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Working in partnership with **Eastbourne Homes**

11 July 2022

Dear Members

Audit and Governance Committee - 12 July 2022

Please find enclosed, for consideration, a revised version of Appendix 5 – Annual Governance Statement. The additional information has been highlighted in yellow for ease of reference.

| Item No | Item |
|----------------|---|
| 11 | <u>Annual Governance Statement (Pages 3 - 16)</u> Report of the Chief Internal Auditor. |

Yours sincerely

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Annual Governance Statement

Responsibility

Eastbourne Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards. It also needs to ensure that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

In discharging this overall responsibility, the council is required to put 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.

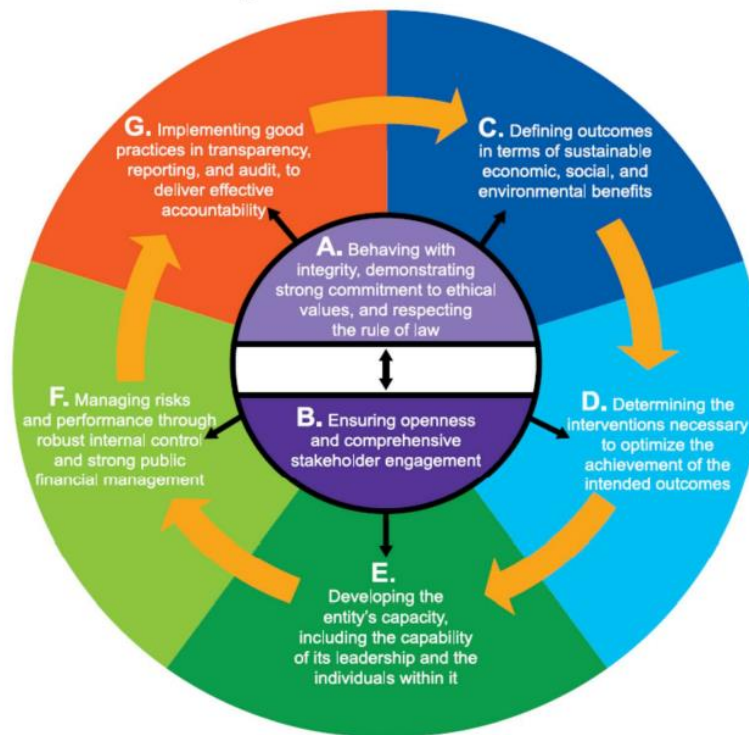
What is governance?

Governance is about how the council ensures that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. It comprises the systems, processes, cultures and values by which the council is directed and controlled and through which they account to, engage with and, where appropriate, lead their communities.

Eastbourne Borough Council has approved and adopted a Local Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE *Delivering Good Governance in Local Government Framework 2016*. A copy of the code is available on the website (www.lewes-eastbourne.gov.uk/access-to-information/financial-information/corporate-governance)

The principles of good governance are given in the CIPFA/SOLACE *Delivering Good Governance in Local Government Framework 2016* from which the following diagram is taken.

**Achieving the Intended Outcomes
While Acting in the Public Interest at all Times**



Source: CIPFA 2016

The Code of Corporate Governance contains a table which demonstrates how the council meets the core principles.

The purpose of the governance framework

The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and its activities through which it is accountable to, engages with, and leads its communities. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

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 and potential impact of those risks being realised, and to manage them efficiently, effectively and economically.

