the work is resource intensive, services targeted their efforts with the initial focus on those matches that were recommended for review. The work required the weeding out those matches that were the result of error or coincidence, and then the examination of the remaining matches to assess the likelihood of fraud. Any suspected cases of fraud would be passed to the LDC Investigation Team for action, with any suspected cases of HB fraud referred to DWP.
- 5.4** The exercise ended on 14 April 2016, with the Council required to declare that the recorded results were a reasonable reflection of the current position. In June 2016 the Cabinet Office will issue a national report on the outcome of NFI 2014/15, after which the Council will receive an assessment of its own response to the exercise. As previously, the assessment is likely to be that the Council has not examined all the

reported matches. There is no sanction for the Council only partially completing the exercise.

- 5.5** Of the 1,524 reported matches LDC has examined 1,135 (75%). There have been no instances of fraud found on any of the reports, although the exercise has identified 42 HB overpayments resulting from error with a total value of approximately £15,700. These results include the examination of 343 of the 370 recommended matches. The outstanding recommended matches cover student loans – the service examined more than half of the recommended matches for student loans with no errors or frauds found. Services assessed that the results obtained from the work did not justify further resources being assigned to the examination of more matches, and Internal Audit supports this view.
- 5.6** The conduct and progress of the NFI 2014/15 was regularly reported to the Audit and Standards Committee.
- 5.7** Negotiations are underway with the Fraud Investigation Team at EBC for a member of that team to use their data analysis techniques on behalf of LDC in the forthcoming NFI 2016/17 exercise. This approach will make more effective use of resources by reducing the number of matches that are referred to LDC departments for detailed investigation.

National Anti-Fraud Network (NAFN)

- 5.8** The Council is signed up to the National Anti-Fraud Network (NAFN). NAFN provides regular bulletins on current issues and initiatives, as well as the ability to obtain confidential information for use in fraud investigations. There are strict controls over access to this information.

Sussex counter fraud networks

- 5.9** The Investigation Team is a member of the East Sussex Fraud Officers Group (ESFOG), a body that enables information sharing and joint initiatives with neighbouring authorities on a wide range of counter fraud work. During 2014/15, a sub group of authorities within ESFOG, including LDC, submitted a successful funding bid to DCLG for the development of a 'Hub' approach to coordinating new anti-fraud initiatives across East Sussex.
- 5.10** The Hub is managed by officers at EBC in accordance with the corporate governance arrangements of that authority, with input from ESFOG partners as appropriate. LDC has benefitted from Hub funding in the ongoing provision of training, the introduction of a shared case management system, and publicity material for the LDC campaign to counter housing tenancy fraud. Current projects include a coordinated approach to publicity for Hub activities, and Hub partners developing counter fraud techniques in specific areas.
- 5.11** LDC is a member of the Sussex Tenancy Fraud Forum (TFF) to enable information sharing and joint initiatives with neighbouring authorities in both East and West Sussex. Through TFF, Internal Audit and the Fraud Investigation Team are part of a national information sharing network for tenancy fraud.
- 5.12** The Head of Audit, Fraud and Procurement is currently the Chair of the Sussex Audit Group (SAG). The group comprises all Heads of Audit across Sussex, and circulates intelligence on current fraud issues and shares good practice in counter fraud

activities. A sub committee of SAG provides the governance oversight for Hub activities.

6 Reported cases of fraud and corruption in 2015/16

- 6.1** The results of the Council's counter fraud and corruption work during 2015/16 is summarised as follows.

Corruption

- 6.2** There were no reported cases of corruption during 2015/16.

Housing Benefit fraud

- 6.3** During 2015/16 the Fraud Investigation Team continued to work closely with DWP colleagues to maintain the effectiveness of the SLA. A total of 142 HB cases were passed to SFIS via the SLA procedures, and 102 information requests were actioned.

Council Tax Reduction Scheme (CTRS) fraud

- 6.4** LDC retains responsibility for dealing with the cases of suspected CT Reduction Scheme (CTRS) fraud that are often linked to HB cases, and administering the penalties for CTRS cases that are not subject to prosecution. A total of 72 cases of suspected CTRS fraud were referred to the team, and assessed, during 2015/16. There were 46 live cases of suspected CTRS fraud under review at the end of March 2016, with ten cases having been proven and penalties administered.

Housing Tenancy fraud

- 6.5** During 2015/16, the work on counter tenancy fraud included attendance at the national Tenancy Fraud Conference, obtaining best practice guidance from other authorities, maintaining effective referral arrangements with officers in LDC Housing Services, and supporting the Housing Services key amnesty in late 2015.
- 6.6** A total of 27 suspected cases of tenancy fraud were referred to the team, and eight of these cases were still underway at the end of March 2016. Seven properties were returned to the Council's housing stock after the team had proved abandonment by the tenant. The majority of the other cases were closed because the investigations had established that there had been no fraud or abandonment. Dealing fully with these cases of property abandonment ensures unused properties are returned to the housing stock, although abandonment is not strictly fraud under the Prevention of Social Housing Fraud Act 2013.

Business Rate fraud

- 6.7** NDR has been the development priority for the team, based upon some initial research and a small pilot study. In early June 2015 the team attended training on counter fraud work for NDR in an exercise organised by the Hub. The team has been working with officers in the LDC Revenues team to set up a method to target areas of possible non-payment of business rates.
- 6.8** Visits to an industrial estate in Lewes District identified nine business premises (10% of those examined) not recorded on NDR and therefore not paying business rates – the results were passed to the local team of the Valuation Office Agency (VOA) for

assessment. The team will revisit the risk assessment for NDR to determine the impact of recent government announcements on NDR, and the possible effect on rate reliefs to small businesses. Further visits to other industrial estates will be scheduled as appropriate.

7 Council tax - Single Person Discounts (SPDs)

- 7.1** The Council has joined with other local authorities in East Sussex to employ a private sector company (Northgate) to check on the status of Single Person Discounts (SPDs) claimed by residents against their Council Tax liability. During 2015/16, this process identified 28 cases of SPDs to which the liable person was not entitled, with a total increase in Council Tax collections of approximately £9,200. The SPDs were removed without the need to prove fraud. The cost of the Northgate service was approximately £518. These results remain positive, although they are at a lower level than previously because of the successes in prior years when more invalid SPDs were identified (eg 242 in 2014/15).

8 Compliance with the CIPFA Code of Practice

- 8.1** The HAFP has compared the Council's arrangements to counter fraud and corruption with the principles, and specific guidance, contained in the CIPFA Code of Practice on managing the risk of fraud and corruption. The results confirmed that the Council has adopted a response that is appropriate for its fraud and corruption risks and there are adequate means to maintain its vigilance to tackle fraud. This opinion is taken to the Annual Governance Statement (AGS) that is reported separately to this meeting of the Committee.

9 Financial Appraisal

- 9.1** There are no additional financial implications from this report.

10 Risk Management Implications

- 10.1** If the Council does not operate an effective internal control environment, including an appropriate framework of strategies, policies, systems and procedures to counter fraud and corruption, there will be reduced assurance that there are adequate means to prevent, detect and investigate irregularities and protect public funds. Without adequate measures in these areas the Council is at risk of damage to its reputation for honesty, integrity and effective management.

11 Sustainability Implications

- 11.1** I have not completed the Sustainability Implications Questionnaire as this report is exempt from the requirement because it is an internal monitoring report.

12 Equality Screening

- 12.1** This report is for information only and involves no key decisions. Therefore, screening for equality impacts is not required. However, if Internal Audit note equalities issues during their work these will be raised with the Equality Officer to ensure that appropriate equality impact screening is carried out.

13 Background Papers

- 13.1** None.

14 Appendices

14.1 None.

Agenda Item No: 10 **Report No:** 80/16

Report Title: Interim Report on the Council's Systems of Internal Control 2016/17

Report To: Audit and Standards Committee **Date:** 20 June 2016

Ward(s) Affected: All

Report By: Head of Audit, Fraud and Procurement

Contact Officer

Name: David Heath

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Purpose of Report:

To inform Councillors on the adequacy and effectiveness of the Council's systems of internal control during the first two months of 2016/17, and to summarise the work on which this opinion is based.

Officers Recommendation(s):

- 1 To note that the overall standards of internal control were satisfactory during the first two months of 2016/17 (as shown in Section 3).

Reasons for Recommendations

- 1 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.

Information

2 Background

- 2.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) has, with the other governing bodies that set auditing standards for the various parts of the public sector, adopted a common set of Public Sector Internal Audit Standards (PSIAS) that apply from 1 April 2013. The Head of Audit, Fraud and Procurement (HAFP) advised the Audit and Standards Committee of the effect of the standards at its March 2013 meeting.
- 2.2 The PSIAS 2013 specify the requirements for the reporting to the Audit and Standards Committee and senior management by HAFP. These requirements are met via a series of reports, including interim reports to each meeting of the Committee. Each interim report includes a review of the work undertaken by

Internal Audit compared to the annual programme, an opinion of HAFP on the internal control, risk management and governance environment at the Council, together with any significant risk exposures and control issues, in the period since the beginning of the financial year. Each interim report will contain an appendix that includes an outline of each of the final audit reports issued since the previous meeting of the Committee, and an appendix that outlines any significant recommendations that have not yet been implemented.

3 Internal Control Environment at Lewes District Council

- 3.1** The Annual Report on the Council's Systems of Internal Control for 2015/16 included the opinion of HAFP that the overall standards of internal control are satisfactory. This opinion was based on the work of Internal Audit and the Council's external auditors, BDO, and the Council's work on risk management. In the two months since the start of the financial year there has been nothing to cause that opinion to change and there have been no instances in which internal control issues created significant risks for Council activities or services.

4 Internal Audit work 2016/17

- 4.1** This section of the report summarises the work undertaken by Internal Audit during the first two months of the year, compared to the annual plan that was presented to the Audit and Standards Committee in March 2016. Further information on each of the audits completed since the previous meeting of the Committee is given at Appendix A.
- 4.2** Table 1 shows that a total of 106 audit days have been undertaken compared to 102 planned. The variance of four days is not significant at this stage, and it is estimated that the audit days will be at or close to plan by the year end.

Table 1: Plan audit days compared to actual audit days for April to May 2016

Audit Area	Actual audit days for the year 2015/16	Plan audit days for the year 2016/17	Actual audit days to date	Pro rata plan audit days to date
Main Systems	360	290	53	
Central Systems	57	60	8	
Departmental Systems	68	70	29	
Performance and Management Scrutiny	27	45	4	
Computer Audit	2	45	-	
Management Responsibilities/Unplanned Audits	88	116	12	
Total	602	626	106	102

Note: The 'Pro rata plan audit days to date' provides a broad guide to the resources required to carry out planned audits. The actual timing of the individual audits will depend on a variety of factors, including the workloads and other commitments in the departments to be audited.

- 4.3 Main Systems:** The main work has been on the testing of the major financial systems in order to gain assurance on the adequacy of internal controls for the Annual Governance Statement (AGS) and to inform BDO's work on the Council's accounts for 2015/16. A draft report is being prepared.
- 4.4** The priority work on behalf of BDO to test the Council's subsidy claims for Benefits for 2015/16 is at the initial planning stage.
- 4.5 Central Systems:** Audits of Insurance, Electoral Registration and Elections, and Ethics from the 2015/16 programme are nearing completion. The audit of Electoral

Registration and Elections has been held in abeyance since the preparations began for the elections in May 2016, and that situation will continue until the EU Referendum is completed on 23 June 2016. The priority audit of Business Continuity Planning (BCP) from the 2016/17 programme is at the draft report stage.

- 4.6 Departmental Systems:** The audit of Right to Buy (RTB) from the 2015/16 programme is at the draft report stage, and the audit of Cemeteries is underway. The audit of Private Sector Housing from the 2016/17 programme is underway.
- 4.7 Performance and Management Scrutiny:** The main work in this category has been in reviewing the data that supports the Annual Governance Statement (AGS), and specific tasks related to the Internal Audit aspects of the Council's Joint Transformation Programme (JTP).
- 4.8 Computer Audit:** Internal Audit is examining the IT aspects of the main financial systems (see 4.3 above).
- 4.9 Management Responsibilities/Unplanned Audits:** This category provides resources for activities such as support for the Audit and Standards Committee, managing the Fraud Investigations Team, liaison with BDO, managing the Follow Up procedures, as well as for special projects or investigations.
- 4.10** Internal Audit continues to coordinate the Council's work on NFI data matching exercises. The preparations for the 2016/17 exercise are underway, with data submission planned for October 2016.

5 Follow up of Audit Recommendations

- 5.1** All audit recommendations are followed up to determine whether control issues noted by the original audits have been resolved. The early focus for follow up in 2016/17 has been on confirming the implementation of the recommendations that had been agreed in the previous year. The results of this work are reported separately to this meeting of the Committee.

6 Quality Reviews/Customer Satisfaction Surveys/Performance Indicators (PIs)

- 6.1** The results of the Internal Audit quality reviews, customer satisfaction surveys and PIs for 2016/17 are reported separately to this meeting of the Audit and Standards Committee. The results enabled the HAFP to report that the Internal Audit service at Lewes is fully effective, is subject to satisfactory management oversight, achieves its aims, and objectives, and operates in accordance with the Internal Audit Strategy as approved by the Audit and Standards Committee.
- 6.2** Proposals for a revised set of PIs for Internal Audit were agreed at the September 2013 meeting of the Committee. The new PIs form the framework for the reporting on Internal Audit Benchmarking, and the results for 2015/16 will be reported to the September 2016 meeting of the Committee.

7 Combatting Fraud and Corruption

Local developments

- 7.1** The Investigation Team maintains its memberships of the East Sussex Fraud Officers Group (ESFOG) and the Sussex Tenancy Fraud Forum (TFF), bodies that enable information sharing and joint initiatives with neighbouring authorities on a wide range of counter fraud work.

- 7.2** A sub group of six authorities within ESFOG are working together in a 'Hub' approach to coordinate new anti-fraud initiatives across East Sussex and Brighton. The Hub is managed by officers at Eastbourne BC with input from ESFOG partners. Hub has funded an ongoing programme of training and the implementation of a shared case management system.

LDC Investigations Team

- 7.3** The work on developing the team's approach to counter tenancy fraud has included attendance at the national Tenancy Fraud Conference, obtaining best practice guidance from other authorities, and maintaining effective referral arrangements with LDC officers in Housing. Eight suspected cases of tenancy fraud are currently being investigated.
- 7.4** Internal Audit has in place an agreement with DWP for the management of cases of HB fraud. The team works with local DWP officers to help ensure efficient operation of the processes covered by the agreement. The major work on each HB case will be the responsibility of the national Single Fraud Investigation Service (SFIS). LDC retains a role in referring cases of suspected HB fraud to SFIS and handling requests for information, dealing with the cases of suspected CT Reduction Scheme (CTRS) fraud that are often linked to HB cases, and administering the penalties for cases that are not subject to prosecution. Since 1 April 2016, 32 HB cases have been passed to SFIS, and 22 information requests have been actioned. The 32 HB referrals are being assessed for the possible implications in respect of CTRS fraud.
- 7.5** NDR fraud is the next priority area for the team, based upon some initial research and a small pilot study. In early June 2015, the team attended training on counter fraud work for NDR in an exercise organised by the Hub, and is working with LDC officers in the Revenues team to set up a referrals process.

8 Risk Management

- 8.1** Cabinet approved the Risk Management Strategy in September 2003. Since then risk management at the Council has been developed via a series of action plans, with the result that all the elements of the risk management framework set out in the strategy are in place and are maintained at best practice standards.
- 8.2** The risk management process has identified that most risks are mitigated by the effective operation of controls or other measures. However, there are some risks that are beyond its control, for example a major incident, a 'flu' pandemic, a downturn in the national economy or a major change in government policy or legislation. The Council has sound planning and response measures to mitigate the effects of such events, and continues to monitor risks and the effectiveness of controls. The overall satisfactory situation for risk management has helped to inform the opinion on the internal control environment.
- 9** The Government introduced a national deficit reduction plan for the public sector in 2011/12. In response, the Council has committed to a phased annual programme to make budget savings. The total value of savings made in the General Fund budget (which covers all services except the management and maintenance of Council-owned homes) since 2011/12 has been £3.5m with each annual savings target being successfully achieved in-year.

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- 10** When setting the General Fund budget for 2016/17, the Council identified a requirement to make further savings, which will reduce spending by £2.8m over the four years to 2019/20. The target for 2016/17 is £685,000 of which £400,000 is to

be generated from the Joint Transformation Programme (JTP) with Eastbourne BC. A budget has been allocated to finance the investment needed to implement the changes required through the JTP

- 11** There are also pressures to reduce spending on the management and maintenance of Council owned (HRA) housing. The Government has introduced a number of measures, starting in 2016/17, which will reduce the amount of income that it receives from tenants. The first of these measures, a 1% annual reduction in tenants' rents for each of the next four years, will incrementally reduce HRA income by £2.8m by 2019/20, the total shortfall in that period being £6.9m.

- 11.1** The Annual Report on Risk Management is presented separately to this meeting of the Committee. The report forms part of the annual reporting cycle on risk as set out in the Risk Management Strategy.

12 System of management assurance

- 12.1** The Council operates a management assurance system, which enabled senior officers to confirm the proper operation of internal controls, including compliance with the Constitution, in those services for which they are responsible. As part of this process all members of the Corporate Management Team (CMT) are required to consider whether there were any significant governance issues during 2015/16. At its meeting on 3 May 2016 CMT confirmed that there were no significant governance issues to report, and there has been nothing in the first two months of the financial year to change these assessments.