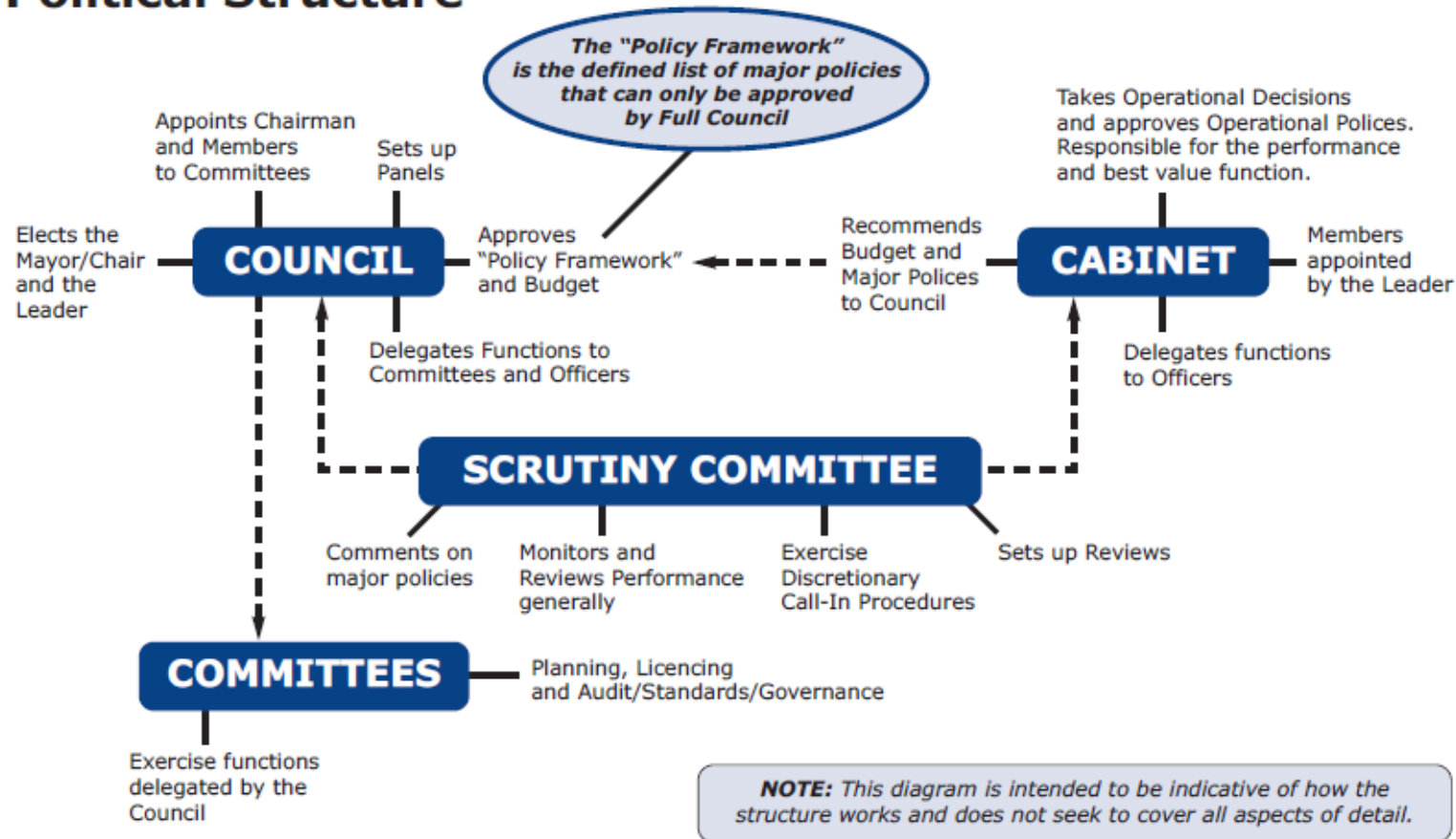
The production of this Annual Governance Statement forms part of the governance framework by providing a review of the governance arrangements in operation during the financial year.

The Governance Framework

The diagram on the next page shows how the political structure of the council works and interacts.

How it Works...

The Modernised Political Structure



Roles and Responsibilities

Head of Internal Audit

The head of internal audit (Chief Internal Auditor) provides an independent opinion on the control environment. This is based on the work of the internal audit team in delivering a risk-based audit plan of a breadth sufficient for the head of internal audit to place reliance on it to base their opinion on.

Monitoring Officer

The Head of Legal Services has been designated as the Monitoring Officer. The Monitoring Officer has the duty to ensure that the council, its officers and its elected Councillors, maintain high standards of conduct.

Chief Finance Officer

The Chief Finance Officer has been designated as the s.151 Officer. They are responsible for ensuring that the council controls and manages its money efficiently.

Scrutiny and Review

Scrutiny and review is provided by the following:

Audit and Governance Committee

The committee provides assurance by carrying out independent scrutiny of areas such as audit, risk management, counter fraud and financial accountability. It does this by way of reviewing reports provided to its quarterly meetings.

For more information see: <https://democracy.lewes-eastbourne.gov.uk/mgCommitteeDetails.aspx?ID=124>

Scrutiny Committee

The committee reviews the delivery of services and performance and supports the work of the Cabinet and Council. It allows Councillors outside the Cabinet, and members of the public, to have a greater say in council matters by investigating issues of local concern.

For more information see: <https://democracy.lewes-eastbourne.gov.uk/mgCommitteeDetails.aspx?ID=128>

Cabinet

The Cabinet is responsible for most day-to-day decisions of the council. Each member is assigned a portfolio identifying areas of responsibility for which they provide a political lead at Cabinet meetings and for working in consultation with officers.

For more information see: <https://democracy.lewes-eastbourne.gov.uk/mgCommitteeDetails.aspx?ID=125>

Corporate Management Team

The team provides strategic management and planning. The team also considers the annual Internal Audit plan, Strategic Risk Register and Annual Governance Statement.

External Audit

The external auditors audit the financial statements and provide an opinion on these. They produce an Annual Audit Letter which assesses how the council manages its resources and delivers value for money.

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 the senior managers within the authority who have responsibility for the development and maintenance of the governance environment, the head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

The governance framework, as laid out in the Corporate Code of Governance, has been in place at the council for the year ended 31 March 2022.

One element used to gain assurance is information gathered from Managers' Assurance Statements. These statements contain questions based on the core principles of good governance as well as other areas such as safeguarding, the Bribery Act and the Regulation of Investigatory Powers Act. These are completed by senior managers and any issues raised are considered.

Opinion of the Chief Internal Auditor

The work of the Internal Audit team was impacted by carrying a vacancy and the absence of a team member for an extended period of time at the beginning of the year. Later in the year, the restructure in the team led to a vacancy while a new position was filled. This impacted the audit plan and reduced the number of audits that could be undertaken during the year. However, it is considered

that there were still a reasonable number of reviews carried out across the authority and did not significantly limit the scope of the work.

The Chief Internal Auditor is required to give an opinion of the overall adequacy and effectiveness of the control environment. The control environment is considered in three ways: the production of the Annual Governance Statement the effectiveness of Internal Audit, and the results of the work of Internal Audit.

Effectiveness of Internal Audit: A self-assessment against the Public Sector Internal Audit Standards has been carried out and shows that the work of the Internal Audit team is carried out in accordance with the standards.

The work of Internal Audit: It has been noted that a number of recommendations remain outstanding after following up reviews. Many of these are being affected by ongoing lack of resources. This appears to have been caused by the response to the Covid-19 pandemic, changes in staffing, and an inability to be able to fill vacancies in some areas.

While the governance framework is in place and working, and Internal Audit are carrying out their work in accordance with standards, the opinion on the control environment has to be caveated by the number of outstanding recommendations.

Managing the Risk of Fraud and Corruption

The Cipfa Code of Practice on Managing the Risk of Fraud and guidance suggests it is good practice to make a statement on the adequacy of an authority's counter fraud arrangements in the annual governance statement.

This code contains five principles:

- Acknowledge responsibility
- Identify risks
- Develop a strategy
- Provide resources
- Take action

The Chief Internal Auditor is satisfied that the council meets these principles by having a Counter-Fraud and Audit team who review risks across the authority and direct their work as appropriate. It is therefore considered that the organisation has adopted a response that is appropriate for its fraud and corruption risks and commits to maintain its vigilance to tackle fraud and uphold its zero tolerance.

Financial Management Code

The CIPFA (Chartered Institute of Public Finance and Accountancy) Financial Management (FM) Code’s intention is to help create a culture of strong financial management and address the financial pressures that councils are facing. The self-regulation approach is also to prevent local authorities ‘failing’ and avoid any need for any external control or reductions in current powers. By complying with the principles and standards within the Code, the Council will be able to demonstrate its financial sustainability

In 2021/22 the Chief Finance Officer (S151) has taken account of the requirements of the CIPFA Financial Management Code and has acknowledged the approaches to Value for Money and the Council’s financial resilience. A significant amount of the Code activities implementation are part of the Finance, Internal Audit, and other department team’s current activities and the Section 151 Officer has reached the overall conclusion that the Eastbourne Borough Council is compliant with the principles of the Code.