13 Corporate governance

- 13.1** In March 2016, HAFP reviewed the Council's Local Code of Corporate Governance, and concluded that the arrangements remain satisfactory and fit for purpose. These results are reported separately to this meeting of the Committee.
- 13.2** The Council is required to produce an Annual Governance Statement (AGS), which outlines the main elements of the Council's governance arrangements and the results of the annual review of the governance framework including the system of internal control. The AGS for 2016 is presented separately to this meeting of the Committee.

14 External assurance

- 14.1** The Government relies on external auditors to periodically review the work of the Council to make sure it is meeting its statutory obligations and performing well in its services. The results of these external reviews have helped inform the opinion on the internal control environment. The recent results are summarised below.

- 14.2** Annual Audit Letter for 2014/15 (October 2015) – This report summarised the key issues from the work carried out by BDO during the year, and was presented to the November 2015 meeting of the Committee. The key issues were:

- BDO issued an unqualified true and fair opinion on the financial statements for the period ended 31 March 2015.
- BDO identified a number of misstatements in relation to fixed asset accounting for Property, Plant and Equipment which were corrected.
- BDO did not identify any significant deficiencies in the Council's framework of internal controls, but signed annual related party declarations had not been received from Members who were not re-elected in the May 2015 elections.

- BDO concluded that, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015, and issued an unqualified value for money conclusion.
- BDO found that the Council is continuing to monitor the overall financial position, has established effective arrangements to ensure its financial resilience and is taking measures to address the budget gap identified over the period of the medium term financial plan.
- BDO noted that good progress is being made towards the transformation programme and significant savings are being secured from planned procurements.
- BDO were satisfied that the Annual Governance Statement (AGS) was not inconsistent or misleading with other information they were aware of from the audit of the financial statements and complies with standard guidance.
- BDO noted that the Council's Whole of Government Accounts (WGA) submission is below the threshold for full assurance review and no audit work was necessary.
- BDO reported on the results of the grant claims and returns certification report that covered two claims and returns for 2013/14, with a total value of £37.5 million.

14.3 Only the Housing Benefit subsidy claim for 2014/15 has remained within the scope of the Audit Commission's grant certification regime. The audit of the claim was completed in March 2016 and the results of the audit are reported in the Annual Report on Internal Audit Performance and Effectiveness 2015/16 that is presented separately to this meeting of the Committee.

14.4 Financial Appraisal

14.5 There are no additional financial implications from this report.

15 Sustainability Implications

15.1 I have not completed the Sustainability Implications Questionnaire as this report is exempt from the requirement because it is an internal monitoring report.

16 Risk Management Implications

16.1 If the Audit and Standards Committee does not ensure proper oversight of the adequacy and effectiveness of the Council's systems of internal control there is a risk that key aspects of the Council's control arrangements may not comply with best practice.

17 Legal Implications

17.1 There are no legal implications arising from this report.

18 Equality Screening

18.1 This report is for information only and involves no key decisions. Therefore, screening for equality impacts is not required.

19 Background Papers Page 35 of 103

19.1 [Annual Audit Plan 2016/17](#)

20 Appendices

There is no Statement of Internal Audit work and key issues (normally Appendix A) or Log of Significant Outstanding Recommendations (normally Appendix B) for this report.

Agenda Item No: 11 **Report No:** 81/16

Report Title: Annual Governance Statement 2016

Report To: Audit and Standards Committee **Date:** 20 June 2016

Ward(s) Affected: All

Report By: Head of Audit, Fraud and Procurement

Contact Officer(s): David Heath
Head of Audit, Fraud and Procurement
David.Heath@lewes.gov.uk
01273 484157

Purpose of Report:

To seek Councillors' approval to the draft Annual Governance Statement 2016

Officer's Recommendation(s):

- 1 To comment on and approve the draft Annual Governance Statement 2016 (shown at Appendix A).
 - 2 To delegate to officers any final adjustments required to the Annual Governance Statement 2016 in the period up to the approval of the Statement of Accounts.
-

Reasons for Recommendations

- 1 To meet the Council's legal requirement to produce an Annual Governance Statement.

Information

2 Background

- 2.1 Lewes District Council is required to prepare an Annual Governance Statement (AGS) each year in accordance with the statutory requirement set out in the Accounts and Audit Regulations, the most recent reference being regulation 6(1) of the Accounts and Audit Regulations 2015. The AGS covers the whole control framework of the Council rather than those controls which simply have a financial aspect.
- 2.2 The Chartered Institute of Public Finance and Accountancy/Society of Local Authority Chief Executives (CIPFA/SOLACE) in their report, Delivering Good Governance in Local Government (2007), issued guidance on the form and content of the AGS. In December 2012 an addendum to this document was issued which included a number of additional areas (e.g. ensuring effective management of change and

transformation) to take into account in the governance framework. This guidance has been followed in compiling the statement.

- 2.3** The AGS is presented to enable members to comment on and approve on it in advance of the September 2016 meeting of the Committee when the AGS will be included with the Statement of Accounts and inserted after the Independent Auditor's report at the end of the Statement of Accounts. Adjustments can be made to the Annual Governance Statement up to the date of approval of the Statement of Accounts.

3 Form and content of the Annual Governance Statement

3.1 The CIPFA/SOLACE framework recommends that the following information be included:

- **Scope of responsibility:** An acknowledgement of responsibility for ensuring there is a sound system of governance (incorporating the system of internal control).
- **The purpose of the governance framework:** An indication of the level of assurance that the systems and processes that comprise the authority's governance arrangements can provide.
- **The governance framework:** A brief description of the key elements of the governance framework including reference to group activities where those activities are significant.
- **The review of effectiveness:** A brief description of the process that has been applied in maintaining and reviewing the effectiveness of the governance arrangements in the year of account including some comment on the role of:
 - (i) the Authority
 - (ii) the Executive (the Cabinet)
 - (iii) the Audit and Standards Committee/Scrutiny Committee/risk function
 - (iv) Internal Audit
 - (v) other explicit review/assurance mechanisms
- **Significant governance issues:** An outline of the actions taken or proposed to deal with significant governance issues, including an agreed action plan.

4 Assurance and the Annual Governance Statement

- 4.1** Best practice recommends that a system of management assurance is in place to underpin the AGS. The Council's assurance framework was adopted in 2006 and is subject to regular review by the Head of Audit, Fraud and Procurement, most recently in April 2016.

4.2 With reference to the assurance framework the following steps take place:

- The Director of Corporate Services, Assistant Director of Corporate Services and the Head of Audit, Fraud and Procurement draft the AGS and evaluate assurances and supporting evidence (April/May 2016).
- The Corporate Management Team review the draft AGS and consider significant governance issues (May 2016).
- The Audit and Standards Committee comment on and approve the draft AGS (June 2016).
- The AGS is included with the Statement of Accounts and inserted after the Independent Auditor's report at the end of the Statement of Accounts to the Audit and Standards Committee (September 2016).
- The AGS is then signed off by the Leader of the Council and Chief Executive by the 30 September 2016 (September 2016).

4.3 The Code of Practice on Local Authority Accounting 2015/16 requires that a specific statement is included in AGS on whether or not the Council's financial arrangements conform to the CIPFA requirements for the Role of the Chief Financial Officer in Local Government (2010).

5 Financial Appraisal

5.1 There are no additional financial implications arising from this report.

6 Legal Implications

6.1 None other than those identified in the body of the report.

7 Risk Management Implications

7.1 Failure to produce an AGS and maintain proper assurance arrangements to support its production can reduce the likelihood of the Council meeting its objectives and attract criticism from the Council's stakeholders and the Council's external auditor. The Audit and Standards Committee review of the AGS significantly reduces these risks.

8 Sustainability Implications

8.1 I have not completed the Sustainability Implications Questionnaire as this report is exempt from the requirement because it is a progress report.

9 Equality Screening

9.1 I have given due regard to equalities issues and, as this is an internal monitoring report, screening for equalities is not required.

10 Background Papers

10.1 Lewes District Council Local Code of Corporate Governance (Updated March 2016) <http://www.lewes.gov.uk/council/3748.asp>

11 Appendices

11.1 Appendix A: Draft Annual Governance Statement 2016.

DRAFT ANNUAL GOVERNANCE STATEMENT 2016

Scope of responsibility

The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 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.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions which includes arrangements for the management of risk.

The Council has approved and adopted a Local Code of Corporate Governance, which is consistent with the principles of the Chartered Institute of Public Finance/Society of Local Authority Chief Executives (CIPFA/SOLACE) Framework, Delivering Good Governance in Local Government. A copy of the Code is on our website at <http://www.lewes.gov.uk/council/3748.asp> or can be obtained from the Head of Audit, Fraud and Procurement, Southover House, Southover Road, Lewes, East Sussex BN7 1AB. This Annual Governance Statement explains how the Council has complied with the Code and also meets the requirements of regulation 6(1) of the Accounts and Audit Regulations 2015.

The purpose of the Governance Framework

The Governance Framework comprises the systems and processes, and culture and values, by which the Council is directed and controlled, and the activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and consider whether those objectives have led to the delivery of appropriate, cost effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The Governance Framework has been in place at the Council for the year ended 31 March 2016 and up to the date of approval of the Statement of Accounts.

THE GOVERNANCE FRAMEWORK

The key elements of the systems and processes that comprise the Council's governance arrangements are described below.

The Council sets out its vision, priorities, projects and planned performance in the Council Plan. Underpinning this is a number of key strategies, programmes, service delivery and project plans which provide detailed commitments in terms of the Council's services and activities. The Medium Term Finance Strategy looks ahead five years and sets out how the Council aims to balance its resources to meet statutory responsibilities and national and local priorities. The Council is undertaking a Joint Transformation Programme integrating staff and services with Eastbourne Borough Council whilst maintaining political sovereignty of each Council.

The four year Council Plan is reviewed and approved each year by Scrutiny Committee, Cabinet and Full Council. The Council's Governance Framework is drawn together in the local Code of Corporate Governance which meets national standards.

The Council has clear annual business planning and performance management arrangements in place. Performance and project management is supported by the corporate software system (Covalent). The Council has a number of policies and procedures relating to information governance including data protection, data quality and records management. Progress and performance information is reported to Corporate Management Team, Scrutiny Committee, and Cabinet each quarter. Operational performance monitoring takes place at monthly service review meetings. Progress on the Joint Transformation Programme is closely monitored by a Programme Board. The quality of services is monitored through regular/ ad hoc consultation with, and feedback from, service users in the form of commissioned survey research, comments and complaints and the Council's own online surveys.

The Council's Constitution establishes clear arrangements for decision making and the delegation of powers to Councillors and officers. It defines and documents the roles and responsibilities of the Council, Cabinet and Committees (including the Audit and Standards Committee and the Scrutiny Committee) as well as the roles and responsibilities of Councillors and senior officers. The Council has adopted the Leader and Cabinet Model in accordance with the Local Government Act 2000 as amended by the Localism Act 2011. The Council's Scrutiny Committee oversees the independent review of performance and decisions of Cabinet and other activities and functions of the Council. This is achieved through its regular meetings, appointed Scrutiny Panels and the Call In procedure.

Communication between Councillors and officers is governed by the Protocol on Member/Officer Relations which was updated at the July 2015 meeting of Full Council. There is also a Councillor Protocol for Procurement.

A Councillors' induction programme takes place every four years after a District Council Election. Individual Councillors' training needs are reviewed annually and specialist training on specific areas of activity are organised by officers as required e.g. IT, planning and scrutiny matters. Each year all Council committees are invited to identify training needs/issues arising from their work programme. Training needs for each member of staff are assessed as part of the annual appraisal process.

Standards of behaviour and conduct of Councillors and officers are governed by Member and Officer Codes of Conduct, the Anti-Fraud and Corruption Strategy, Whistle Blowing Policy, Anti Bribery Policy, Disciplinary and Grievance procedures and the Dignity at Work Policy. A Core Values and Behaviours Statement was

agreed in April 2013, following extensive consultation with staff. These guidance documents and procedures are the subject of training/awareness raising for staff and Councillors and are made available via the Council's intranet. The Council also has a Competency Framework which is part of the performance management and appraisal systems.

The Council has an established framework for financial governance based on Contract and Financial Procedure Rules, with sound budgeting systems, clear budget guidance for managers and regular reporting of financial performance to Councillors and officers.

The Council's risk management framework is outlined in its Risk Management Strategy, and it is fully established and embedded within the Council. There are robust systems for identifying and evaluating risk in the decision making and service planning processes. Strategic risks are updated and reported to the Audit and Standards Committee and Cabinet annually and operational risks are reviewed as part of service planning. Key staff are trained in the assessment, management and monitoring of risk. Risk assessment and management is an integral part of key Council projects.

As part of its Corporate Governance arrangements the Council has established an Audit and Standards Committee that is responsible, amongst other things, for keeping under review the probity and effectiveness of internal controls and the effectiveness of management arrangements to ensure legal and regulatory compliance. The Committee conforms to the best practice identified in CIPFA's "Audit Committees – Practical Guidance for Local Authorities", and reports to the Cabinet on the effectiveness of internal controls within the Council.

The Council has a documented Assurance Framework that sets out the sources of assurance within the Council's governance environment and provides the evidence to support the Annual Governance Statement.

The Council has an Internal Audit Section that is an independent, objective assurance and consulting function. It helps the Council achieve its objectives by bringing a systematic and disciplined approach to evaluating the effectiveness of risk management, control and governance processes. The Section operates in accordance with the auditing guidelines in the Public Sector Internal Auditing Standards (PSIAS), which were approved for use at the Council by the March 2013 meeting of the Audit and Standards Committee. The Head of Audit, Fraud and Procurement undertakes an annual review of the Internal Audit function against these standards. Many of the standards set out in the PSIAS are also found in the Statement of the Role of the Head of Internal Audit published by CIPFA in 2010.

The Council has a strong counter fraud culture that is supported by Councillors and officers. The Fraud Investigations Team works closely with officers in other departments to prevent, detect and investigate fraud, particularly in the areas of housing tenancy fraud, Council Tax fraud and business rate fraud. The outcome of this work informs the opinion on the internal control environment. The Council works closely with the national Single Fraud Investigation Service (SFIS) in the DWP to ensure an effective response to cases of Benefit fraud.

The Council's Constitution sets out the roles of the Head of Paid Service, Monitoring Officer and Chief Finance Officer (Section 151) - at Lewes District Council these roles are fulfilled by the Chief Executive, Assistant Director of Corporate Services and the Director of Corporate Services respectively. These roles include responsibility for ensuring that agreed procedures are followed and that applicable statutes, regulations and relevant statements of good practice are complied with and expenditure is lawful. The Head of Paid Service is responsible for overall corporate management and operational responsibility (including overall management responsibility for all officers).

The Council has a corporate complaints procedure which is currently being reviewed in collaboration with Eastbourne Borough Council to ensure best practice and consistency in handling complaints. Information on complaints is monitored by service managers and high level information is reported to Scrutiny Committee/Cabinet through the quarterly performance report.

The Council has a variety of communication channels with local residents and other stakeholders. In addition the Council actively engages with different sections of the community through focus groups, user groups, partnership meetings and networks. The Council's Consultation and Communication strategies set out the approach and specific consultations are planned and agreed in an annual programme.

The Council has a system for reviewing partnership working and has identified a small number of strategic partnerships which require more robust governance arrangements. Partnership governance is subject an annual review process. Good governance in partnerships is also reflected in the Council's Local Code of Corporate Governance.

The Council has a Project Management Framework that contains a set of principles and procedures for the planning, control and delivery of projects. The Council has developed a set of clear and consistent project documents and associated tools which have been the subject of consultation and training amongst senior officers.

The Council has a Business Continuity Plan (BCP), and will continue to develop its processes and safeguards in this area.

The Government relies on external auditors to periodically review the work of the Council to make sure it is meeting its statutory obligations and performing well in its services. The core duties of the external auditor are to give an opinion on the financial statements and to review arrangements for securing value for money. In addition it can consider electors' questions and objections and make formal recommendations as well as report in the public interest.

Review of effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of senior officers within the Council who have responsibility for the governance environment, the annual report of the Head of Audit, Fraud and Procurement, and also the work of external auditors and other review agencies and inspectorates as outlined below.

The Head of Audit, Fraud and Procurement reported regularly to the Audit and Standards Committee on the work of Internal Audit, on governance and internal control, and provides an annual report on the systems of internal control which includes an opinion on the internal control environment. For 2015/16, the overall standards of internal control were satisfactory. Whilst recommendations have been made to improve management controls, there were no instances in which internal control issues created significant risks for the Council.

In March 2008 the Audit Committee approved the local Code of Corporate Governance. The local Code is reviewed annually by the Head of Audit, Fraud and Procurement and senior officers taking into account the requirements of the CIPFA/SOLACE Framework, Delivering Good Governance in Local Government. The Code was reviewed in March 2016 and it was concluded that the Council continues to have satisfactory arrangements in place for corporate governance. The Code will next be reviewed in early 2017.

At its September 2015 meeting Cabinet approved the integration of staff and services with Eastbourne Borough Council. To support this transformation and change a detailed governance structure was put in place. This includes the Joint Transformation Board (members from both councils including from the opposition groups), Joint Transformation Core Team (officers from both councils with designated roles) and a Joint Transformation Consultative Forum (Unison and staff representatives). In May 2016 the Full Business Case for the Joint Transformation Programme was approved by the Cabinets at both Lewes District and Eastbourne Borough Council. Managers are working to ensure that the control environment keeps pace with these changes.