The Chief Finance Officer has identified the Council’s long-term financial viability as the key risk area regarding future compliance with the Code and this is being assessed through a combination of: the budget setting process; the Medium Term Financial Strategy; regular reviews of the Council’s capital programme; Treasury Management Strategy and the provision of clear and regular financial updates/training to Members. The council has a satisfactory record of financial management and so, analysing the council’s structures, processes and procedures against the FM Code’s Financial Management Standards, shows a reasonable level of compliance with these principles. However, there are areas where further actions/consideration needs to be given to ensure full compliance with every aspect of the FM Code.

Companies

The council is also expected to report on separate bodies set up by the council and to give a full picture of the relationship with those bodies. The following table gives the details of these bodies and, where appropriate, it includes a link to where information can be found in respect of information such as reports and accounts.

| Name and incorporation date (where appropriate) | Current Status and summary purpose | Categorisation (Company number and nature where appropriate) | Governance and Board make up | Council shareholder interest where appropriate | Notes |
|--|---|---|---|--|---|
| Aspiration Homes LLP (Limited Liability Partnership) | Incorporated on 30 June 2017. To ensure the councils have the overall capacity to maximise housing investment and funding opportunities. To act as the asset | Limited Liability Partnership LDC and EBC Company number: OC41800 | Governed by LLP Agreement and an Executive Committee of 6 - made up of 3 elected members from each authority. | Eastbourne Borough Council Ownership of voting rights - More than 25% but not more than 50% Right to surplus assets | Aspiration Homes will act as the asset holding vehicle for affordable housing properties developed through the EHICL and LHICL commercial development programmes. |

Eastbourne Borough Council – Annual Governance Statement – 2021-2022

| Name and incorporation date (where appropriate) | Current Status and summary purpose | Categorisation (Company number and nature where appropriate) | Governance and Board make up | Council shareholder interest where appropriate | Notes |
|--|--|--|--|--|--|
| | holding vehicle for affordable housing properties that cannot, for financial accounting or other reasons be held in EBC or LDC respective Housing Revenue Accounts. | | | - More than 25% but not more than 50% Lewes District Council Ownership of voting rights - More than 25% but not more than 50% Right to surplus assets - More than 25% but not more than 50% | Support has included a £10 million loan to be funded from borrowing by LDC to Aspiration Homes LLP. www.lewes-eastbourne.gov.uk/about-the-councils/wholly-owned-companies-and-other-incorporated-entities |
| Eastbourne Housing Investment Company Ltd (EHICL) (1 May 2015) | Company Active To undertake more commercial development, place shaping activities and hold associated respective assets, in a way which meets legal and regulatory requirements and ensures that the council has distinct control over such assets. | Company EBC only. Company number: 09571387 | Governed by Articles of Association and a Board of 5 directors made up of senior staff and Elected Members from Eastbourne Borough Council plus one Independent. | Eastbourne Borough Council. Ownership of shares – 75% or more Ownership of voting rights - 75% or more Right to appoint and remove directors. | To enable the council to undertake non HRA development and use associated forms of tenancies. www.lewes-eastbourne.gov.uk/about-the-councils/wholly-owned-companies-and-other-incorporated-entities |
| Eastbourne Homes Limited (24 January 2005) | Company active The Group's principal activities are to manage, maintain and improve the housing stock on behalf of Eastbourne Borough Council. | Company Company number: 05340097 | Governed by Articles of Association and a Board of 9 directors, 4 independents, 3 tenants and 2 Elected Members from Eastbourne Borough Council made. | Private company limited by guarantee without share capital. | Eastbourne Homes Limited is controlled by Eastbourne Borough Council. The Parent Company was established as an Arm's Length Management Organisation (ALMO) in accordance with a Government policy initiative for local authority housing management. www.lewes-eastbourne.gov.uk/about-the-councils/eastbourne-homes-limited-governance |

Eastbourne Borough Council – Annual Governance Statement – 2021-2022

| Name and incorporation date (where appropriate) | Current Status and summary purpose | Categorisation (Company number and nature where appropriate) | Governance and Board make up | Council shareholder interest where appropriate | Notes |
|--|--|--|---|---|--|
| Eastbourne Downs Water Company (24 August 2016) | Company active To enable water to be supplied to farms on the downs in Eastbourne. | Company EBC only Company number: 10343551 | Governed by their Articles of Association and a Board of 3 directors – made up of EBC/LDC senior staff. | Private company limited by guarantee without share capital | www.lewes-eastbourne.gov.uk/about-the-councils/wholly-owned-companies-and-other-incorporated-entities |
| Investment Company Eastbourne Limited (26 March 2018) | Company active. The Council has established this wholly owned company for the purpose of providing a Guarantee to an institutional investor (Infrastructure Investments Ltd) relating to a property asset in Leicester. | Company Company number: 11276378 | Governed by their Articles of Association and a Board of 3 Directors – made up of EBC/LDC senior staff. | Private company limited by shares. The 2 shares are wholly owned by Eastbourne Borough council. | www.lewes-eastbourne.gov.uk/about-the-councils/wholly-owned-companies-and-other-incorporated-entities |
| South East Environmental Services Ltd (31 August 2018) | Company active. To undertake domestic waste and recycling collection and street cleansing services in Eastbourne from 1 st July 2019 and to develop related services in the medium term thereafter. | Company Company number: 11545729 | Governed by their Articles of Association and a Board of 5 Directors – made up of EBC senior staff and Elected Members. | Private company limited by shares. wholly owned by Eastbourne Borough council. | www.lewes-eastbourne.gov.uk/about-the-councils/wholly-owned-companies-and-other-incorporated-entities |
| Companies in which the council has an interest | | | | | |
| Cloudconnx Limited (19 January 2011) | Company active To provide competitive internet services to Eastbourne, Wealden and East Sussex based businesses on network communication technologies providing high speed broad band circuit provision etc. | Company Company number: 07497266 | | Eastbourne Borough Council owns 45% of shares and represented on the board. | Broadband provision. |
| SEILL (South East Independent Living Limited) | Company active Company set up by Eastbourne Homes Ltd (see above) | Company Company number: 08710235 | Governed by their Articles of Association and Directors from Eastbourne Homes | Wholly owned subsidiary of Eastbourne Homes Ltd. | Subsidiary of Eastbourne Homes Limited, established for the purposes of delivery of the STEPS contract and possibly bidding for similar future contracts. |

| Name and incorporation date (where appropriate) | Current Status and summary purpose | Categorisation (Company number and nature where appropriate) | Governance and Board make up | Council shareholder interest where appropriate | Notes |
|---|---|--|--|---|--|
| (30 September 2013) | To deliver a short term housing floating support service for people of 65 and over who live in Eastbourne, Lewes and Wealden Districts. Navigator service for support for people 18 or over with long term physical health condition. | | Limited including a Corporate Director | 1 Ordinary share owned by Eastbourne Homes Ltd. | www.lewes-eastbourne.gov.uk/about-the-councils/south-east-independent-living-limited |

Eastbourne Homes Ltd

Governance arrangements at Eastbourne Homes Ltd (EHL) are also considered. Reviews are carried out and reports written by the internal and external auditors engaged by EHL which are reported to their own Audit and Risk Committee and Board. Currently EHL engages the council's Internal Audit section to carry out their internal audit reviews. At the end of year the Audit and Risk Committee of EHL have a minuted disclaimer concerning fraud and corruption.

Investment Company Eastbourne (ICE) Limited

In May 2018, the council's wholly owned company Investment Company Eastbourne Limited (ICE) entered into a deal with a private company in respect of a property in Leicester. ICE is acting as the principal guarantor of a £48m refinancing loan to a private company, with Eastbourne Borough Council being the ultimate guarantor. In return for providing this guarantee, ICE received an initial guarantee fee and will continue to receive an annual guarantee fee.

All relevant activities have been predetermined under the Development and Asset Management Agreement (DAMA) and will be consolidated into the council's financial statements. The DAMA entitles ICE to a degree of control over the activities of Infrastructure Investments Limited (IIL) and exposes it to a portion of the returns from those activities. IIL is a property company that holds and lets out the property. The activities of IIL are to manage the property and the tenancies and ensure maximisation of rental income and eventually sell the property.

The operations of IIL are run by its board of directors that are appointed by a majority of the shareholders as per Article 18.1 of IIL's Articles of Association. ICE does not currently have a majority of the shareholding in IIL, but has the ability to acquire 49.5% of the ordinary shares by virtue of its Option unless a default event occurs. Clause 1.1 of the DAMA sets out a requirement for the management of IIL to run IIL in accordance with the 'Business plan' and any changes to the 'Business plan' require approval by the ICE Board of Directors.