The year-end Performance Report for 2015/16 will be considered by both the Scrutiny Committee and Cabinet in June/July 2016 providing a high level summary of progress and performance. The Council's strategic priorities, projects and performance targets were determined as part of a review of portfolio responsibility during summer 2015 and restated in the updated Council Plan for 2016-2020. These priorities were communicated via the website and internally through LDC News, the Corporate Briefing and Infolink. The Business Strategy and Performance Team is responsible for overseeing the Council's business planning, project management and performance management arrangements to ensure efficient and effective delivery of the Joint Transformation Programme and improvement targets over the short to medium term.

The Council Plan 2016-20 was approved by Full Council at its February 2016 meeting.

In February 2016 the Council appointed an Information Governance Officer to ensure the Council has a strategic approach to information governance.

The Audit and Standards Committee received the Annual Report on Risk Management at the June 2016 meeting and Cabinet will receive the same report at its July 2016 meeting. The Audit and Standards Committee receives updates on risk management at every meeting. The reports during 2015/16 noted that most risks are mitigated by the effective operation of controls or other measures. Whilst there are some risks that are outside the Council's control, such as a major incident, flu pandemic, a downturn in the national economy or a major change in government

policy or legislation, the Council has sound planning and response measures to mitigate the impact of such events and continues to monitor risks and the effectiveness of controls. During autumn 2015 risk management training was provided to Heads of Service and other managers.

A major review of the Council's Contract Procedure Rules was undertaken during the year and the revised rules were approved by Full Council at its meeting in February 2016. The changes were undertaken to modernise the rules including incorporating the changes brought about by the Public Procurement Regulations 2015. To support these updated rules, training has commenced with the first session for managers being held in March 2016.

The Scrutiny Committee has met five times since April 2015. At its January 2016 meeting it received the 2016/17 Budget Overview.

In May 2015 there was a District Election and a subsequent new intake of Councillors. Full induction training was provided in June 2015. Officers tailored the training to pick up issues that had arisen in the previous municipal year. Training sessions were held at different times so that all Councillors would be able to attend.

The Council's Business Continuity Plan (BCP) was updated in September 2014. There is a risk that a loss of IT services would mean that the priorities for restoration of services that are set out in the BCP may not be achieved in all circumstances. This risk is partially mitigated through preventative measures, and more effective mitigation is gradually being put in place with the significant upgrading of the Council's IT infrastructure and with the introduction of IT shared services with Eastbourne Borough Council. An Internal Audit review of the BCP in June 2016 has identified some areas for improvement in the Council's BCP arrangements.

As part of the Council's internal assurance framework the Council's Corporate Management Team have confirmed the proper operation of internal controls including compliance with the Constitution in those service areas for which they are responsible. In addition they have confirmed that there have been no cases reported under the Council's Whistleblowing Policy. The Council updated its Whistleblowing and Anti-Fraud and Corruption policies in March 2016.

Under the Code of Practice for Local Authority Accounting 2015/16 the Council is required to confirm that its financial management arrangements conform with governance requirements of the CIPFA Statement on the Role of the Chief Finance Officer (2010). The Council's arrangements conform with the requirements of the Statement and this has been confirmed by the Director of Corporate Services (Section 151).

During 2015/16 the Fraud Investigation Team has successfully investigated cases of housing tenancy and Council Tax fraud, and has identified for action a number of premises that are not paying the correct business rates. Summaries of the cases investigated and the outcomes were included in the regular reports to the Audit and Standards Committee as well as the Annual Report on Fraud and Corruption. The work on the National Fraud Initiative 2014/15 was completed in April 2016 with no frauds being identified via this exercise. Regular reports on its progress have been provided to the Audit and Standards Committee.

In April 2016, the Head of Audit, Fraud and Procurement reviewed the Council's compliance with the CIPFA Code of Practice on managing the risk of fraud and corruption. The results confirmed that the Council has adopted a response that is appropriate for its fraud and corruption risks and there are adequate means to maintain its vigilance to tackle fraud.

There have been no cases where the Audit and Standards Committee has found a District Councillor to be in breach of the Council's Code of Conduct.

In February 2015 Cabinet agreed service level agreements (SLA's) for three strategic partnerships with voluntary and community associations. These have enhanced monitoring and governance arrangements of these partnerships to which the Council has awarded funding. The guidance for partnership working was reviewed in April 2016 to take account of the changing nature of the partnerships that the Council is involved with. This guidance incorporates the requirement for an annual review to be undertaken by partnership lead officers.

In July 2015 the Council signed a Conditional Sale Agreement and Profit Share and Project Management Agreement with a private sector consortium in respect of a project to raise funds to allow the Council to build a number of homes across the district, and at the same time bring regenerative benefit to a number of sites (known as the New Homes Project). The project had been the subject of a governance report from external governance lawyers at Bevan Brittan prior to a decision to award the contract. This project received significant interest from both the public and local media with opposition to some of the proposals. In February 2016 Cabinet decided to terminate the agreement having first received legal advice that it could properly do so under the terms of the contractual arrangement, without risk of successful challenge. The Council has set up a cross party working group to review the governance arrangements of this project which is led by an independent chair. The results of the working party will be reported in the summer/ autumn of 2016. The Council's external auditor BDO highlighted the New Homes Project as a Use of Resources risk in their Planning Report of February 2016 to the Audit and Standards Committee. BDO will review the governance and decision making processes followed by the Council. The results of that review will be reported as part of the BDO Use of Resources conclusion in September 2016. In addition Council officers in liaison with the external auditor have identified an action plan to ensure that lessons learnt from this project are addressed in future projects of this scale and nature.

Customer complaints and compliments continue to be monitored as part of monthly performance monitoring and management arrangements for the Service Delivery Directorate. Data is also reported to the Scrutiny Committee and Cabinet each quarter.

The results of reviews by the Council's external auditor, BDO, have helped inform the opinion on the internal control environment. Recent results are summarised below:

Annual Audit Letter for 2014/15 (October 2015) – This report set out the key issues from the work carried out by BDO during the year, and was presented to the November 2015 meeting of the Committee. The key issues were:

- BDO issued an unqualified true and fair opinion on the financial statements for the period ended 31 March 2015.
- BDO identified a number of misstatements in relation to fixed asset accounting for Property, Plant and Equipment which were corrected.
- BDO did not identify any significant deficiencies in the Council's framework of internal controls, but signed annual related party declarations had not been received from Members who were not re-elected in the May 2015 elections.
- BDO concluded that, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015, and issued an unqualified value for money conclusion.
- BDO found that the Council is continuing to monitor the overall financial position, has established effective arrangements to ensure its financial resilience and is taking measures to address the budget gap identified over the period of the medium term financial plan.
- BDO noted that good progress is being made towards the transformation programme and significant savings are being secured from planned procurements.
- BDO were satisfied that the Annual Governance Statement (AGS) was not inconsistent or misleading with other information they were aware of from the audit of the financial statements and complies with standard guidance.
- BDO noted that the Council's Whole of Government Accounts (WGA) submission is below the threshold for full assurance review and no audit work was necessary.
- BDO reported on the results of the most recent grant claims and returns certification report that covered two claims and returns for 2013/14, with a total value of £37.5 million. The 2014/15 claim was submitted to the Department of Work and Pensions in March 2016.

Planning Report 2015/16 (February 2016) - This report sets out the audit scope and objectives for the financial year 2015/16, the engagement timetable, the fees and key audit risks.

Significant governance issues

We have been advised by the Audit and Standards Committee on the implications of the result of the review of the effectiveness of the Governance Framework. There are no significant governance issues to report for the year ended 31 March 2016 and up to the date of approval of the Statement of Accounts.

Councillor Andy Smith,
Leader of the Council.

Robert Cottrill,
Chief Executive.

Agenda Item No: 12 **Report No:** 82/16

Report Title: Annual Report on Risk Management

Report To: Audit and Standards Committee **Date:** 20 June 2016

Ward(s) Affected: All

Report By: Alan Osborne, Director of Corporate Services

Contact Officer
Name: David Heath
Post Title: Head of Audit, Fraud and Procurement
E-mail: David.Heath@lewes.gov.uk
Tel no: 01273 484157

Purpose of Report:

To present the annual report on risk management confirming the Council's Risk Management Strategy and the strategic risks faced by the Council.

Officers Recommendation(s):

That the Audit and Standards Committee:

- 1 Receives and endorses the annual report on risk management, and notes the Council's Risk Management Strategy (Appendix 1).
 - 2 Notes the strategic risks identified by the Corporate Management Team (CMT) and the associated mitigating controls (Appendix 2).
 - 3 Considers any comments that it wishes to make to the July 2016 meeting of Cabinet.
-

Reasons for Recommendations

- 1 The Council is committed to the proper management of risk. This report forms part of the annual reporting cycle on risk as set out in the Risk Management Strategy. This report will be presented to Cabinet at its July 2016. This report is also one of the key elements in the Council's submissions to the external auditor, BDO, and will provide data for the Annual Governance Statement (AGS).

Introduction to Risk Management

- 2 Risk management is about using common sense to take effective action to prevent or limit the impact of risks so as to help the Council meet its priorities and deliver services effectively. In September 2003 Cabinet adopted a Risk Management

Strategy that sets out the responsibilities for risk management at the Council, and which is supported by a framework of procedures and guidance for the assessment of risks and the development of mitigating controls.

- 3 The Risk Management Strategy includes provision for an annual review of the strategy by CMT. The strategy was reviewed in May 2016 and has been updated with minor changes including the Audit and Standards Committee being able to comment on the report in advance of Cabinet (see Appendix 1).
- 4 To support this strategy the Council has a standard approach for assessing risk which is applied to service planning, the management of major projects and decision making. The methodology reflects the need to manage the different aspects of the uncertainty that is inevitable when making changes in how the Council works and taking new approaches to regeneration and investment. The methodology now recognises both the uncertainty that could have an adverse impact leading to loss, harm or damage (ie a risk) and the uncertainty that could have a positive effect leading to benefits or rewards (ie an opportunity).

Strategic risks

- 5 Strategic risks are those that are likely to have a significant impact across the Council, in that if they occur they are likely to prevent it from achieving its strategic objectives.
- 6 The compilation of a Strategic Risk Register provides evidence of a risk aware and risk managed organisation. Generally, the register reflects the risks that will be common to comparable local authorities in this current period of change and financial challenge for Local Government.
- 7 Appendix 2 shows the strategic risk register that has been compiled by CMT for the year 2016/17. This register shows the:
 - Risk ranking - the order of importance that is placed on each strategic risk.
 - High level description of the risk and the officer/s who are responsible for monitoring the risk and managing its mitigation.
 - Detailed background to the risk and the likely risk scenario if it is not mitigated.
 - Mitigating controls that are put in place to reduce the risk or prevent it from occurring.
- 8 CMT is responsible for ensuring that the strategic risks have mitigating controls in place. It should be noted that the Council has entered into the delivery stage of a major commercial partnership which seeks to increase regeneration and housing (the North Street Quarter). The Council in partnership with Coast to Capital Local Enterprise Partnership has also successfully applied to create an Enterprise Zone in Newhaven to facilitate inward investment, offer value for money and sustain local economic growth. This Enterprise Zone will officially commence in April 2017. These are shown as the North Street Quarter and Newhaven Enterprise Zone at Appendix 2. Both of these projects have been undertaken to address specific risks that the authority faces. Without them there is a risk that key opportunities for regeneration will not be created and affordable housing targets will not be achieved.

- 9 For 2016/17 CMT will be reviewing the strategic risks of the Council on a quarterly basis. Any new risks identified will be reported to the Audit and Standards Committee and then onto Cabinet.

Training

- 10 Heads of service and a number of senior managers received detailed risk management training in the autumn of 2015. Training is planned for the Corporate Management Team in the summer 2016 to develop a joint approach to risk management with Eastbourne Borough Council.

Financial Appraisal

- 11 There are no financial implications arising from the recommendations to this report other than those already contained within existing budgets. However, if a strategic risk is not subject to effective mitigation there could be significant financial impact on the Council.

Equalities Screening

- 12 An equalities impact assessment is not considered necessary because the report is seeking endorsement of risk arrangements at the Council including the strategic risks identified by CMT.

Risk Management Implications

- 13 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.

Legal Implications

- 14 There are no direct legal implications arising from this report.

Sustainability Implications

- 15 I have not completed the Sustainability Implications Questionnaire as there are no significant effects as a result of these recommendations.

Background Papers

None

Appendices

Appendix 1: Lewes District Council – Risk Management Strategy

Appendix 2: Lewes District Council –Strategic Risk Register for 2016/17

Appendix 1

LEWES DISTRICT COUNCIL - RISK MANAGEMENT STRATEGY

1.0 Policy

- 1.1 We define risk as uncertainty that could have a detrimental impact on the achievement of the Council's objectives or service delivery. Uncertainty that could have a positive effect is an opportunity.
- 1.2 The appraisal and management of risk and opportunity will be part of our business planning and project management.
- 1.3 We will use risk management to promote innovation, and work proactively with stakeholders to minimise risks and maximise the opportunities associated with project and service decisions.

2.0 Organisation

- 2.1 This risk management strategy will be subject to approval by the Cabinet.
- 2.2 The Chief Executive is responsible for risk management. The Corporate Management Team (CMT) will support the Chief Executive in assessing and mitigating risks likely to have a significant impact on the achievement of the Council's objectives.
- 2.3 Heads of Service will implement risk management within their services and ensure that;
 - annual service plans contain an appraisal of risks to service delivery
 - managers carry out risk assessments as a routine part of service planning and project management activities
 - managers put in place appropriate controls to mitigate risks
 - managers will notify the Director of Finance of any significant risks that will require additional insurance and/or financing measures
- 2.4 The Head of Audit, Fraud and Procurement is responsible for providing advice and guidance and coordinating the Council's approach to risk management. Internal Audit is

responsible for monitoring the implementation and effectiveness of this risk management strategy and for reviewing compliance with controls introduced by CMT and their managers to manage risks.

- 2.5 The Audit and Standards Committee is responsible for reviewing the effectiveness of the systems and processes in place for managing risk, and can make recommendations to Cabinet if changes are needed to improve risk management. The Audit and Standards Committee receives the annual report on risk management in advance of Cabinet for comment.
- 2.6 Cabinet is responsible for considering overall risk and receives the annual report on risk management that includes the strategic risks of the Council. The Portfolio Holder for Finance has responsibility for risk management.

3.0 Arrangements

- 3.1 Annual service plans support achievement of the Council Plan. Service plans will include an assessment of risk which will be reviewed and updated by Heads of Service.
- 3.2 Reports to Cabinet will include risk management implications.
- 3.3 Risk management training will be provided to senior managers with the aim of ensuring that they have the skills necessary to identify, appraise and control the risks and opportunities associated with the services they provide. Councillors will receive training/information on risk management so that they can consider the implications of risks and opportunities in their work for the Council.
- 3.4 Project managers will be responsible for appraising risks and opportunities associated with their projects and make provision for dealing with them.
- 3.5 This strategy will be communicated to Councillors and staff via the Councils' intranet and will be reviewed annually by CMT.

Appendix 2: Lewes District Council – Strategic Risk Register 2016/17

Risk Rank	Risk and Owner/s	Background and Risk Scenario	Mitigating actions
1	Loss of IT services Head of IT	Long or short term loss of IT and telephone systems through equipment failure, loss of key premises, and data corruption or loss (including cyber-attacks).	<p>Partial mitigation through:</p> <ul style="list-style-type: none"> Preventative measures including effective security, fire prevention, and alarm systems for water ingress and overheating. For cyber-attacks there is software monitoring of the email gateway, workstation and web content and manual interventions. The Council also subscribes to the Government's Warning, Advice and Reporting Point (WARP) which enables the sharing of cyber threat and vulnerability information. Server virtualisation & improved back-up facilities providing additional resilience and redundancy (ie. failsafe capability) above and beyond what already exists. Introduction of new network infrastructure to prevent network outages providing resilience and redundancy for IT users at all LDC sites. Providing resilience and redundancy for remote workers connected to our IT systems, Wide area network now joined into a Public Service Network compliant network service, and Telephony to a hosted Voice Over Internet Protocol service, with Survivable Remote Site Telephony capability. <p>Larger satellite sites e.g. Saxon House & Robinson Rd offices now incorporated to have equivalent resilience to Southover House. Smaller satellites will still continue to have a slightly higher risk profile than Southover House but much has been done in network infrastructure to provide increased resilience.</p> <p>The shared IT Strategy (for Lewes and Eastbourne) sets out future Disaster Recovery requirements.</p>
2	Failure to achieve the Joint Transformation Programme with Eastbourne Borough Council Chief Executive	<p>Failure to integrate our staff and services with Eastbourne Council to provided more flexible, customer focused and cost effective services which deliver the financial savings required. High level risks for the programme include :</p> <ul style="list-style-type: none"> Ineffective strategy for change and change management process Lack of engagement and consultation with staff and key stakeholders Loss of reputation for the Council if the programme fails or is delayed. Poor or reduced service to customers whilst the transformation takes place. Financial savings are not 	<p>Mitigation through the implementation of the approved business case setting out how joint services will work in the future and the costs and benefits of integration. Mitigation to specific risk areas as follows:</p> <ul style="list-style-type: none"> Regular and focused training for and communication with staff. Comprehensive communication plan which is regularly monitored. Programme managed through project management principles where progress is monitored against the plan and risks are effectively managed to the programme completion. Effective monitoring of service performance indicators.

Risk Rank	Risk and Owner/s	Background and Risk Scenario	Mitigating actions
		<p>delivered in the timescales to deliver the Medium Term Financial Strategy.</p> <ul style="list-style-type: none"> Lack of dedicated staff resources to implement the programme. Lack of effective governance of the programme. Complexities of integrating two different sets of back office systems. 	<ul style="list-style-type: none"> Mitigation detailed in risk No 5 below. Detailed assessment of the resources required to implement the programme and consideration of filling gaps with external resources. Governance structure in place including the Joint Transformation Board (Councillor Level), Corporate Management Team, Programme Core Group and the Consultative Forum (Staff and Union representatives) Shared ICT Strategy in place which identifies the current applications and systems and moves towards a common ICT infrastructure. <p>The Programme Project Initiation Document will set out the detailed risk and mitigation approach.</p>
3	Loss of premises Director of Corporate Services	Long term or short term loss of key office buildings or depots due to fire, flood or other damage.	Partial mitigation through preventative measures e.g. fire safety arrangements, planned and responsive maintenance of buildings. If the event occurs then Business Continuity arrangements would be activated to reduce the impact on service delivery.
4	Major incident or emergency affecting the District or Region Director of Service Delivery	<p>Major incident caused by fire, flood or other disaster resulting in homelessness, disruption to Council services and local business community.</p> <p>Major infectious disease outbreak.</p>	<p>Mitigation through the Council's use of emergency powers under the Civil Contingency Act 2004 to provide temporary shelter for displaced residents and using the Council's Business Continuity arrangements to relocate to other buildings to be able to continue delivering key services.</p> <p>Mitigation by implementing the Lewes District Council Emergency Plan and Flu Business Continuity Plan.</p>
5	Failure to achieve the Council's savings target Chief Executive	Inability to achieve planned level of efficiency savings or manage the income streams for those areas where government funding and other income has reduced.	Mitigation through effective financial planning, monitoring, forecasting and delivery of efficiencies and savings to meet the required target. Balances held at a level which gives the capacity to meet short term demands. The Director of Corporate Services is confident that the 2016/17 target will be delivered. The key means of delivering these savings will be the Joint Transformation Programme with Eastbourne Council. The Council has committed almost £1 million from reserves as funding for this programme.
6	Major failure in financial systems Director of Corporate Services	Loss of key IT financial systems with immediate impact on Council's ability to process priority transactions e.g. payment of benefits, collection of local taxation revenues and payments to precepting authorities.	Mitigation through preventative measures e.g. system security, robust and supported software, training and performance monitoring. Documentation increasingly held electronically, rather than paper (with inherent risk of loss and destruction), and subject to IT continuity arrangements. If the event occurs the Council's Business Continuity arrangements would be activated. For example back up/ historic records would be used to generate payment records which would be processed by other means.

Risk Rank	Risk and Owner/s	Background and Risk Scenario	Mitigating actions
7	Loss of plant and equipment Director of Service Delivery	Loss, damage, breakdown or theft of vehicles and equipment that are key to the provision of Council services. This risk relates mainly to: <ul style="list-style-type: none"> the vehicle fleet maintained by District Services, and the emergency generator in Southover House which is the responsibility of the Director of Corporate Services. 	Mitigation through effective security, inspection, maintenance, insurance and support arrangements. In addition moving premises/depots at risk of flooding to new locations.
8	Failure of significant contractor DCS (finance, IT and corporate buildings contracts) Director of Service Delivery (planning, recycling and waste, grounds maintenance environment and housing related contracts) Director of Business Strategy and Development (regeneration related contracts) Assistant Director Corporate Services and Head of Audit, Fraud and Procurement (procurement standards)	Loss of contractor due to insolvency, contractor not meeting contracted service standards or breakdown in the supply chain. Significant contracts include: <ul style="list-style-type: none"> Financial systems IT contracts – in particular Academy Business Systems Wave Leisure Trust Grounds maintenance Council housing maintenance Public convenience cleaning Insurance Diesel fuel Recycling of glass and paper Plant maintenance 	Mitigation through proper set up and monitoring of contracts. If the event occurs then mitigation would be through the emergency appointment of an alternative contractor or, where possible, undertaking the service in house.
9	Major changes in legislation Chief Executive	Changes in Government policies or legislation creating new or increased demands on Council	Mitigation through: <ul style="list-style-type: none"> Assistant Director Corporate Services alerting officers in a timely manner. Corporate Management Team (CMT) members flagging up significant changes affecting their services

Risk Rank	Risk and Owner/s	Background and Risk Scenario	Mitigating actions
		services, or materially changing service requirements and standards.	<p>areas for discussion and consideration at CMT.</p> <ul style="list-style-type: none"> Staff training in new legislation, monitoring of government proposals for policy changes and reassigning resources to meet new priorities.
10	<p>Economic factors outside the Council's control</p> <p>Chief Executive takes overall responsibility.</p> <p>Director of Corporate Services (for financial control and services within his remit)</p> <p>Other CMT members (for services within their remit)</p>	<p>Changes in national economic climate and/or local demographics affecting demand for Council services.</p> <p>Significant fluctuations in costs of inputs (e.g. fuel) and price of commodities sold (e.g. recyclables).</p> <p>Fewer safe havens to invest day to day cash flow.</p>	<p>Mitigation through:</p> <ul style="list-style-type: none"> The Director of Corporate Services monitoring trends closely and examining possible requests for additional funding. Holding a healthy level of working balances. Budget monitoring procedures are in place to identify material fluctuations in prices. CMT members examining alternative arrangements for their services. Modelling the impact on the Council's Medium Term Budget Outlook including a range of sensitivity tests e.g. different forecasts for inflation. Consider increasing the level of internal funding to reduce the need for cash to be invested. Model the cost of aiming to be slightly overdrawn on a day to day basis.
11	<p>Governance and regulatory failure</p> <p>Assistant Director of Corporate Services.</p>	Inability to meet adequate governance standards.	<p>Mitigation through the preventative measures in the Council's Code of Corporate Governance. These include:</p> <ul style="list-style-type: none"> Internal controls and the Internal Audit service. Audit and Standards and Scrutiny committees. Risk management and partnership governance arrangements. Contract and Financial Procedure Rules. Training and guidance in regulatory requirements, and performance monitoring. Safeguarding policy and procedures.
12	<p>Damage to reputation</p> <p>Assistant Director Corporate Services</p>	Reputational damage from failure to meet statutory duties and service standards, litigation by the Council, actions by councillors and officers which bring the Council into disrepute and failure to deliver contracts e.g. contract for Council to provide services to the South Downs National Park.	Mitigation through a range of measures including effective communications, clear codes of conduct for councillors and staff, and performance monitoring.
13	<p>Major project – North St Quarter</p> <p>Director of Business Strategy and Development</p>	A large site in Lewes by the River Ouse including the former Phoenix Industrial Estate owned by the Santon Group, Lewes District Council and other interested parties. A joint planning	<p>Overall mitigation through effective project management and governance, oversight via Members Oversight Board, financial and performance monitoring.</p> <p>Page 57 of 103</p>

Risk Rank	Risk and Owner/s	Background and Risk Scenario	Mitigating actions
		<p>application on behalf of the Santon Group and the District Council has been approved by the Southdowns National Park Authority (subject to s106 agreement). LDC has entered into an interim agreement with the Santon Group and will soon enter a Joint Venture agreement and agreed heads of terms of the full JV agreement.</p> <p>With a significant project of this size there is a risk of reputational damage from failure to meet project objectives and safeguard Council interests; financial risks arising from not achieving planned returns and costs of involvement not representing sound Value for Money; insufficient capacity to meet project timetables. Key risks include:</p> <ul style="list-style-type: none"> • Insufficient capacity within the Council to meet requirements for effective governance, professional standards and timely action at key stages in the project with result that the development is delayed. • Development delayed by failure to complete site assembly because of disputes over title, and/or inability to achieve agreements with interested parties. • Employment benefits of the project are not fully realised. • The Council cannot agree the final drafting of a Joint Venture agreement with 	<ul style="list-style-type: none"> • Effective planning and liaison with the project team to identify and address shortfalls, and employ appropriate external resources where necessary. • Effective financial modelling, strong negotiating and detailed legal work to protect the Council's interests. • Employ specialist legal resources to resolve questions of title, and consider use of compulsory purchase orders where appropriate. • Regeneration Team to work with existing businesses and the developer on an effective relocation strategy. • The Council has underwritten a proportion of the planning costs and agreed a capped maximum contribution. • During the 2015/16 budget round the Scrutiny Committee recommended and Cabinet approved the principle that any net loss of retained rates income arising from a large regeneration project, could be made up by assigning additional New Homes Bonus generated from housing on a former non domestic site. • Ensure effective competition in land disposals to ensure best value for land holdings.

Risk Rank	Risk and Owner/s	Background and Risk Scenario	Mitigating actions
		<p>Santon</p> <ul style="list-style-type: none"> • There is no demand for developers to build on the consented scheme or offers from developers are lower than expected. • Loss of Non Domestic Rates taxbase and a reduction in the level of Lewes District council retained rates income. 	

Risk Rank	Risk and Owner/s	Background and Risk Scenario	Mitigating actions
14	Major Project – Newhaven Enterprise Zone Director of Business Strategy and Development	<p>The Council in partnership with Coast to Capital Local Enterprise Partnership has successfully applied to create an Enterprise Zone in Newhaven to facilitate inward investment, offer value for money and sustain local economic growth through a range of incentives. There are eight sites in the Enterprise Zone the majority of which are privately owned although significant portions of the Town Centre and Avis Way are in the Council's ownership. This is a 25 year project and the Council is at the planning stages for implementation. With a significant project of this size there is a risk of reputational damage from failure to meet the project objectives and achieve the economic benefits through the partnership.</p> <p>Key risks include:</p> <ul style="list-style-type: none"> • Lack of coordination and cooperation with landowners of the key sites. • Reduced uptake of commercial space leading to a lower level of retained business rates. • Lack of capacity to effectively manage the Enterprise Zone. • The Enterprise Manager is not effective in role. • Unclear governance and implementation structures, resulting in lack of clarity or insight into specific local issues. 	<p>Overall mitigation through effective project management, governance, financial and performance monitoring of the partnership.</p> <ul style="list-style-type: none"> • All landowners have already been invite to, and attended initial meetings with the Council's regeneration and investment team to discuss the overall plans for the Enterprise Zone. • Marketing proposals have been formulated ready for implementation, and a robust Investment Strategy has been proposed for commissioning. • Initial planning has been undertaken by the Councils regeneration and investment team with discussions being held with key stakeholders to offset the potential lack of capacity. • The requirements of the job are set to ensure the correct level of experience is recruited. • The Council's Regeneration and Investment team is working extremely closely with the Local Enterprise Partnership to develop delivery and governance structures to ensure that delivery is focused on specific local barriers. <p style="text-align: center;">Page 60 of 103</p>

Risk Rank	Risk and Owner/s	Background and Risk Scenario	Mitigating actions
15	Partnerships All of Corporate Management Team	Reputational damage from failure to achieve partnership objectives and safeguard Council interests; financial risks arising from not achieving planned savings and costs of involvement not representing sound Value for Money; inability to maintain service standards due to conflicting objectives, insufficient capacity, poor management oversight and governance.	Mitigation through effective management oversight, governance and accountability, financial and performance monitoring and establishment of clear objectives. Revised partnership guidance.



LEWES DISTRICT COUNCIL

Planning Letter 2016/17

18 April 2016

PROPOSED FEES

Scope of the audit

We are required to report to you our proposed fees and programme of work for the 2016/17 financial year.

Code audit fee

The Code audit fee is based on the work required under the Code of Audit Practice issued by the National Audit Office and covers the audit of the financial statements and value for money conclusion.

Public Sector Audit Appointments Limited (PSAA) is responsible for setting the scale fees for local authorities and consulted on the proposed work programme and scale of fees in October 2015. There are no planned changes to the overall work programme for 2016/17 and the scale audit fees have been set at the same level as 2015/16. PSAA has the power to determine the fee above or below the scale fee where there has been a change that requires substantially more or less work than envisaged by the scale fee.

Certification of housing benefits subsidy claim

PSAA makes arrangements for certification of housing benefit subsidy claims. An indicative fee is set based on the latest actual certification fees available but this is reset annually and the 2016/17 indicative fee is not yet published.

Audit related services

Audit related services are those non-audit services that are largely carried out by members of the engagement team where the work involved is closely related to the work performed in the audit and the threats to auditor independence are clearly insignificant and, as a consequence, safeguards need not be applied. In recent years, a number of grants and returns were included in the certification scale fee that are no longer mandated for review by PSAA, but still require certification by the auditor.

Other non-audit services

Other non-audit services are those services not closely related to the work performed in the audit that could be provided by a number of firms. Auditors are prevented from undertaking such work if it would present a threat to independence for which no adequate safeguards are available. Independence concerns may arise due to the nature of the work or from the value of fees derived.

Fees

AUDIT AREA	PROPOSED FEE 2016/17 (£)	SCALE FEE 2016/17 (£)	PROPOSED FEE 2015/16 (£)
Code audit fee	46,418	46,418	46,418
Certification fee for housing benefits subsidy claim ⁽¹⁾	15,598	TBC	14,960
Audit related services			
- Pooled Housing Receipts return	1,500	n/a	1,500
Other non-audit services			
- None	-	n/a	-
Total fees	63,516		62,878

⁽¹⁾ Our fee for the audit of the 2013/14 housing benefit subsidy claim was £19,947. The audit of the 2014/15 housing benefit subsidy claim was completed in March 2016 and we are in the process of agreeing our fees with the Council and PSAA as a result of additional work required to certify the claim. Our work on the 2015/16 housing benefit subsidy claim has not yet commenced. We have at this stage based our proposed fee for 2016/17 on the 2014/15 expected outturn fee. We will keep the level of certification fee required in 2015/16 and 2016/17 under review.

Amendments to the proposed fees

If we need to propose any amendments to the fees during the course of the audit or where our assessment of risk and complexity are significantly different from those reflected in the proposed fee, we will first discuss this with the Director of Corporate Services. Where this requires a variation to the scale fee we will seek approval from PSAA. If necessary, we will also prepare a report outlining the reasons why the fee needs to change for discussion with the Audit and Standards Committee.

At this stage, nothing has come to our attention that would require us to seek approval to amend the scale fee.

Billing arrangements

We will raise invoices for the Code audit fee on a quarterly basis, at £11,604.50 per quarter, from June 2016. Following our firm's standard terms of business, full payment will be due within 14 days of receipt of invoice. Fee invoices for other services will be raised as the work is completed.

AUDIT ARRANGEMENTS

Planned outputs

We plan to issue the following reports and opinions over the course of the 2016/17 audit:

REPORT	DATE
Audit planning report	March 2017
Report on any significant deficiencies in internal controls, if required, based on the results of our interim audit visit	June 2017
Final report to those charged with governance	September 2017
Independent auditor's report including: <ul style="list-style-type: none">• Opinion on the financial statements• Value for money conclusion• Certificate	September 2017
Summary of findings from the audit in the annual audit letter	October 2017
Grant claims and returns certification report	January 2018

Audit team

The key members of the audit team will be:

Engagement Lead - Janine Combrinck

Email: janine.combrinck@bdo.co.uk

Tel: 020 7893 2631

Janine will be responsible for the overall delivery of the audit including the quality of outputs and liaison with senior management.

Project Manager - Jody Etherington

Email: jody.etherington@bdo.co.uk

Tel: 01473 320790

Jody will manage and co-ordinate each aspect of the audit and will be the key contact with the finance team.

Senior - Tawanda Mutenga

Email: tawanda.mutenga@bdo.co.uk

Tel: 01473 320711

Tawanda will lead the delivery of the financial statements audit.


Client satisfaction

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact Janine in the first instance. Alternatively, you may wish to contact our Managing Partner, Simon Michaels. Any complaint will be investigated carefully and promptly. If you are not satisfied you may take up the matter with the Institute of Chartered Accountants in England and Wales ("ICAEW").

In addition, the PSAA complaints handling procedure is detailed on their website <http://www.psaa.co.uk/about-us/contact-us/complaints/>.

Arrangements from 2017/18

The Department for Communities and Local Government has confirmed that the current contracts negotiated by the Audit Commission in April 2014 will be extended for one year. As a result, the Council will be required to make a local appointment for external audit services from 2018/19.



The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the organisation and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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LEWES DISTRICT COUNCIL

GRANT CLAIMS AND RETURNS CERTIFICATION
Year ended 31 March 2015

21 April 2016

INTRODUCTION

Purpose of the report

This report summarises the main issues arising from our certification of grant claims and returns for the financial year ended 31 March 2015.

Audit Commission regime

We undertake grant claim and return certification as an agent of the Audit Commission, in accordance with the Certification Instructions (CI) issued by them after consultation with the relevant grant paying body. Our work is undertaken in accordance with the Statement of Responsibilities issued by the Audit Commission.

For 2014/15, this included only the Housing benefit subsidy claim.

After completion of the tests contained within the CI the grant claim or return can be certified with or without amendment or, where the correct figure cannot be determined, may be qualified as a result of the testing completed. Sample sizes used in the work on the housing benefit subsidy claim and the methodology for the certification of all grant claims are prescribed by the Audit Commission.

Other certification work

We have also been asked to certify the Pooling of housing capital receipts return on behalf of the Council. This was previously undertaken under the Audit Commission regime but is no longer a mandated review.

Fees

A summary of the fees charged for certification work for the year ended 31 March 2015 is shown to the right.

We recognise the value of your co-operation and support and would like to take this opportunity to express our appreciation for the assistance provided during the course of our certification work.

Fees

CLAIM OR RETURN	2013/14 FINAL FEE £	2014/15 PLANNED FEE £	2014/15 FINAL FEE £
Audit Commission regime			
Housing benefit subsidy	19,950	9,530	15,598*
Pooling of housing capital receipts	747	-	-
TOTAL AUDIT COMMISSION REGIME FEES	20,697	9,530	15,598
Other certification work			
Pooling of housing capital receipts	-	1,500	1,500
TOTAL CERTIFICATION FEES	20,697	11,030	17,098

* As noted on the following pages, there were a number of issues identified during the certification of the Housing benefit subsidy claim this year, which required significant amounts of additional testing to quantify and resolve.

Key findings

Below are details of each grant claim and return subject to certification by us for the financial year ended 31 March 2015. Where our work identified issues which resulted in either an amendment or a qualification (or both), further information is provided.

CLAIM OR RETURN	VALUE (£)	QUALIFIED?	AMENDED?	IMPACT OF AMENDMENTS (£)
Housing benefit subsidy	35,871,995	Yes	No	N/A
Pooling of housing capital receipts	1,279,000	No	No	N/A

HOUSING BENEFIT SUBSIDY

Local authorities responsible for managing housing benefit are able to claim subsidies towards the cost of these benefits from central government. The final value of subsidy to be claimed by the Council for the financial year is submitted to central government on form MPF720A, which is subject to certification.

Our work on this claim includes verifying that the Council is using the correct version of its benefits software and that this software has been updated with the correct parameters. We also agree the entries in the claim to underlying records and test a sample of cases from each benefit type to confirm that benefit has been awarded in accordance with the relevant legislation and is shown in the correct cell on form MPF720A.

The methodology and sample sizes are prescribed by the Audit Commission and the Department for Work and Pensions (DWP). We have no discretion over how this methodology is applied.

The draft subsidy return provided for audit recorded amounts claimed as subsidy of £35.872 million. No amendments were made to the final claim submitted to DWP.

FINDINGS AND IMPACT ON CLAIM

General findings and observations

We have identified a particularly high level of error within the cases tested this year, which has required a significant amount of additional testing by both the Council and the audit team to quantify and resolve. We note in particular that, taking into account the individual errors reported below, the level of local authority error and administrative delay overpayments made by the Council this year falls close to the threshold set by DWP above which reductions to subsidy will apply. Should this threshold be breached in future years, the financial impact on the Council in terms of lost subsidy could be significant. We therefore strongly recommend that the Council carries out a thorough review of its ongoing claims checking procedures, processing controls and claim form compilation processes, to ensure that the level of error does not continue to increase as in recent years.

Reconciliation of benefit granted to benefit paid

The Council has carried out a reconciliation of benefit granted per the benefit software to benefit paid per the benefit software, in accordance with the software supplier's guidance. This has identified a small number of errors in the subsidy claim, resulting in subsidy being over-claimed by £608.

Subsidy claim validation checking process

The supplier of the Council's benefit software provides a number of recommended validation checks for the Council to run prior to assembling the draft subsidy claim completion reports. However, for two of these checks (the prior year/current year classification batch process and the homeless subsidy classification process), the Council has not been able to supply any evidence that the reports were run and investigated prior to the submission of the draft subsidy claim to DWP. Retrospective running of these reports highlighted a total of 8 exceptions, although it is not possible to conclude whether or not these represent errors which impact on benefit entitlement or subsidy claimed without the Council carrying out further work. We recommend that in future years the Council retains evidence that it has run, and appropriately investigated, each of the software supplier's recommended checking processes at year end.

Non-HRA rent rebates

We identified a number of errors within the subsidy claim form in relation to non-HRA rent rebate expenditure, as follows:

Incorrect application of LHA rate caps

For expenditure on non-HRA rent rebates, authorities are able to claim subsidy up to a cap which is based on the appropriate LHA rate for the properties concerned. Our initial testing of 20 non-HRA rent rebate cases identified 4 cases where errors had been made in the application of this cap. Testing of an additional 40 cases identified 7 further errors. We extrapolated these errors over the whole population of non-HRA rent rebate cases, and estimated that the Council has over-claimed subsidy by £5,122. Similar findings were identified in each of the last two years.

Incorrect annual uplifting dates

Our initial testing of 20 rent allowance cases identified 1 case in which the annual uplifting of LHA rates, applicable amounts, and state retirement pension income had been actioned on the incorrect date, due to the case being incorrectly flagged in the benefit system as a weekly rent case. Testing of an additional 40 weekly rent cases identified 6 further cases where incorrect uplifting dates had been applied, for a variety of reasons. We extrapolated these errors over the total subpopulation of weekly rent cases, and estimated that benefit has been overpaid by £56. The subsidy rules allow for a certain level of local authority error overpayments to occur without a reduction to overall subsidy, and therefore there is no impact on the subsidy claimed as a result of this issue. We also identified underpayments of benefit totalling £6 as a result of this issue, although these are not treated as errors for subsidy purposes and were not, therefore, included within our error extrapolation.

Incorrect service charge deductions

We tested a total of 49 cases where service charge deductions had been made, and found that the deduction had been applied at the incorrect amount in 1 of these cases. We extrapolated this error over the total subpopulation of cases with service charge deductions, and estimated that benefit had been overpaid by £39. As the subsidy rules allow for a certain level of local authority error overpayments to occur without a reduction to overall subsidy, there is no impact on the subsidy claimed as a result of this issue. Similar findings were identified in the prior year.

Incorrect application of personal and dependent allowances

Testing of our initial sample of 20 non-HRA rent rebate cases identified 1 case where a lone parent allowance had been applied in error instead of a couple's allowance, and a dependent allowance had not been applied correctly. This resulted in an underpayment of benefit of £22, although this is not treated as an error for subsidy purposes, as subsidy cannot be claimed for expenditure which has not been incurred.

Misclassification of tenancies

We identified 3 cases (out of a total of 60 cases tested) where expenditure had been incorrectly recorded within the non-HRA rent rebate cells on the subsidy claim form, when the expenditure in fact related to properties within the Housing Revenue Account (HRA), and therefore should have been classified as rent rebate expenditure. Similar findings were identified last year, although as both types of expenditure attract subsidy at the same rates there is no impact on the subsidy claimed.

Rent allowances

We identified a number of errors within the subsidy claim in relation to rent allowances expenditure, as follows:

Incorrect income amounts

Our initial testing of 20 rent allowance cases identified 2 cases where income figures had either been actioned from the incorrect date, or had been incorrectly calculated or input. Testing of an additional 40 cases with earnings attached identified 2 further similar errors. We extrapolated these errors over the total subpopulation of rent allowance cases with earnings, and estimated that benefit had been overpaid by £29,156 as a result of these errors. As the subsidy rules allow for a certain level of local authority error overpayments to occur without a reduction to overall subsidy, there is no impact on the subsidy claimed as a result of this issue. In addition, we identified an underpayment of benefit of £2, although this is not treated as an error for subsidy purposes and was not, therefore, included within our error extrapolation. Finally, we identified consequential misclassifications of expenditure within the subsidy claim, which meant that the Council had under-claimed subsidy by £2. Similar findings were identified in each of the past two years.

Misclassification of overpayments

Where benefit overpayments are identified by an authority, these must be classified within the subsidy claim form depending upon their cause (e.g. claimant error, local authority error, etc.) Our testing of an initial sample of 20 rent allowance cases identified 2 cases where overpayments had been incorrectly classified. Testing of an additional 40 overpayment cases identified a further 7 overpayment misclassifications. We extrapolated these errors over the total population of overpayments in each of the relevant cells on the claim form, and estimated that current year eligible overpayments are overstated by £40,829, prior year eligible overpayments are understated by £33,017, and current year local authority error and administrative delay overpayments are understated by £7,812. The total net impact of all of these errors is that the Council has under-claimed subsidy by £4,687.

Incorrect application of single bedroom LHA rate

Testing of an initial sample of 20 rent allowance cases identified 1 case where the single bedroom LHA rate had been applied in error, instead of the shared bedroom rate which should have been applied. As a result, benefit was overpaid by £1,868, although we were able to conclude that this was an isolated error. As the subsidy rules allow for a certain level of local authority error overpayments to occur without a reduction to overall subsidy, there is no impact on the subsidy claimed as a result of this issue.

HOUSING BENEFIT SUBSIDY (CONTINUED)

FINDINGS AND IMPACT ON CLAIM

Incorrect application of a capital restriction

Testing of an initial sample of 20 rent allowance cases identified 1 case where a capital restriction had been incorrectly applied to the claimant's benefit entitlement. As a result, the underlying benefit was understated by £654, and eligible overpayments overstated by the same amount. This meant that subsidy was under-claimed by £392.

Incorrect manual adjustment

We identified one rent allowance case where a manual adjustment to the subsidy claim had been made in error following the reissue of an uncashed cheque. The result was that the Council over-claimed subsidy by £600. However, we were able to conclude that this error was isolated.

Failure to uplift LHA rates

We identified two rent allowance cases where LHA rates were not uplifted from the 2014/15 levels. This resulted in underpayment of benefits totalling £148. These underpayments are not treated as errors for subsidy purposes, as subsidy cannot be claimed for expenditure which has not been incurred by an authority.

Incorrect child tax credit income amounts

Our initial testing of 20 rent allowance cases identified 1 case where an incorrect child tax credit (CTC) income amount had been used in calculating benefit entitlement. Testing of an additional 40 cases with CTC income identified 1 further similar error. We extrapolated these errors over the total subpopulation of rent allowance cases with CTC income, and estimated that benefit was overpaid by £38 as a result of these errors. As the subsidy rules allow for a certain level of local authority error overpayments to occur without a reduction to overall subsidy, there is no impact on the subsidy claimed as a result of this issue. Similar findings were identified in the prior year.

Prior year uncashed payments

Our review of prior year uncashed payments identified that they were overstated by £556 as a result of the Council incorrectly including current year uncashed payments within this cell on the subsidy claim form. As a result, subsidy was under-claimed by £556.

POOLING OF HOUSING CAPITAL RECEIPTS

FINDINGS AND IMPACT ON RETURN

Local authorities are required to pay a portion of any housing capital receipt they receive into a national pool administered by central government. The Council is required to submit quarterly returns notifying central government of the value of capital receipts received.

The return provided for audit recorded total receipts of £1.279 million of which £359,568 was payable to the Department for Communities and Local Government (DCLG).

The return was certified without amendment or qualification.

The Council has retained significant sums from receipts in recent years that are reserved for 1-4-1 replacement expenditure for social housing. The regulations require that these sums are used by certain milestone dates or must be repaid to DCLG. At 31 March 2015, the Council had reserved £5.9 million of receipts that need to be applied before 31 March 2018, with £1.2 million before 31 March 2016 and £4.4 million by 31 March 2017.

The Council should ensure that it has appropriate plans in place to use the reserved 1-4-1 funding before each milestone date expires.

The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the council and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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Agenda Item No: 15 **Report No:** 85/16
Report Title: Statement of Accounts 2015/2016
Report To: Audit and Standards Committee **Date:** 20 June 2016
Ward(s) Affected: All
Report By: Alan Osborne, Director of Corporate Services
Contact Officer(s)-
Name(s): Stephen Jump
Post Title(s): Head of Finance
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Purpose of Report:

To provide assurance to the Audit and Standards Committee that the Council's Statement of Accounts for 2015/2016 has been prepared in accordance with statutory requirements and recommended accounting practice.

Officers Recommendation:

1. To note the action taken to prepare, publish and enable public inspection of the 2015/2016 Statement of Accounts.
-

Reasons for Recommendations

- 1 The Council's constitution enables the Audit and Standards Committee to approve the Annual Statement of Accounts. The Accounts and Audit Regulations 2015 require the Director of Corporate Services to certify by 30 June that the Statement of Accounts presents fairly the financial position of the Council, in advance of the external audit of those Accounts taking place.

Information

2 Approval of the Accounts

- 2.1 The Audit and Standards Committee is required to approve the Council's formal annual Accounts, which include statements of its income and expenditure for the year and its balance sheet at the year end. The requirement stems from the Council's Constitution, the Accounts and Audit Regulations and the Code of Practice on Local Authority Accounting published each year by the Chartered Institute of Public Finance and Accountancy (CIPFA).

- 2.2** The Accounts and Audit Regulations 2015 (the Regulations) came into effect from 1 April 2015 for financial years beginning on or after 1 April 2015. The Regulations specify the framework for the approval and auditing of local authority accounting statements, and also require a local authority (other than a smaller authority such as a Town or Parish Council) to prepare a 'narrative statement' on its financial performance and economy, efficiency and effectiveness in its use of resources over the financial year.
- 2.3** The Regulations require the Council's responsible financial officer (the Director of Corporate Services) to certify the 2015/2016 Accounts by 30 June, with no approval by councillors at that stage. The external audit then takes place, with a final audited set of Accounts, including any necessary amendments, being brought to councillors to approve by 30 September, the final deadline for publication. The intended consequence of the Regulations is that, when approving the Accounts, councillors can be made aware of the findings of the audit and hence make a better informed decision.
- 2.4** At the time of writing this report, it is the intention that the Director of Corporate Services will certify the Statement of Accounts 2015/2016 on 29 June, maximising the time available for final 'quality checking'. It will then be sent to the Council's external auditor, BDO, triggering the start of their audit work. It will also be published on the Council's website on 30 June 2016.
- 2.5** The Regulations include a phased timetable for faster closure and publication of the audited accounts in future years: there will be a requirement to publish the 2017/2018 audited accounts by 31 July 2018. This 2-month shortening of the timetable will present a significant challenge to both the Finance team and the external auditors.

3 Inspection of the Accounts

- 3.1** Any person has the right to inspect the Council's accounts and supporting records. Local government electors for the area of the Council are also able to ask the auditor questions about the accounts and may object to the accounts asking the auditor to issue a report in the public interest and/or apply to the court for a declaration that an item in the accounts is unlawful.
- 3.2** The Regulations, for the first time, prescribe certain dates to be included within a thirty day period for the exercise of public rights before the final publication of the accounts and auditor's report. For the 2015/2016 accounts, the thirty working day period must include the first ten working days of July. The period for the exercise of public rights has been set for the period 1 July to 11 August 2016. This is advertised on the Council's website, along with a link to the National Audit Office guide for the public 'Council Accounts – A Guide to your rights'.

4 Narrative Statement

- 4.1** In previous years local authorities have published an 'explanatory foreword' to the Statement of Accounts giving general context to the year's financial

performance and looking ahead to future years. As noted above, the Regulations now require the preparation of a 'narrative statement'.

4.2 In order to meet this new requirement, CIPFA recommend the replacement of the explanatory foreword with a 'narrative report' to provide an analysis of:

- the development and the performance of the authority in that financial year and its position at the end of the year
- the financial and non-financial performance indicators as relevant to the performance of the authority, along with prior-year comparatives and an explanation of changes

5 Format of the Accounts

5.1 The Statement of Accounts comprises the following core elements:

Movement in Reserves Statement - this shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those the Council can apply to fund expenditure or reduce local taxation) and other reserves.

Comprehensive Income and Expenditure Statement - this records all of the spending and income used in the day to day provision of all services including Council housing and also includes any profit or loss from the use and disposal of assets within the period. The account also shows how much is received from council taxpayers, business ratepayers and from general government grants to help meet the cost of services.

Balance Sheet – this provides a snapshot of the Council's financial position as at 31 March 2016 and includes the General Fund and Housing Revenue Account balances. It sets out what the Council owns, owes and is owed at that point in time, and identifies amounts which are set aside in reserves to finance future spending.

Cash Flow Statement – this summarises the total receipts and payments of cash arising from the Council's activities in the year ie it excludes amounts which the Council owes but has not yet paid and is owed but has not yet received.

Notes to the Financial Statements – these explain the significant items within each of the core elements along with an explanation of the accounting policies that were followed when compiling and presenting the Accounts.

Housing Revenue Account – this statutory 'ring-fenced' account reports for the year on the management of the Council's housing stock. It shows the major elements of housing running costs (maintenance, management and capital financing costs) and how these are met by rents, service charges and other income.

Collection Fund – this shows the Council’s transactions in relation to the collection of non-domestic rates and council tax, and their payment over to the Government and ‘precepting authorities’ (East Sussex County Council, the Sussex Police and Crime Commissioner, East Sussex Fire Authority and Lewes District Council).

Statement of Responsibilities for the Statement of Accounts – this explains the relative responsibilities of the Council and Director of Corporate Services in terms of making arrangements for the administration of the Council’s financial affairs, keeping financial records, etc. Before publication of the audited Accounts in September, the Chair of the Audit and Standards Committee and the Director of Corporate Services will sign this Statement.

- 5.2** In 2013, CIPFA published a good practice guide for local authorities’ financial statements. This looks at how presentation can be improved and clutter cut from the accounts. CIPFA consider that too often organisations play safe by including in the accounts every disclosure required by standards, in case an omission is questioned, and that, also too often, auditors question the omission of non-material disclosures, encouraging this behaviour.
- 5.3** Drawing on CIPFA’s guide, the Statement of Accounts 2015/2016 has been produced with an increased focus on materiality and the exclusion of information that contributes little to the understanding of the accounts or the Council’s overall financial position.

Financial Implications

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

Risk Management Implications

- 7** I have completed the Risk Management Questionnaire. The issues covered by the recommendations are not significant in terms of risk.

Equality Screening

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

Legal Implications

- 9** None arising from this report.

Background Papers

- 10** Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and Guidance Notes for Practitioners.

Agenda Item No: 16

Report No: 86/16

Report Title: Treasury Management

Report To: Audit and Standards Committee Date: 20 June 2016

Ward(s) Affected: All

Report By: Alan Osborne, Director of Corporate Services

Contact Officer(s)-

Name(s): Stephen Jump
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Purpose of Report:

To present details of recent Treasury Management activity and the Annual Treasury Management Report 2015/2016.

Officers Recommendation:

1. To confirm to Cabinet that Treasury Management activity between 1 March and 31 May 2016 has been in accordance with the approved Treasury Strategy for that period.
 2. To review the Annual Treasury Management Report for 2015/2016.
-

Reasons for Recommendations

- 1 The Council's approved Treasury Strategy Statement requires the Audit and Standards Committee to review details of Treasury transactions and make observations to Cabinet.
- 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.
- 3 **Treasury Management Activity**
 - 3.1 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.

- 3.2** The timetable for reporting Treasury Management activity in 2015/2016 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
20 June 2016	1 March to 31 May 2016

3.3 Fixed Term Deposits pending maturity

The following table shows the fixed term deposits held at 31 May 2016 and identifies the long-term credit rating of each counterparty 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. The minimum rating required for deposits made after 1 April 2016 are long term minimum A- (Fitch) (a minimum A rating applied in 2015/2016). All of the deposits met the necessary criteria.

Ref	Counterparty	Date From	Date To	Days	Principal £	Int Rate %	Long-term rating
228115	Nationwide Building Society	18 Feb 16	18 Aug 16	182	1,000,000	0.710	A
228315	Eastbourne Borough Council	24 Mar 16	01 Jun 16	69	2,000,000	0.500	*
228715	Thurrock Borough Council	27 May 16	28 Nov 16	185	3,000,000	0.500	*
					<u>6,000,000</u>		

*UK Government body and therefore not subject to credit rating

3.4 Fixed Term Deposits which have matured in the reporting period

The table below shows the fixed term deposits which have matured since 1 March 2016, in maturity date order. It is important to note that the table includes sums reinvested and that in total the Council's investments have not increased by £29.75m over this period. Further information is given in paragraph 3.9.

Ref	Counterparty	Date From	Date To	Days	Principal £	Int Rate %	Long-term rating
228916	Debt Management Office	18 Apr 16	25 Apr 15	07	2,000,000	0.250	*
227515	Thurrock Borough Council	30 Nov 15	10 Mar 16	115	3,000,000	0.480	*
228515	Debt Management Office	15 Mar 16	21 Mar 16	06	2,000,000	0.250	*
228415	Stafford Borough Council	24 Mar 16	01 Apr 16	08	2,000,000	0.500	*
228516	Debt Management Office	01 Apr 16	05 Apr 16	04	5,000,000	0.250	*
228616	Debt Management Office	05 Apr 16	11 Apr 16	06	3,500,000	0.250	*
228816	Debt Management Office	15 Apr 16	18 Apr 16	03	3,000,000	0.250	*
229016	Debt Management Office	03 May 16	09 May 16	06	4,000,000	0.250	*
229116	Debt Management Office	09 May 16	19 May 16	10	2,250,000	0.250	*
229216	Debt Management Office	16 May 16	20 May 16	04	2,000,000	0.250	*
229316	Debt Management Office	18 May 16	20 May 16	02	1,000,000	0.250	*
	Total				<u>29,750,000</u>		

*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 March to 31 May 2016 was 0.54%, above the average bank base rate for the period of 0.50%. Those made during the period averaged 0.47%.

3.5 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 £2.087m generating interest of approximately £2,000.

	Balance at 31 May '16 £'000	Average balance £'000	Average interest rate %
Santander Business Reserve Account	Nil	1,054	0.30%
Lloyds Bank Corporate Account	644	1,033	0.40%

3.6 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 31 May '16 £'000	Average balance £'000	Average return %
Goldman Sachs Sterling Liquid Reserves Fund	1,500	2,546	0.59%
Deutsche Managed Sterling Fund	1,000	2,761	0.57%

3.7 Purchase of Treasury Bills (T-Bills)

The table below shows the T-Bills held at 31 May 2016 and activity in the period. It is the Council's intention to hold T-Bills until maturity.

	Maturity Date .	Purchased in period	Purchase date	£'000	Disc %
Held at 31 May 2016					
UK Treasury Bill 0%	06 Jun16	✓	09 May 16	94	0.419
UK Treasury Bill 0%	06 Jun 16	✓	06 May 16	1,000	0.409
UK Treasury Bill 0%	20 Jun 16	✓	20 May 16	1,000	0.399
UK Treasury Bill 0%	20 Jun 16	✓	20 May 16	1,000	0.403
Matured since last report					
UK Treasury Bill 0%	07 Mar 16		7 Dec 15	1,000	0.481
UK Treasury Bill 0%	14 Mar 16		15 Feb 16	2,000	0.460
UK Treasury Bill 0%	14 Mar 16		15 Feb 16	2,000	0.440
UK Treasury Bill 0%	21 Mar 16		21 Sep 15	1,000	0.562
UK Treasury Bill 0%	21 Mar 16		21 Dec 15	1,000	0.466

	Maturity Date .	Purchased in period	Purchase date	£'000	Disc %
UK Treasury Bill 0%	29 Mar 16		28 Sep 15	1,000	0.565
UK Treasury Bill 0%	04 Apr 16		05 Oct 15	1,000	0.548
UK Treasury Bill 0%	18 Apr 16	✓	21 Mar 16	1,000	0.419
UK Treasury Bill 0%	03 May 16		02 Nov 15	1,000	0.555
UK Treasury Bill 0%	16 May 16	✓	18 Apr 16	1,000	0.403
UK Treasury Bill 0%	16 May 16	✓	18 Apr 16	1,000	0.394
UK Treasury Bill 0%	23 May 16	✓	25 Apr 16	1,000	0.404
UK Treasury Bill 0%	23 May 16	✓	25 Apr 16	1,000	0.394
UK Treasury Bill 0%	31 May 16	✓	03 May 16	1,000	0.397

The average discount (ie the gross return) achieved on T-Bills held in the period was 0.40%. Those purchased in the period also averaged 0.40%.

3.8 Purchase of Secured Investments

Given the risk and continued low returns from short-term unsecured bank investments, the Treasury Strategy for 2016/2017 enables the Council to diversify into more secure and/or higher yielding asset classes. The Council's Treasury Advisor, Arlingclose, reaffirmed the importance of diversification at a meeting with officers in early May 2016. Subsequently, £1m was invested in an AAA rated 'covered bond' issued by Abbey National, at an initial interest rate of 0.755%, maturing on 5 April 2017.

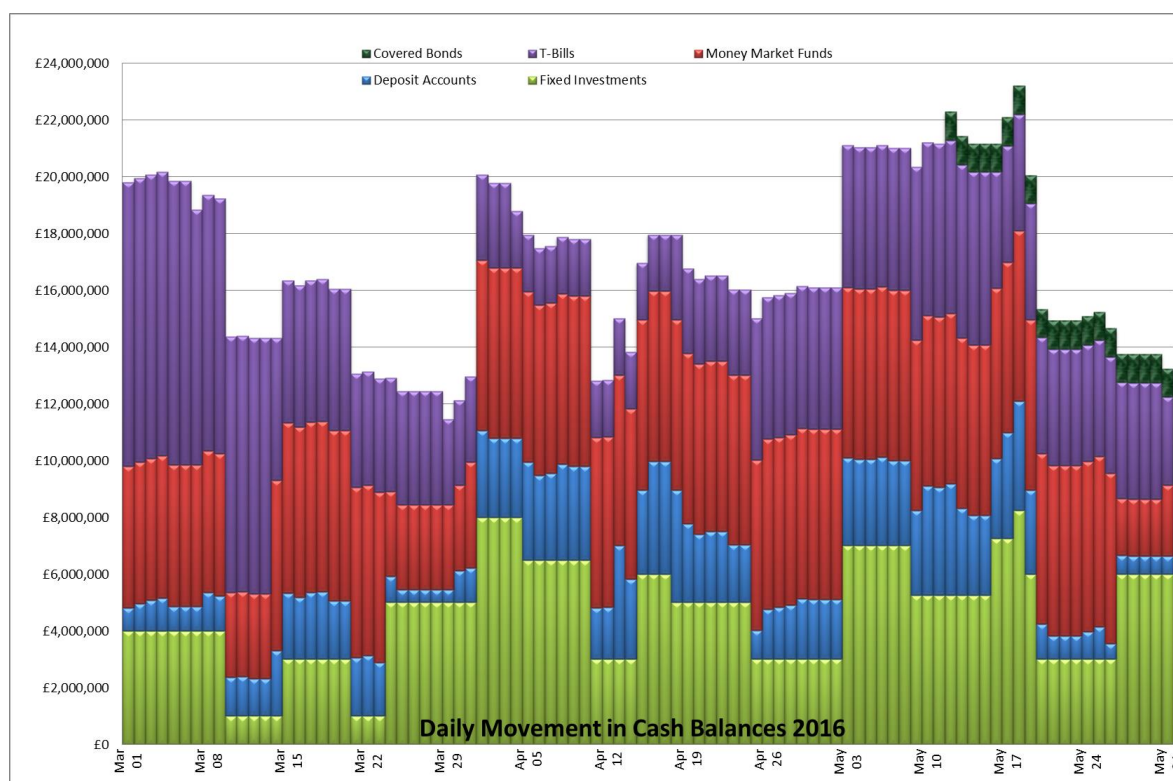
The investment is secured against the assets of the bank. The interest rate can vary, by reference to changes in the 3 month 'London Interbank Offered Rate (LIBOR)'. This provides a safeguard against any rise in interest rates before the investment matures.

Ref	Counterparty	Date From	Date To	Days	Principal £	Int Rate %	Long-term rating
XS0769914218	Abbey National Treasury – FRN	12 May 16	05 Apr 17	328	<u>1,000,000</u>	0.755v	AAA
					<u>1,000,000</u>		

V = rate can vary

3.9 Overall investment position

The chart overleaf summarises the Council's investment position over the period 1 March to 31 May 2016. It shows the total sums invested each day as Fixed Term deposits, T-Bills, amounts held in Deposit accounts, MMFs and Covered Bonds.



3.10 Borrowing

No temporary borrowing has been undertaken and the current account with Lloyds Bank remained in credit throughout the period.

There has been no change to the Council's long term borrowing in the reporting period, which remains at £56.673m.

4 Appointment of Treasury Adviser

- 4.1 The Council appointed Arlingclose as its Treasury Adviser in 2012 following an open procurement. The agreement with Arlingclose was for an initial four-year term expiring on 30 June 2016, with the Council having the option to extend for a further year.
- 4.2 The Director of Corporate Services has exercised the option to extend this agreement, which will now come to an end on 30 June 2017. It is envisaged that in 2017 the Council will carry out a joint procurement exercise with Eastbourne Borough Council as part of the Joint Transformation Programme to appoint Treasury Advisor(s) for future years.

5 Annual Treasury Management Report

- 5.1 As well as reviewing details of Treasury transactions during the course of the year, the Audit and Standards Committee is required 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.

- 5.2** The Annual Report is attached at Appendix 1 (to be circulated separately from the Agenda). It should be noted that this report has been drafted prior to the final closure of the Council's accounts and, as a result, some minor changes may be necessary. If so, the changes will be reported verbally at the meeting. Any comments that the Audit and Standards Committee may wish to make will be passed on to Cabinet, which is also required to review the Annual Report and will do so on 4 July 2016.

Financial Implications

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

Risk Management Implications

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

Equality Screening

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

Legal Implications

- 9** None arising from this report.

Appendix

Appendix 1: Annual Treasury Management Report 2015/2016 (to be circulated)

Background Papers

Treasury Strategy Statement <http://www.lewes.gov.uk/council/20987.asp>

Lewes District Council

Annual Treasury Management Report 2015/2016

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1. Background

1.1 The Council is required through regulations issued under the Local Government Act 2003 to produce an annual treasury management report. The report must review treasury management activities and set out the final position of the Council's Treasury Prudential Indicators. This report meets the requirements of both the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities.

1.2 The Council defines its Treasury Management activities as:

"the management of the Council's 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."

1.3 The Council agreed its Treasury Management Strategy Statement and Investment Strategy 2015/2016 to 2017/2018 at its meeting in February 2015.

2. Overall Summary of Activity 2015/2016

2.1 The table below lists the key elements of the 2015/2016 Strategy and records actual performance against each one of them.

Key Element	Target in Strategy	Actual Performance	
Borrowing			
Underlying need to borrow (CFR) at year end	£74.034 million	£71.530 million	✓
Internal borrowing at year end	£17.361 million	£14.857 million	✓
New external long-term borrowing in year	None anticipated	None undertaken	✓
Debt rescheduling in year	Review options but not anticipated	Options kept under review, none undertaken	✓
Interest payments on external borrowing	£1.730 million	£1.735 million	✓
Investments			
Minimum counterparty credit ratings for investments of up to 1 year	Long-term A (does not apply to Government and other local authorities which have the highest ratings)	At least Long-term A	✓
Interest receipts from external investments	£0.075m	£0.112	✓
Appointment of Investment Consultants			
Independent Treasury Adviser to be retained	Arlingclose to be retained as Treasury Adviser	Arlingclose retained as Treasury Adviser	✓

Key Element	Target in Strategy	Actual Performance	
Reporting and Training			
Reports to be made to Audit and Standards Committee and Cabinet	Every meeting	Every regular meeting.	✓
Briefing sessions for Councillors and Staff	Treasury Adviser to provide	Arlingclose met with Councillors and Staff October 2015	✓

- 2.2 For those who are looking for more than this overall confirmation that all treasury management and investment activity in 2015/2016 has been carried out in accordance with the Council's agreed Strategy, the remainder of this report explores each of the key elements in more depth. Appendix A gives details of the final position on each of the Prudential Indicators, and Appendix B explores the Economic Background to the year's activity. A Glossary appears at the end of the document to explain technical terms which could not be avoided when writing this report.

3. Detailed Analysis – Borrowing

- 3.1 Other than for temporary cash flow purposes, local authorities are only allowed to borrow to finance capital expenditure (eg the purchase of property, vehicles or equipment which will last for more than one year, or the improvement of such assets). The Government limits the amount borrowed by local authorities for housing purposes only by specifying 'debt caps'. This Council's underlying debt cap has been fixed at £72.931m. In 2014/2015 local authorities were able to bid for an increase in the housing debt cap in order to enable specific development projects to take place. A bid from this Council was successful and, after agreeing changes to the projects in 2015/2016, the increased debt cap is £74.629m to incorporate spending on 5 new build projects which will deliver 22 new homes in total.
- 3.2 In accounting terms, the underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). This, together with Balances and Reserves, are the core drivers of Treasury Management activity.
- 3.3 The CFR is, in simple terms, the amount of capital expenditure which has been incurred by the Council but which has not yet been paid for (by using, for example, grants, capital receipts, reserves or revenue income) and in the meantime is covered by internal or external borrowing. External borrowing is where loans are raised from the Public Works Loans Board or banks. Alternatively it is possible to use the cash which has been set aside in Balances and Reserves and which would otherwise need to be invested with banks or other borrowers as a means to avoid taking on external loans. This is known as internal borrowing.
- 3.4 As noted above, the level of CFR increases each year by the amount of unfinanced capital expenditure and is reduced by the amount that the Council sets aside for the repayment of borrowing. The table below shows the original

CFR projection for 2015/2016, the revised position reported at the time of producing the Treasury Strategy 2016/2017 and the final position for the year. The variation in capital expenditure (and financing) was anticipated given that the capital programme represents an allocation of funds to specific long-term projects many of which span financial years.

	2015/16 Original £m	2015/16 Revised £m	2015/16 Outturn £m
Opening CFR	70.709	69.979	69.979
Capital expenditure in year	15.666	14.075	12.957
Less financed	(10.464)	(11.304)	(9.378)
Less amount set aside for debt repayment	(1.877)	(1.857)	(2.028)
Closing CFR	74.034	70.893	71.530

- 3.5 The overall CFR can be split between the General Fund and Housing Revenue Account as follows:

CFR Component	2015/16 Revised £m	2015/16 Outturn £m
General Fund	6.913	7.606
Housing Revenue Account	63.980	63.924
Total	70.893	71.530

- 3.6 The following table compares the CFR with the amount that the Council holds in balances and reserves as well as working capital (day to day cash movements as well as grants, developer contributions and capital receipts held pending use). The total held in Balances and Reserves is higher than anticipated in the revised budget mainly because of expenditure on capital projects switching into 2016/2017.

	31/3/16 Revised £m	31/3/16 Outturn £m
(a) Capital Financing Requirement	70.893	71.530
(b) Actual external borrowing	(56.673)	(56.673)
(c) Use of Balances and Reserves as alternative to borrowing (a)–(b)	14.220	14.857
(d) Total Balances and Reserves	10.474	17.827
(e) Working capital	12.098	8.776
(f) Less Amount used as an alternative to borrowing (c) above	(14.220)	(14.857)
(g) Total investments (d)+(e)–(f)	8.352	11.746

3.7 The Council's loan portfolio at 31 March 2016 was:

Lender	Interest	Amount £m	Rate %	Maturity
PWLB	Fixed	4.00	2.70	01/03/2024
PWLB	Fixed	5.00	3.30	01/03/2032
PWLB	Fixed	2.00	3.05	01/09/2027
PWLB	Fixed	2.00	2.76	01/09/2024
PWLB	Fixed	4.00	2.97	01/09/2026
PWLB	Fixed	5.00	3.28	01/09/2031
PWLB	Fixed	4.00	2.63	01/09/2023
PWLB	Fixed	5.00	3.44	01/03/2037
PWLB	Fixed	6.67	3.50	01/03/2042
PWLB	Fixed	5.00	3.43	01/09/2036
PWLB	Variable	5.00	0.62	28/03/2022
PWLB	Fixed	4.00	3.01	01/03/2027
	Sub-total	51.67		
Barclays	LOBO	5.00	4.50	06/04/2054
	Total	56.67		

- 3.8 In the table above the Lender's Options Borrower's Option (LOBO) loan was taken out in April 2004 with a term of 50 years. Under the terms of the LOBO, the Lender will next review the rate/terms of the loan in April 2016 and if it proposes an increase, the Council will have an option to repay.
- 3.9 Total interest paid on external long-term borrowing in the year was £1.735m, which was consistent with the revised budget for the year. No new borrowing, either long-term or short-term (for cash flow purposes) was undertaken. The Council remained eligible to access the Government's 'Certainty Rate' allowing the Council to borrow, had it been appropriate to do so, at a reduction of 0.20% on the Standard Rate.
- 3.10 Through the year, officers, supported by Arlingclose, monitored opportunities for the rescheduling of external loans and the possibility of repayment utilising cash balances that would otherwise be invested. No beneficial rescheduling opportunities were identified and the loan portfolio remained unchanged through the year.
- 3.11 As determined by the Council, two separate Loans Pools operated in 2015/2016, for the General Fund and HRA respectively. At 31 March 2016 the balance on internal loans from the General Fund to the HRA was £7.251m, a reduction of £1.550m compared with the previous year. Interest was charged on internal borrowing at 1.33% (equivalent to a one-year maturity loan from the PWLB at the start of the financial year).

4. Detailed Analysis - Investments

4.1 The Council held an average of £23.8m as cash during the year. This comprised working cash balances, capital receipts, earmarked reserves and developer contributions held pending use.

4.2 The Council's general policy objective is to invest its surplus funds prudently. Throughout 2015/2016, the Council's investment priorities continued to be:

highest priority - security of the invested capital;
followed by - liquidity of the invested capital;
finally - an optimum yield commensurate with security and liquidity.

4.3 All of the Council's investments were managed in-house. Security of capital was maintained by following the counterparty policy set out in the Investment Strategy for 2015/2016. Investments during the year included:

- Term Deposits with the Debt Management Office (total £99.75m – 42 occasions)
- Term Deposits with other Local Authorities (total £20.0m – 9 occasions)
- Term Deposits with banks and building societies (total £9.0m – 8 occasions)
- Purchase of UK Treasury Bills (total £68m – 63 occasions)
- Investments in AAA-rated Constant Net Asset Value Money Market Funds (MMFs) (average balance held in year £4.87m)
- Deposit accounts with UK Banks (average balance held in year £2.27m)
- Overnight deposits with the Council's banker, Lloyds Bank (average balance held in year £1.00 million)

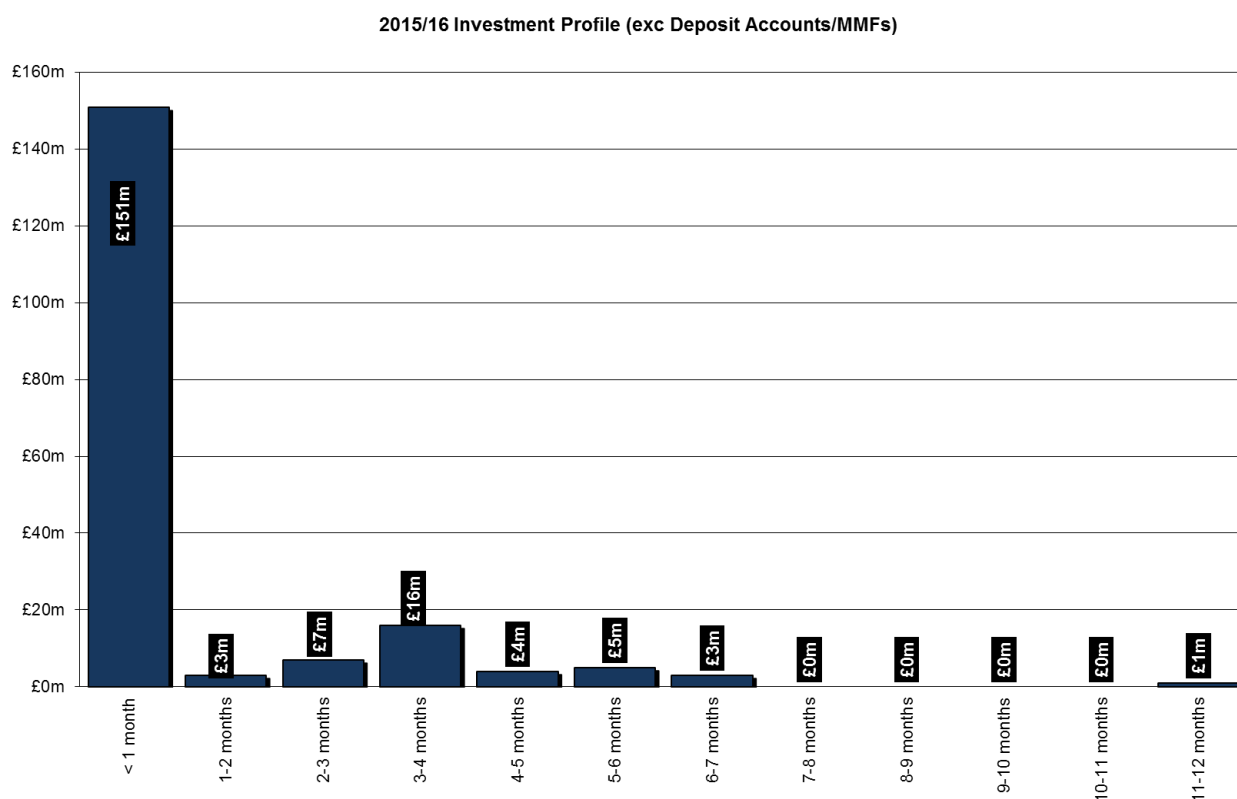
4.4 Counterparty credit quality was assessed and monitored with reference to credit ratings (a minimum long-term counterparty rating of A across all three rating agencies Fitch, Standard and Poors, and Moody's was in operation); credit default swaps; GDP of the country in which the institution operates; the country's net debt as a percentage of GDP; any potential support mechanisms and share price.

4.5 In keeping with Government guidance on investments, the Council maintained a sufficient level of liquidity through the use of MMFs, overnight deposits and the use of deposit accounts.

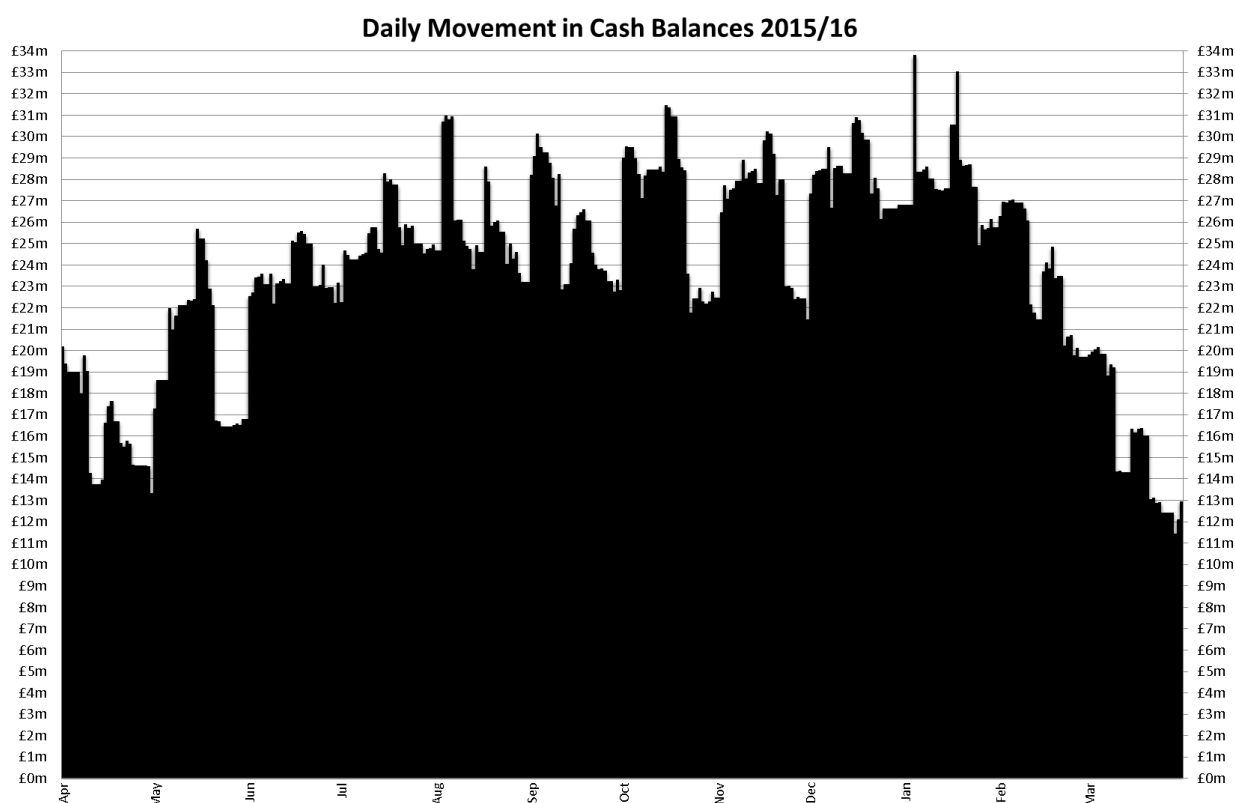
4.6 In September 2015, Cabinet agreed that a nominee account should be opened with a second broker to allow a maximum of £20m to be invested in negotiable instruments (eg Treasury Bills) at any one time. The Investment Strategy limited the amount that could be held in a single broker's account to £10m and Cabinet's decision increased the opportunity to make these investments in the second half of 2015/2016.

4.7 The Council sought to optimise returns commensurate with its objectives of security and liquidity. As expected when setting the investment income budget for 2015/2016, the UK Bank Rate was maintained at 0.5% through the year. In the regular absence of other counterparties which matched the Council's credit criteria, the main types of investment made were with the UK Government, with the preferred approach being the purchase of Treasury Bills (average return achieved 4.89%). When this was not practicable, deposits were placed with the Debt Management Office at an interest rate of 0.25%, below the UK Bank Rate for the year.

4.8 A full list of term deposits made in the year is given at Appendix C. All investments were made with UK institutions, and no new deposits were made for periods in excess of one year. The chart below gives an analysis of aggregate fixed term deposits by duration.



4.9 The next chart shows how the total amount invested varied from day to day over the course of the year. The movement largely reflects the cycle of grant, council tax and business rate receipts and precept payments made.



- 4.10 Interest generated from investments in the year was £0.112 million, well above the total budget for investment income, £0.075 million. This favourable position arose as a result of higher than anticipated levels of cash being held pending expenditure on capital programme projects, etc.
- 4.11 The average rate of return from investments at the end of each quarter in 2015/2016 is shown in the table below, along with comparative benchmark information from the Arlingclose client base. The return was below the benchmark, reflecting the very low credit risk and low duration of the Council's investment portfolio.

Average rate of investments at:	Lewes District Council	Arlingclose client base
30 June 2015	0.46%	0.64%
30 September 2015	0.49%	0.66%
31 December 2015	0.47%	0.65%
31 March 2016	0.53%	0.71%

5. Counterparty Update

- 5.1 The transposition of two European Union directives into UK legislation placed the burden of rescuing failing EU banks disproportionately onto unsecured institutional investors which include local authorities. During the year, all three credit ratings agencies reviewed their ratings to reflect the loss of government support for most financial institutions and the potential for loss given default as a result of new bail-in regimes in many countries. Despite reductions in

government support many institutions saw upgrades due to an improvement in their underlying strength and an assessment that the level of loss given default is low.

- 5.2 Fitch reviewed the credit ratings of multiple institutions in May. Most UK banks had their support rating revised from 1 (denoting an extremely high probability of support) to 5 (denoting external support cannot be relied upon). This resulted in the downgrade of the long-term ratings of Royal Bank of Scotland (RBS) for example. JP Morgan Chase and the Lloyds Banking Group however both received one notch upgrades.
- 5.3 Moody's concluded its review in June and upgraded the long-term ratings of Close Brothers, Standard Chartered Bank, ING Bank, Goldman Sachs International, HSBC, RBS, Coventry Building Society, Leeds Building Society, Nationwide Building Society, Svenska Handelsbanken and Landesbank Hessen-Thuringen.
- 5.4 S&P reviewed UK and German banks in June, downgrading the long-term ratings of Barclays, RBS and Deutsche Bank. S&P also revised the outlook of the UK as a whole to negative from stable, citing concerns around the referendum on EU membership and its effect on the economy.
- 5.5 At the end of July 2015, Arlingclose advised an extension of recommended durations for unsecured investments in certain UK and European institutions following improvements in the global economic situation and the receding threat of another Eurozone crisis. A similar extension was advised for some non-European banks in September, with the Danish Danske Bank being added as a new recommended counterparty and certain non-rated UK building societies also being extended.
- 5.6 In December the Bank of England released the results of its latest stress tests on the seven largest UK banks and building societies which showed that the Royal Bank of Scotland and Standard Chartered Bank were the weakest performers. However, the regulator did not require either bank to submit revised capital plans, since both firms had already improved their ratios over the year.
- 5.7 In January 2016, Arlingclose supplemented its existing investment advice with a counterparty list of high quality bond issuers, including recommended cash and duration limits. Interest rates are likely to stay low for longer making long-term bonds an increasingly attractive option. The Council did not make use of these long-term investment options during 2015/16.
- 5.8 The first quarter of 2016 was characterised by financial market volatility and a weakening outlook for global economic growth. In March 2016, following the publication of many banks' 2015 full-year results, Arlingclose advised the suspension of Deutsche Bank and Standard Chartered Bank from the counterparty list for unsecured investments. Arlingclose will continue to monitor both banks.

- 5.9 The end of bank bail-outs, the introduction of bail-ins, and the preference being given to large numbers of depositors other than local authorities means that the risks of making unsecured deposits continues to be elevated relative to other investment options. The Council therefore ended the year exploring secured investment options or diversified alternatives such as covered bonds, non-bank investments and pooled funds to utilise in 2016/2017.

6. Compliance with Prudential Indicators

The Council can confirm that it has complied with its Prudential Indicators for 2015/2016. A detailed review of each of the Prudential Indicators is at Appendix A.

7. Investment Consultants

In June 2012 Arlingclose had been reappointed as the Council's treasury management adviser, for a four year term. The reappointment followed a competitive tendering process. In 2015/2016, Arlingclose was the primary source of information, advice and assistance relating to investment activity, with individual investment decisions being made by the Council.

8. Reporting and Training

- 8.1 The Director of Finance reported the details of treasury management activity to each regular meeting of the Audit and Standards Committee and Cabinet held in 2015/2016. A mid-term summary report was issued in November 2015.
- 8.2 All councillors tasked with treasury management responsibilities, including scrutiny of the treasury management function, were offered the opportunity to attend a local briefing session led by Arlingclose on 12 October 2015.
- 8.3 The training needs of the Council's treasury management staff were reviewed as part of the annual corporate staff appraisal/training needs assessment process for all Council employees. Members of staff attended Arlingclose workshops alongside colleagues from other local authorities during 2015/2016.

Appendix A – Prudential Indicators 2015/2016

1. Background:

There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators. Some of the Prudential Indicators relate directly to the Council's Capital Programme These Indicators are also included below for completeness of reporting.

2. Net Borrowing and the Capital Financing Requirement

- 2.1 This is a key indicator of prudence. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that the net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.
- 2.2 The Director of Corporate Services reports that the Council has had no difficulty meeting this requirement in 2015/2016, nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the budget for 2016/2017.

3. Estimates of Capital Expenditure (direct link to Capital Programme)

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax and in the case of the HRA, housing rent levels.

No.	Capital Expenditure	2015/16 Original £m	2015/16 Revised £m	2015/16 Actual £m
1a	Non-HRA	4.842	9.514	7.845
1b	HRA	5.164	4.239	4.437
	Total	10.006	13.753	12.282

4. Ratio of Financing Costs to Net Revenue Stream (direct link to Capital Programme)

- 4.1 This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs.
- 4.2 The ratio is based on costs net of investment income. Where investment income exceeds interest payments, the indicator is negative.

No.	Ratio of Financing Costs to Net Revenue Stream	2015/16 Original %	2015/16 Revised %	2015/16 Actual %
2a	Non-HRA	0.95	0.88	0.76
2b	HRA	20.69	20.82	20.75

5. Capital Financing Requirement

- 5.1 The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and its financing.

No	Capital Financing Requirement	2015/16 Original £m	2015/16 Revised £m	2015/16 Actual £m
3a	Non-HRA	8.421	6.913	7.606
3b	HRA	65.613	63.980	63.924
	Total CFR	74.034	70.893	71.530

- 5.2 The year-on-year change in the CFR is set out below.

Capital Financing Requirement	2015/16 Original £m	2015/16 Revised £m	2015/16 Actual £m
Balance B/F	70.709	69.979	69.979
Capital expenditure financed from borrowing	5.202	2.771	3.579
Revenue provision for Debt Redemption.	-1.877	-1.857	-2.028
Balance C/F	74.034	70.893	71.530

6. Actual External Debt

This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities. This Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit (see 8 below).

No.	Actual External Debt as at 31/03/2016	Revised £m	Actual £m
4a	Borrowing	56.673	56.673
4b	Other Long-term Liabilities	0.418	0.418
4c	Total	57.091	57.091

7. Incremental Impact of Capital Investment Decisions Stream (direct link to Capital Programme)

This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and Housing Rent levels. The incremental impact is calculated by comparing the total revenue budget requirement of the current

approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

No.	Incremental Impact of Capital Investment Decisions	2015/16 Original £	2015/16 Revised £	2015/16 Actual £
5a	Increase in Band D Council Tax	84.39	120.93	28.90
5b	Increase in Average Weekly Housing Rents	5.93	3.89	0.91

The increase in Band D council tax/average weekly rents reflects the funding of the capital programme: for example, new borrowing increases interest payable, and funding from reserves utilises resources which could have otherwise been used to fund revenue expenditure. The actual indicators are less than the revised as a result of significant capital projects, for example housing new-build projects being deferred from 2015/2016 into 2016/2017.

8. Authorised Limit and Operational Boundary for External Debt

- 8.1 The Council has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Council and not just those arising from capital spending reflected in the CFR.
- 8.2 The **Authorised Limit** sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities). This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases.
- 8.3 The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.
- 8.4 The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit). The 2015/2016 Actual values shown below are the maximum levels of borrowing experienced at any time during the year.

No.	Authorised Limit for External Debt	2015/16 Original £m	2015/16 Revised £m	2015/16 Actual £m
6a	Borrowing	76.00	76.00	56.67
6b	Other Long-term Liabilities	0.50	0.50	0.42
6c	Total	76.50	76.50	57.09

- 8.5 The **Operational Boundary** links directly to the Council's estimates of the CFR and estimates of other cashflow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.
- 8.6 The Director of Corporate Services has delegated authority, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Any movement between these separate limits will be reported to the immediately following meeting of the Cabinet. The 2015/2016 Actual values shown below are the maximum levels of borrowing experienced at any time during the year.

No.	Operational Boundary for External Debt	2015/16 Original £m	2015/16 Revised £m	2015/16 Actual £m
7a	Borrowing	70.50	70.50	56.67
7b	Other Long-term Liabilities	0.50	0.50	0.42
7c	Total	71.00	71.00	57.09

9. Adoption of the CIPFA Treasury Management Code

This indicator demonstrates that the Council has adopted best practice.

No.	Adoption of the CIPFA Code of Practice in Treasury Management
8	The Council approved the adoption of the CIPFA Treasury Management Code in 2002. Following revisions to the Code published in December 2009, reconfirmed its adoption of the Code in February 2010.

10. Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure

- 10.1 These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. This Council calculates these limits on net principal outstanding sums ie fixed rate debt net of fixed rate investments.
- 10.2 The upper limit for variable rate exposure has been set to ensure that the Council is not exposed to interest rate rises which could adversely impact on the revenue budget.

No.		2015/16 Original £m	2015/16 Revised £m	2015/16 Actual £m
9	Upper Limit for Fixed Interest Rate Exposure	76.5	76.5	51.7
10	Upper Limit for Variable Interest Rate Exposure	(27.5)	(27.5)	(28.8)

- 10.3 The limits above provide the necessary flexibility within which decisions will be made for drawing down new loans on a fixed or variable rate basis; the

decisions will ultimately be determined by expectations of anticipated interest rate movements as set out in the Council's Treasury Management Strategy.

- 10.4 Because the Council's investments are substantially in excess of its variable rate borrowing, the Upper Limit for Variable Interest Rate exposure is shown as a negative figure.

11. Maturity Structure of Fixed Rate borrowing

- 11.1 This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

- 11.2 It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment.

No.	Maturity structure of fixed rate borrowing	Lower Limit %	Upper Limit %	Actual %
11a	under 12 months	0	70	0
11b	12 months and within 24 months	0	70	0
11c	24 months and within 5 years	0	75	0
11d	5 years and within 10 years	0	75	19
11e	10 years and above	0	100	81

12. Upper Limit for total principal sums invested over 364 days

The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested. No investments of more than 364 days were made during 2015/16.

No.	Upper Limit for total principal sums invested over 364 days	2015/16 Original %	2015/16 Revised %	2015/16 Actual %
12	Upper limit	50	50	0

13. HRA Limit on Indebtedness

This indicator is associated with self-financing for housing. It indicates the residual capacity to borrow for housing purposes, while remaining within the overall HRA Debt Cap specified by the Government.

No	Capital Financing Requirement	2015/16 Original £m	2015/16 Revised £m	2015/16 Actual £m
13a	HRA CFR	65.613	63.980	63.924
13b	HRA Debt Cap	75.248	75.248	74.629
	Difference	9.635	11.268	10.705

Appendix B – Economic Background explained by Arlingclose

Growth, Inflation, Employment: The UK economy slowed in 2015 with GDP growth falling to 2.3% from a robust 3.0% the year before. CPI inflation hovered around 0.0% through 2015 with deflationary spells in April, September and October. The prolonged spell of low inflation was attributed to the continued collapse in the price of oil from \$67 a barrel in May 2015 to just under \$28 a barrel in January 2016, the appreciation of sterling since 2013 pushing down import prices and weaker than anticipated wage growth resulting in subdued unit labour costs. CPI picked up to 0.3% year/year in February, but this was still well below the Bank of England's 2% inflation target. The labour market continued to improve through 2015 and in Q1 2016, the latest figures (Jan 2016) showing the employment rate at 74.1% (the highest rate since comparable records began in 1971) and the unemployment rate at a 12 year low of 5.1%. Wage growth has however remained modest at around 2.2% excluding bonuses, but after a long period of negative real wage growth (i.e. after inflation) real earnings were positive and growing at their fastest rate in eight years, boosting consumers' spending power.

Global influences: The slowdown in the Chinese economy became the largest threat to the South East Asian region, particularly on economies with a large trade dependency on China and also to prospects for global growth as a whole. The effect of the Chinese authorities' intervention in their currency and equity markets was temporary and led to high market volatility as a consequence. There were falls in prices of equities and risky assets and a widening in corporate credit spreads. As the global economy entered 2016 there was high uncertainty about growth, the outcome of the US presidential election and the consequences of June's referendum on whether the UK is to remain in the EU. Between February and March 2016 sterling had depreciated by around 3%, a significant proportion of the decline reflecting the uncertainty surrounding the referendum result.

UK Monetary Policy: The Bank of England's MPC (Monetary Policy Committee) made no change to policy, maintaining the Bank Rate at 0.5% (in March it entered its eighth year at 0.5%) and asset purchases (Quantitative Easing) at £375bn. In its *Inflation Reports* and monthly monetary policy meeting minutes, the Bank was at pains to stress and reiterate that when interest rates do begin to rise they were expected to do so more gradually and to a lower level than in recent cycles.

Improvement in household spending, business fixed investment, a strong housing sector and solid employment gains in the US allowed the Federal Reserve to raise rates in December 2015 for the first time in nine years to take the new Federal funds range to 0.25%-0.50%. Despite signalling four further rate hikes in 2016, the Fed chose not to increase rates further in Q1 and markets pared back expectations to no more than two further hikes this year.

However central bankers in the Eurozone, Switzerland, Sweden and Japan were forced to take policy rates into negative territory. The European Central Bank also announced a range of measures to inject sustained economic recovery and boost domestic inflation which included an increase in asset purchases (Quantitative Easing).

Market reaction: From June 2015 gilt yields were driven lower by the a weakening in Chinese growth, the knock-on effects of the fall in its stock market, the continuing fall in the price of oil and commodities and acceptance of diminishing effectiveness of central bankers' unconventional policy actions. Added to this was the heightened uncertainty surrounding the outcome of the UK referendum on its continued membership of the EU as well as the US presidential elections which culminated in a significant volatility and in equities and corporate bond yields.

10-year gilt yields moved from 1.58% on 31/03/2015 to a high of 2.19% in June before falling back and ending the financial year at 1.42%. The pattern for 20-year gilts was similar, the yield rose from 2.15% in March 2015 to a high of 2.71% in June before falling back to 2.14% in March 2016. The FTSE All Share Index fell 7.3% from 3664 to 3395 and the MSCI World Index fell 5.3% from 1741 to 1648 over the 12 months to 31 March 2016.

Appendix C – List of Term Deposits made and/or maturing in 2015/2016

Loan	Bank	Principal	From	To	Rate %
220714	Barclays Bank plc	1,000,000	13 Aug 14	13 Aug 15	1.0000%
222514	Telford and Wrekin Council	3,000,000	6 Feb 15	15 Apr 15	0.4000%
222815	Debt Management Office	2,000,000	1 Apr 15	7 Apr 15	0.2500%
222915	Nationwide Building Society	1,000,000	8 Apr 15	8 Jul 15	0.5000%
223015	Debt Management Office	1,000,000	15 Apr 15	20 Apr 15	0.2500%
223115	Debt Management Office	2,000,000	6 May 15	21 May 15	0.2500%
223215	Nationwide Building Society	1,000,000	6 May 15	6 Aug 15	0.5000%
223315	Debt Management Office	2,500,000	7 May 15	8 May 15	0.2500%
223415	Debt Management Office	1,000,000	8 May 15	11 May 15	0.2500%
223515	Debt Management Office	1,000,000	8 May 15	18 May 15	0.2500%
223615	Debt Management Office	1,500,000	15 May 15	19 May 15	0.2500%
223715	Debt Management Office	1,500,000	15 May 15	21 May 15	0.2500%
223815	Debt Management Office	2,500,000	1 Jun 15	8 Jun 15	0.2500%
223915	Debt Management Office	1,000,000	3 Jun 15	9 Jun 15	0.2500%
224015	Debt Management Office	3,000,000	8 Jun 15	22 Jun 15	0.2500%
224115	Debt Management Office	3,000,000	15 Jun 15	22 Jun 15	0.2500%
224215	Debt Management Office	1,000,000	22 Jun 15	25 Jun 15	0.2500%
224315	Debt Management Office	1,750,000	25 Jun 15	2 Jul 15	0.2500%
224415	Plymouth City Council	2,000,000	30 Jun 15	1 Jul 15	0.3500%
224515	Debt Management Office	3,000,000	2 Jul 15	13 Jul 15	0.2500%
224615	Nationwide Building Society	1,000,000	8 Jul 15	8 Oct 15	0.5000%
224715	Debt Management Office	2,000,000	13 Jul 15	20 Jul 15	0.2500%
224815	Debt Management Office	4,000,000	15 Jul 15	21 Jul 15	0.2500%
224915	Debt Management Office	3,000,000	21 Jul 15	27 Jul 15	0.2500%
225015	Debt Management Office	3,000,000	27 Jul 15	7 Aug 15	0.2500%
225115	Coventry Building Society	2,000,000	3 Aug 15	3 Dec 15	0.5000%
225215	Debt Management Office	2,000,000	3 Aug 15	7 Aug 15	0.2500%
225315	Debt Management Office	6,000,000	3 Aug 15	10 Aug 15	0.2500%
225415	Debt Management Office	1,000,000	6 Aug 15	10 Aug 15	0.2500%
225515	Debt Management Office	4,000,000	10 Aug 15	14 Aug 15	0.2500%
225615	Nationwide Building Society	1,000,000	10 Aug 15	10 Feb 16	0.6600%
225715	Debt Management Office	4,000,000	14 Aug 15	17 Aug 15	0.2500%
225815	Debt Management Office	2,000,000	17 Aug 15	19 Aug 15	0.2500%
225915	Debt Management Office	3,000,000	17 Aug 15	24 Aug 15	0.2500%
226015	Debt Management Office	2,500,000	24 Aug 15	28 Aug 15	0.2500%
226115	Debt Management Office	1,500,000	28 Aug 15	7 Sep 15	0.2500%
226215	Debt Management Office	5,000,000	1 Sep 15	11 Sep 15	0.2500%
226315	Thurrock Borough Council	2,000,000	23 Sep 15	11 Feb 16	0.4700%
226415	Debt Management Office	1,000,000	3 Sep 15	11 Sep 15	0.2500%
226515	Debt Management Office	2,000,000	14 Sep 15	23 Sep 15	0.2500%
226615	Debt Management Office	2,500,000	15 Sep 15	21 Sep 15	0.2500%
226715	Newport City Council	3,000,000	23 Sep 15	7 Oct 15	0.4000%
226815	Debt Management Office	2,000,000	1 Oct 15	12 Oct 15	0.2500%
226915	The Moray Council	1,000,000	2 Oct 15	2 Nov 15	0.4800%
227015	Nationwide Building Society	1,000,000	8 Oct 15	8 Dec 15	0.4600%
227115	Thurrock Borough Council	2,000,000	30 Nov 15	22 Feb 16	0.4800%
227215	Debt Management Office	2,000,000	12 Oct 15	22 Oct 15	0.2500%
227315	Debt Management Office	3,000,000	15 Oct 15	22 Oct 15	0.2500%
227415	Debt Management Office	2,000,000	2 Nov 15	9 Nov 15	0.2500%
227515	Thurrock Borough Council	3,000,000	16 Nov 15	10 Mar 16	0.5000%
227615	Debt Management Office	1,000,000	16 Nov 15	19 Nov 15	0.2500%
227715	Debt Management Office	2,000,000	7 Dec 15	14 Dec 15	0.2500%
227815	Debt Management Office	2,000,000	14 Dec 15	21 Dec 15	0.2500%
227915	Debt Management Office	2,500,000	15 Dec 15	21 Dec 15	0.2500%

Loan	Bank	Principal	From	To	Rate %
228015	Debt Management Office	5,000,000	4 Jan 16	5 Jan 16	0.2500%
228115	Nationwide Building Society	1,000,000	18 Feb 16	18 Aug 16	0.7100%
228215	Debt Management Office	2,000,000	15 Mar 16	21 Mar 16	0.2500%
228315	Eastbourne Borough Council	2,000,000	24 Mar 16	1 Jun 16	0.5000%
228415	Stafford Borough Council	2,000,000	24 Mar 16	1 Apr 16	0.5000%

Glossary of Terms

Affordable Borrowing Limit	Each local authority is required by statute to determine and keep under review how much money it can afford to borrow. The Prudential Code (see below) sets out how affordability is to be measured.
Base Rate	The main interest rate in the economy, set by the Bank Of England, upon which others rates are based.
Bonds	Debt instruments issued by government, multinational companies, banks and multilateral development banks. Interest is paid by the issuer to the bond holder at regular pre-agreed periods. The repayment date of the principal is also set at the outset.
Capital Expenditure	Spending on the purchase, major repair, or improvement of assets eg buildings and vehicles
Capital Financing Requirement (CFR)	Calculated in accordance with government regulations, the CFR represents the amount of Capital Expenditure that it has incurred over the years and which has not yet been funded from capital receipts, grants or other forms of income. It represents the Council's underlying need to borrow.
Chartered Institute of Public Finance and Accountancy (CIPFA)	CIPFA is one of the leading professional accountancy bodies in the UK and the only one that specialises in the public services. It is responsible for the education and training of professional accountants and for their regulation through the setting and monitoring of professional standards. Uniquely among the professional accountancy bodies in the UK, CIPFA has responsibility for setting accounting standards for a significant part of the economy, namely local government.
Counterparty	Organisation with which the Council makes an investment
Credit Default Swaps	CDS are a financial instrument for swapping the risk of debt default and are effectively an insurance premium. Local authorities do not trade in CDS but trends in CDS prices can be monitored as an indicator of relative confidence about the credit risk of counterparties.
Credit Rating	A credit rating is an independent assessment of the credit quality of an institution made by an organisation known as a rating agency. The rating agencies take many factors into consideration when forming their view of the likelihood that an institution will default on their obligations, including the institution's willingness and ability to repay. The ratings awarded typically cover the short term outlook, the long term outlook, as well as an assessment of the extent to which the parent company or the state will honour any obligations. At

	present, the three main agencies providing credit rating services are Fitch Ratings, Moody's and Standard and Poor's.
Fixed Deposits	Loans to institutions which are for a fixed period at a fixed rate of interest
Gilts	These are issued by the UK government in order to finance public expenditure. Gilts are generally issued for set periods and pay a fixed rate of interest. During the life of a gilt it will be traded at price decided in the market.
Housing Revenue Account (HRA)	There is a statutory requirement for local authorities to account separately for expenditure incurred and income received in respect of the dwellings that they own and manage.
Lenders' Option Borrower's Option (LOBO)	A long term loan with a fixed interest rate. On pre-determined dates (eg every five years) the lender can propose or impose a new fixed rate for the remaining term of the loan and the borrower has the 'option' to either accept the new imposed fixed rate or repay the loan.
LIBID	The rate of interest at which first-class banks in London will bid for deposit funds
Minimum Revenue Provision (MRP)	The minimum amount which must be charged to an authority's revenue account each year and set aside as provision for the repayment of debt.
Operational boundary	This is the most likely, prudent view of the level of gross external indebtedness. A temporary breach of the operational boundary is not significant.
Prudential Code/Prudential Indicators	The level of capital expenditure by local authorities is not rationed by central government. Instead the level is set by local authorities, providing it is within the limits of affordability and prudence they set themselves. The Prudential Code sets out the indicators to be used and the factors to be taken into account when setting these limits
Public Works Loan Board (PWLB)	A central government agency which provides long- and medium-term loans to local authorities at interest rates only slightly higher than those at which the Government itself can borrow.
Treasury Management Strategy Statement (TMSS)	Approved each year, this document sets out the strategy that the Council will follow in respect of investments and financing both in the forthcoming financial year and the following two years.
Treasury Bills (T-Bills)	These are issued by the UK Government as part of the Debt Management Office's cash management operations. They do not pay interest but are issued at a discount and are redeemed at par. T-Bills have up to 12 months maturity when first issued.