Local Government Finance Review – Cipfa/Department for Levelling Up, Housing and Communities

Eastbourne Borough Council was one of a small number of local authorities to request exceptional financial support during the COVID-19 pandemic. The government agreed to the support, conditional on an external assurance review.

On 30 June the Secretary of State announced an external assurance review of Eastbourne Borough Council's financial position led by the Chartered Institute of Public Finance and Accountancy (CIPFA).

CIPFA's financial review set out detailed findings, including conclusions, evidence and methodology used, and included recommendations for the future. The council is currently undertaking work to address the recommendations made.

The full report can be found on the Gov.UK website: [Eastbourne Borough Council: external assurance review - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/108211/eastbourne-borough-council-external-assurance-review-2021-2022.pdf)

Managers' Assurance Statements

One of the sources of assurance for the Annual Governance Statement should come from Senior Managers responsible for the operation, management and monitoring of controls within their area of responsibility. The Managers' Assurance Statement is intended to collect this assurance by covering operational, project and partnership responsibilities as well as the Bribery Act, Safeguarding, the Regulation of Investigatory Powers Act. The senior manager can highlight concerns and the necessary actions required to improve governance. Assurance statements are sent out to Directors, Assistant Directors and Heads of Service. Once completed their contents are used to inform the governance statement.

Issues raised this year that were considered by the Corporate Management Team were:

Capacity: It was noted that there is a shortage of workers in the employment market that is affecting all sectors and is a national issue. Where demand has increased over Covid, these teams have been given increased resources. The employment market is also monitored with consideration given to collaboration and partnerships working to further navigate these national challenges.

Economy: In response to the financial implications of the response to the Covid pandemic, early engagement with the Department for Levelling Up, Housing and Communities, regular return of all financial information, close working of cashflow transactions, cost controls, regular member briefings and engagements have all been put in place. Transactional changes and solutions to financial shortfalls are in place and are expected to be continued.

The Corporate Management team are therefore of the opinion that there are no significant governance issues. However, it is acknowledged that the following areas are of considerable concern:

- Longer term impact of the pandemic on the council's finances
- Longer term local government funding allocation
- Increasing demand for key services

The council maintains a strategic risk register and carries out regular reviews of its internal controls to ensure early prevention and/or mitigation of risks and governance concerns.

Statement by Head of Democratic Services

One minor governance issue is that, on occasions, there is a lack of understanding over delegated powers currently available to officers. However, the scheme of delegation and council constitutions continue to be reviewed and aligned to improve clarity, wherever possible. As Head of Democratic Services, I am not aware of any major governance issues in my area or elsewhere in the organisation.

Statement by the Monitoring Officer

Work is underway to align the schemes of delegation to officers. In addition, there is a piece of work to incorporate into the Code of Conduct for Members, the best elements of the Local Government Association's model code. This is at an early stage and may not be complete until the end of 2022/23. In the meantime, there is nothing inherently inadequate or defective with the existing code (in so far as legislation allows). Whilst the amendments planned will be improvements, the current state of affairs does not represent a significant governance issue.

Covid-19 Pandemic

The response to the Covid-19 pandemic continues to affect the council's finances which is likely to continue for some years. See the paragraph on the Local Government Finance Review for further information. The council has made a significant progress in delivering its Recovery and Stabilisation programme which is a key part of strengthening its future financial recovery and resilience. Through tighter financial controls and early delivery of some savings, the council has managed to reduce its capitalisation amounts from £12.8m to £7.6m.

UPDATE ON SIGNIFICANT GOVERNANCE ISSUES 2020/21

No significant issues were reported in 2020/21.

SIGNIFICANT GOVERNANCE ISSUES 2021/2022

There are no significant governance issues to report.

STATEMENT

We have been advised on the implications of the result of the review of effectiveness of the governance framework by the Audit and Governance Committee and that, subject to the actions identified above, the arrangements continue to be regarded as fit for purpose in accordance with the governance framework.

Signed on behalf of Eastbourne Borough Council:

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Leading Member

.....

Chief Executive

Date: