

Audit and Governance Committee

24 July 2019



Working in partnership with **Eastbourne Homes**

Time and venue:

6.00 pm in the Court Room at Eastbourne Town Hall, Grove Road, BN21 4UG

Membership:

Councillor Dean Sabri (Chairman); Councillors Robin Maxted (Deputy-Chair) Helen Burton, Sammy Choudhury, Paul Metcalfe, Md. Harun Miah, Amanda Morris and Barry Taylor.

Quorum: 2

Published: Tuesday, 16 July 2019

Agenda

1 Minutes (Pages 5 - 8)

To confirm and sign the minutes of the previous meeting of the Committee held on 6 March 2019.

2 Apologies for absence.

3 Declarations of Disclosable Pecuniary Interests (DPIs) by members as required under Section 31 of the Localism Act and of other interests as required by the Code of Conduct.

4 Questions by members of the public.

On matters not already included on the agenda and for which prior written notice has been given (total time allowed 15 minutes).

5 Urgent items of business.

The Chairman to notify the Committee of any items of urgent business to be added to the agenda.

6 Right to address the meeting/order of business.

The Chairman to report any requests received to address the Committee from a member of the public or from a Councillor in respect of an item listed below and to invite the Committee to consider taking such items at the commencement of the meeting.

- 7 BDO grant claims and returns certification report 2017/18** (Pages 9 - 26)
Report of former external auditors (BDO).
- 8 Proposed amendments to Eastbourne Borough Council's Code of Conduct for Members** (Pages 27 - 48)
Report of the Monitoring Officer.
- 9 Financial Procedure Rules** (Pages 49 - 92)
Report of the Chief Finance Officer.
- 10 Treasury Management Annual Report 2018/19** (Pages 93 - 104)
Report of the Chief Finance Officer.
- 11 Strategic Risk Register Quarterly Review** (Pages 105 - 118)
Report of the Chief Internal Auditor.
- 12 Annual Governance Statement** (Pages 119 - 146)
Report of the Chief Internal Auditor.
- 13 Internal Audit Report for the financial year 2018-2019** (Pages 147 - 158)
Report of the Chief Internal Auditor.

Information for the public

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

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

Information for councillors

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

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

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

Councillor right of address: Councillors wishing to address the meeting who are not members of the committee must notify the Chairman and Democratic Services in advance (and no later than immediately prior to the start of the meeting).

Democratic Services

For any further queries regarding this agenda or notification of apologies please contact Democratic Services.

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Working in partnership with **Eastbourne Homes**

Audit and Governance Committee

**Minutes of the meeting held in the Court Room at Eastbourne Town Hall,
Grove Road, Eastbourne, BN21 4UG on 6 March 2019 at 6.00pm**

Present:

Councillor Dean Sabri (Chairman)

Councillors Troy Tester (Deputy-Chair), Penny di Cara, Tony Freebody and Barry Taylor

Officers in attendance:

Oliver Dixon (Senior Lawyer and RIPA Monitoring Officer)

Pauline Adams (Head of Finance)

Jackie Humphrey (Audit Manager)

Brian Mew (Interim Deputy Chief Finance Officer)

Jennifer Norman (Committee Officer)

Also in attendance:

Ben Sheriff (Representative from Deloitte)

52 Minutes

The minutes of the meeting held on 28 November 2018 were submitted and approved, and the Chair was authorised to sign them as an accurate record.

53 Apologies for absence

An apology for absence had been received from Councillors Margaret Robinson and Paul Metcalfe. Councillor Freebody declared that he was acting as substitute for Councillor Metcalfe for the duration of the meeting.

54 Declarations of Disclosable Pecuniary Interests (DPIs) by Members as required under Section 31 of the Localism Act and of other interests as required by the Code of Conduct

There were none.

55 Questions by members of the public

There were none

56 Urgent items of business

As a matter of urgency and with the Chair's approval, the Committee received the supplementary report *External Auditor's Planning report for the year ending 31 March 2019*, as detailed in Minute No 57.

57 External Auditor's Planning report for year ending 31 March 2019

The Committee received the report of Deloitte, the Council's new external auditors, which detailed the planning report for the year ending 31 March 2019.

Deloitte participated in a handover meeting with the Council's outgoing external auditors, BDO LLP, during which BDO's previous audit files and reports of the Council were reviewed.

Deloitte developed the report to ensure that it provided effective audit services that met the Committee's expectations and focused on the most significant areas of importance and risk that the users of the Council's statement of accounts.

The Committee welcomed working with Deloitte in the future.

Resolved: (Unanimous) That the report be noted.

58 Internet and Social Media Research and Investigations - policy and procedure

The Committee received the report of the Assistant Director of Legal and Democratic Services which sought the approval of the Council's draft policy on conducting internet and social media research and investigations, and the authority for creating and issuing an associated procedure.

The RIPA (Regulation of Investigatory Powers Act 2000) Monitoring Officer (MO) explained that the overriding purpose of the report was to ensure that Council Officers operated professionally and lawfully, particularly in regards to an individual's privacy. Surveillance techniques used professionally and lawfully could produce effective intelligence, especially in the detection and prevention of crime. The RIPA MO reminded the Committee that the Council already had a document which dealt with surveillance but the document did not adequately address the issues specific to online activity and surveillance.

Discussion included:

- The Committee sought reassurance that any data which was not found to be relevant to ongoing research/investigations and/or legal action would be destroyed. The RIPA MO confirmed that any such data would be destroyed in line with the General Data Protection Regulation (GDPR) principles of data minimization.
- That the RIPA MO explain in more detail section 6 of the draft policy (appendix 1 to the report), as the Committee agreed that the details surrounding private information were not sufficient. The RIPA MO highlighted that the importance of section 6 was protecting the privacy of any individual the Council might look at as part of an investigation. He proposed, and the Committee agreed, that a provision would be added to section 6, making it clear that where an officer considers that research may interfere with a person's right to privacy, he/she must obtain authorisation before proceeding; and the authorising officer must be satisfied the proposed interference is lawful, before consenting to its use.
- Internal auditing regarding cases which used covert and online surveillance. Officers confirmed that internal auditing would take place where appropriate.

Resolved: (Unanimous)

1. That Eastbourne Borough Council's Internet and Social Media Research and Investigations Policy as set out in draft in appendix 1 be approved, subject to section 6 being amended as above; and
2. That the Director of Service Delivery be delegated authority by the Committee to develop, implement and ensure compliance with an Internet and Social Media Research and Investigations Procedure for Eastbourne Borough Council.

59 Internal audit report to 31st December 2018

The Committee considered the report of the Audit Manager regarding a summary of the activities of internal audit for the first three quarters of the year 1 April 2018 to 31 December 2018. A list of all final audit reports issued from 1 April 2018 to 31 December 2018 and the level of assurance attained were detailed in the report.

The Committee queried the audit review of car parking as set out in appendix b, as the information indicated that the level of follow up which was scheduled for completion in February 2019, had not yet been completed.

The Audit Manager explained that the target date had not been met due to her team lacking an adequate number of staff and because the team had been concentrating on the annual audit.

The Committee wished to express its thanks to the Audit Manager and her team for all of their hard work.

Resolved: (Unanimous) That the report be noted.

60 Draft internal audit plan for 2019/20

The Committee considered the report of the Audit Manager regarding the draft internal audit plan for 2019/2020 as detailed in the report.

Resolved: (Unanimous) That the proposed internal audit plan for 2019/2020 be approved.

61 BDO grant claims and returns certification report 2017/18

The Committee considered the report of the Council's outgoing external auditors, BDO, regarding the key findings in respect of the certification of grant claims and returns for the financial year 2017/2018.

The key findings, along with other certification work and a summary of the fees charged were outlined in the report.

Several members of the Committee expressed their displeasure at not having adequate time to review the report due to the report being received as a late item. The Audit Manager explained that the Council had been working to get the subsidy signed off by BDO, but due to extenuating circumstances, BDO was unable to provide the report within the statutory deadlines. The Head of Finance highlighted that the report was to note and did not require any decisions to be made by the Committee.

Resolved: (Unanimous) That the report be noted, subject to any further questions the Committee had regarding the report to be addressed at its next meeting on 24 July 2019.

The meeting ended at 6.55pm.

Councillor Dean Sabri (Chairman)



EASTBOURNE BOROUGH COUNCIL

GRANT CLAIMS AND RETURNS CERTIFICATION

For the year ended 31 March 2018
1 March 2019



INTRODUCTION

PURPOSE AND USE OF THIS REPORT

This report summarises the main issues arising from our certification of grant claims and returns for the financial year ended 31 March 2018.

Public Sector Audit Appointments Ltd (PSAA) regime

PSAA has a statutory duty to make arrangements for certification by the appointed auditor of the annual housing benefit subsidy claim.

We undertake the grant claim certification as an agent of PSAA, in accordance with the Certification Instruction (CI) issued by them after consultation with the Department for Work and Pensions (DWP).

After completion of the tests contained within the CI the grant claim 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.

Other certification work

A number of other grant claims and returns are not within the scope of our appointment by PSAA, but Departments may still seek external assurance over the accuracy of the claim or return. These assurance reviews are covered by tripartite agreements between the Council, sponsoring Department and the auditor.

The Council engaged us to carry out agreed-upon procedures, based on the instructions and guidance provided by the Ministry of Housing, Communities and Local Government (MHCLG), of the Pooling of housing capital receipts return the year ended 31 March 2018.

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

AUDIT QUALITY

BDO is totally committed to audit quality. It is a standing item on the agenda of BDO's Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream's objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections. BDO welcome feedback from external bodies and is committed to implementing necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the Financial Reporting Council's Audit Quality Review team), QAD (the ICAEW Quality Assurance Department) and the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US firms), the firm undertake a thorough annual internal Audit Quality Assurance Review and as member firm of the BDO International network we are also subject to a quality review visit every three years. We have also implemented additional quality control review processes for all listed and public interest audits.

More details can be found in our latest Transparency Report at www.bdo.co.uk.

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KEY FINDINGS

Below are details of each grant claim and return subject to certification by us for the financial year ended 31 March 2018. Where our work identified issues which resulted in either an amendment or a qualification (or both), further information is provided on the following pages. An action plan is included at Appendix II of this report.

CLAIM OR RETURN	FINAL VALUE (£)	QUALIFIED?	AMENDED?	IMPACT OF AMENDMENTS(£)
Housing benefit subsidy	£45,906,867	YES	YES	Decrease subsidy receivable by £24,264
Pooling of housing capital receipts	£3,548,939	NO	YES	Increase receipts subject to pooling by £36,400; no impact on amount payable to MHCLG

DETAILED FINDINGS

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HOUSING BENEFIT SUBSIDY	FINDINGS AND CONCLUSION
<p>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.</p> <p>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.</p> <p>The methodology and sample sizes are prescribed by PSAA and DWP. We have no discretion over how this methodology is applied. The draft subsidy return provided for audit recorded amounts claimed as subsidy of £45,931,131. The final submission was decreased by £24,264, to £45,906,867.</p>	<p>Our audit of 60 individual claimant files highlighted a number of errors the Council made in administering benefit and calculating subsidy entitlement.</p> <p>Guidance requires auditors to undertake extended 40+ testing if initial testing identified errors in the benefit entitlement calculation or in the classification of expenditure. Such testing is also undertaken as part of our follow-up of prior year issues reported. This additional testing, combined with the original testing where there has been an overpayment of benefit, is extrapolated (or extended) across the population. Where the error can be isolated to a small population, the whole population can be tested and the claim form amended if appropriate. Where there is no impact on the subsidy claim, for example where the error always results in an underpayment of benefit, we are required to report this within our qualification letter.</p> <p>This resulted in seven areas of 40+ testing, three areas of additional testing and nine amendments to the claim form.</p> <p>All testing was carried out by the Council’s internal auditors and a sample of their work was reperformed by BDO.</p> <p>This work was completed and the claim was certified on 27 February 2019. This was after DWP’s deadline of 30 November 2018, due to significant delays in the certification of the 2016/17 housing benefits claim, which impacted the timing of the audit work on the 2017/18 claim.</p> <p>Our audit certification was qualified and we quantified the effect of the errors identified on the Council’s entitlement to subsidy (based on our extrapolations) in a letter to DWP.</p> <p>A summary of our audit findings can be found on the following pages.</p> <p>The Council is awaiting a response from DWP to the qualification letter.</p> <p>While the total of the uncorrected issues reported below indicate a potential overstatement of subsidy claimed of £7,197, the majority of this is not expected to be clawed back by DWP due to the application of threshold limits on the claim form.</p>

DETAILED FINDINGS

ERROR DESCRIPTION	IMPACT ON SUBSIDY CLAIMED
NON-HRA RENT REBATES	
<p>Incorrect rent</p> <p>Testing of the initial sample identified one case (total error value £18) where benefit paid had been underpaid as a result of the Council using incorrect rent information.</p> <p>As there is no eligibility to subsidy for benefit which has not been paid, the underpayment identified does not affect subsidy and was not, therefore, classified as an error for subsidy purposes. However, as errors in rent inputs could result in overpayments of benefits, an additional random sample of 40 cases was selected for testing.</p> <p>The additional testing did not identify any cases where the rent had been incorrectly applied to the claim.</p>	<p>This had no impact on subsidy claimed.</p> <p>We reported this issue as an observation in our qualification letter to DWP.</p>
HRA RENT REBATES	
<p>Affordable rents scheme Section 151 Officer's notification</p> <p>We noted that the required S151 Officer's notification to MHCLG regarding the Council's affordable rents in cell 060 on the claim form had been drafted but not sent at the time of the audit. We were able to agree the claims selected to the letter that was subsequently sent by the Council to MHCLG.</p>	<p>This had no impact on subsidy claimed.</p> <p>We reported this issue as an observation in our qualification letter to DWP.</p>

DETAILED FINDINGS

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ERROR DESCRIPTION	IMPACT ON SUBSIDY CLAIMED
HRA RENT REBATES (CONTINUED)	
<p>Incorrect rent</p> <p>Testing of the initial sample identified one case (total error value £75) where the Council had overpaid benefit as a result of applying the incorrect rent.</p> <p>The initial testing also identified one case (total error value £229) where benefit had been underpaid as a result of the Council applying the incorrect rent. As there is no eligibility to subsidy for benefit which has not been paid, the underpayment identified does not affect subsidy and was not, therefore, classified as an error for subsidy purposes.</p> <p>These issues arose due to an incorrect interface between the housing rent system and benefit revenue system therefore the Council carried out a 100% check on all affected HRA rent rebates cases. The testing identified five further cases (total error value £764) where the Council had overpaid benefit in 2017/18 and 2016/17 as a result of applying the incorrect rent. Four of these errors (total error value £719) had already been amended on the benefits system in 2018/19.</p> <p>However, one of the errors (error value £45) was identified and amended at the time of testing.</p> <p>Manual amendments were not made to the 2017/18 claim form as the overpayments were recorded in 2018/19.</p>	<p>The effect of the identified errors where benefit was overpaid was as follows:</p> <ul style="list-style-type: none">Cell 061 ‘HRA rent rebate expenditure attracting full rate subsidy which is included in cell 055 but not separately identified in his section [of the claim form]’ was overstated by £839 (attracts full subsidy)Cell 065 ‘LA error and administrative delay overpayments’ was understated by £839 (attracts no subsidy). <p>As a result, subsidy claimed was overstated by £839. The claim form was not amended for this error and we reported it as an observation in our qualification letter to DWP.</p>

DETAILED FINDINGS

ERROR DESCRIPTION	IMPACT ON SUBSIDY CLAIMED
HRA RENT REBATES (CONTINUED)	
<p>Incorrect qualifying pension age</p> <p>Testing in the previous year identified one case (total error value £122) where the Council had overpaid benefit as a result of the incorrect qualifying pension age being used by the system to calculate benefit entitlement.</p> <p>The software supplier was notified and a total of 26 cases were identified as applying the incorrect qualifying pension age. Two cases had already been corrected in the system in 2017/18 and the rest were corrected in 2018/19. The 2017/18 claim form was not amended as an adjustment had been made to the benefits system in 2018/19.</p>	<p>The effect of these errors on the 2017/18 claim is to understate cell 065 by £592, with a corresponding overstatement of cell 061; there is no effect on cell 055.</p> <p>The effect of the identified errors was as follows:</p> <ul style="list-style-type: none"> Cell 065 'LA error and administrative delay overpayments' was understated by £592 (attracts no subsidy) Cell 061 'HRA rent rebate expenditure attracting full rate subsidy which is included in cell 055 but not separately identified in his section [of the claim form]' was overstated by £592 (attracts full subsidy) <p>As a result, subsidy claimed was overstated by £592. The claim form was not amended for these errors and we reported it as an observation in our qualification letter to DWP.</p>
RENT ALLOWANCES	
<p>Misclassification of overpayments</p> <p>Testing of the initial sample (6 with eligible overpayments) did not identify any cases where eligible overpayments were misclassified. However, due to the errors found in the prior year, an additional random sample of 40 cases was selected for testing from the eligible overpayments cell.</p> <p>The additional testing identified one case (total error value £538), where the overpayment was incorrectly classified as eligible overpayments instead of LA error and administrative delay overpayment.</p> <p>These errors resulted in misclassifications between cells on the claim form and an overstatement of subsidy claimed.</p> <p>We extrapolated the errors over the remaining population of untested cases.</p>	<p>The effect of the extrapolated error was as follows:</p> <ul style="list-style-type: none"> Cell 114 'Eligible overpayments' was overstated by £14,329 (attracts 40% subsidy) Cell 113 'LA error and administrative delay overpayments' was understated by £14,329 (attracts no subsidy). <p>As a result, subsidy claimed was potentially overstated by £5,732. The claim form was not amended for the extrapolated error and we reported this in our qualification letter to DWP.</p>

DETAILED FINDINGS

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ERROR DESCRIPTION	IMPACT ON SUBSIDY CLAIMED
RENT ALLOWANCES (CONTINUED)	
<p>Earned income</p> <p>The additional testing on the random sample of 40 cases above also identified two cases (total error value £34) where earned income was incorrectly input.</p> <p>Additional testing was undertaken on earned income as a result of errors identified in the previous year; this did not identify any issues.</p> <p>The identified errors were not corrected in the 2017/18 claim as they had been corrected in the system in 2018/19.</p>	<p>The effect of these errors was as follows:</p> <ul style="list-style-type: none">• Cell 114 ‘Eligible overpayments’ was understated by £34 (attracts 40% subsidy)• Cell 103 ‘LHA expenditure’ was overstated by £34 (attracts full subsidy). <p>As a result, subsidy claimed was overstated by £20. The claim form was not amended for the error and we reported it in our qualification letter to DWP.</p>
<p>Incorrect family premium rate</p> <p>Testing of the 20 initial sample (two with family premium) identified one case (total error value £19) where benefit had been underpaid as a result of the Council applying the incorrect family premium rate. As there is no eligibility to subsidy for benefit which has not been paid, the underpayment identified does not affect subsidy and was not, therefore, been classified as an error for subsidy purposes.</p> <p>However, as errors in the family premium rate could result in overpayments of benefits, an additional random sample of 40 cases was selected for testing from a sub-population of cases that included family premium as part of the benefit assessment.</p> <p>The additional testing did not identify any further cases where family premium rate has been incorrectly applied to the claim.</p>	<p>This had no impact on subsidy claimed.</p> <p>We reported this issue as an observation in our qualification letter to DWP.</p>

DETAILED FINDINGS

ERROR DESCRIPTION	IMPACT ON SUBSIDY CLAIMED
RENT ALLOWANCES (CONTINUED)	
<p>Incorrect rent</p> <p>Testing of the 20 initial sample identified one case where the Council had used the incorrect rent, although this had no impact on entitlement in the year.</p> <p>However, as errors in rent inputs could result in overpayments of benefits, an additional random sample of 40 cases was selected for testing.</p> <p>The additional testing did not identify any further cases where the rent had been incorrectly applied to the claim.</p>	<p>The effect of these errors was as follows:</p> <ul style="list-style-type: none"> Cell 114 'Eligible overpayments' was understated by £24 (attracts 40% subsidy) Cell 103 'LHA expenditure' was overstated by £24 (attracts full subsidy). <p>This had no impact on subsidy claimed.</p> <p>As a result, subsidy claimed was overstated by £14. The claim form was not amended for the error and we reported it in our qualification letter to DWP.</p>
<p>Backdated expenditure</p> <p>Testing of the initial sample of 20 identified three claims where the backdated expenditure cell in the claim form was overstated by a total of £2,475. However, this had no impact on subsidy claimed and therefore additional testing was not undertaken. The claim form was amended for this issue.</p>	<p>This had no impact on subsidy claimed.</p> <p>As the claim form was amended we did not report this issue as an observation.</p>
MODIFIED SCHEMES	
<p>HRA rent rebates</p> <p>Testing of all rent rebate modified schemes expenditure identified one claim where the modified schemes expenditure was understated by £426.</p> <p>The claim form was corrected for this error.</p>	<p>The effect of this error was as follows:</p> <ul style="list-style-type: none"> Cell 061 'HRA rent rebate expenditure attracting full rate subsidy which is included in cell 055 but not separately identified in his section [of the claim form]' was understated by £426 (attracts full subsidy) Cell 065 'LA error and administrative delay overpayments' was understated by £95 (attracts no subsidy) Cell 067 'Eligible overpayments' was overstated by £95 (attracts 40% subsidy) <p>On correction of these errors in the claim form, subsidy claimed increased by £388.</p>

DETAILED FINDINGS

ERROR DESCRIPTION	IMPACT ON SUBSIDY CLAIMED
MODIFIED SCHEMES (CONTINUED)	
<p>Rent allowances</p> <p>Testing of all rent allowances modified schemes expenditure identified two claims with negative amounts totalling £2,382, in respect of cases which were not modified schemes.</p> <p>The claim form was corrected for these errors.</p>	<p>The effect of these errors was as follows:</p> <ul style="list-style-type: none"> Cell 099 'Total expenditure up to the maximum rent' was understated by £2,014 (attracts full subsidy) Cell 121 'Eligible overpayments' was understated by £1,457 (attracts 40% subsidy) Cells 214 and 225 'Modified schemes' were understated by £2,382 (attracts 75% subsidy). <p>On correction of these errors in the claim form, subsidy claimed increased by £4,384.</p>
ERRORS ACROSS ALL BENEFIT TYPES	
<p>Errors arising from manual adjustments</p> <p>The prior year audit found that a significant number of errors had arisen due to manual amendments in the system. Council staff were using manual adjustment error codes to try to achieve a particular outcome on a claim, without always knowing the full subsidy impact of using particular error codes. In some cases, when users did not get the result they were expecting they tried to reverse the entries but in other cases continued using different error codes, thereby compounding the problem and making it difficult to unpick the adjustments.</p> <p>As a result of this issue, all manual amendments in 2017/18 were tested. This testing identified a number of errors, although not to the same extent as the prior year.</p> <p>The claim form was corrected for these errors.</p>	<p>The effect of these errors was as follows:</p> <ul style="list-style-type: none"> Cell 014 'Short term leased and self-contained licensed accommodation where the local authority is the landlord: Expenditure up to the lower of 90% of the appropriate LHA rate for the property, and the upper limit (£500 or £375)' was overstated by £216 (attracts full subsidy) Cell 023 'Non-HRA rent rebate expenditure attracting full rate subsidy not separately identified in this section' was understated by £459 (attracts full subsidy) Cell 024 'DWP error overpayments recovered' was overstated by £217 (attracts no subsidy) Cell 025 'DWP error overpayments not recovered' was understated by £217 (attracts full subsidy) Cell 061 'HRA rent rebate expenditure attracting full rate subsidy which is included in cell 055 but not separately identified in his section [of the claim form]' was overstated by £837 (attracts full subsidy) Cell 063 'DWP error overpayments recovered' was understated by £691 (attracts no subsidy) Cell 064 'DWP error overpayments not recovered was overstated by £691 (attracts full subsidy) Cell 067 'Eligible overpayments' was overstated by £200 (attracts 40% subsidy) Cell 096 'Total expenditure on that part of weekly eligible rent above the rent officer's determination on a claim where restrictions could not be made under Regs.13 or 13ZA' was overstated by £1,356 (attracts 60% subsidy)

DETAILED FINDINGS

ERROR DESCRIPTION	IMPACT ON SUBSIDY CLAIMED
Errors arising from manual adjustments (continued)	<p>The effect of these errors was as follows:</p> <ul style="list-style-type: none"> Cell 097 'Total expenditure on that part of weekly eligible rent above the rent officer's determination on a claim where restrictions could be made under Regs.13 or 13ZA' was understated by £1,356 (attracts no subsidy) Cell 098 'Total expenditure on that part of weekly eligible rent at or below the rent officer's determination on a claim' was overstated by £31 (attracts full subsidy) Cell 102 'Total expenditure related to cases not requiring referral to the rent officer ' was understated by £1,387 (attracts full subsidy) Cell 103 'Total expenditure in claims administered under LHA rules' was overstated by £6,989 (attracts full subsidy). <p>On correction of these errors in the claim form, subsidy claimed decreased by £7,595.</p>
Errors arising from payments included in the incorrect year During the audit the Council noted that some payments that were made in 2018/19 were incorrectly included in the draft 2017/18 Claim Form. The claim form was corrected for this issue.	<p>The correction of this issue on the system decreased subsidy claimed by £21,441.</p>

DETAILED FINDINGS

POOLING OF HOUSING CAPITAL RECEIPTS	FINDINGS AND IMPACT ON RETURN
<p>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.</p> <p>The return provided for our review recorded total receipts of £2,885,839, of which £281,256 was payable to MHCLG.</p> <p>The final certified return recorded total receipts of £3,548,939, of which £281,256 was payable to MHCLG.</p> <p>MHCLG requires that this return is certified but the work is not part of PSAA’s certification regime. We therefore agreed a separate letter of engagement to provide agreed upon procedures.</p>	<p>Our work was completed and the return was certified before MHCLG’s deadline of 11 January 2019.</p> <p>We found that the Council had incorrectly disclosed receipts net of transaction costs in quarter 4, with the result that receipts were understated by £34,400. This was corrected in the final return and we reported this issue as an exception in our report to MHCLG.</p>

APPENDICES

APPENDIX I: STATUS OF 2016/17 RECOMMENDATIONS

RECOMMENDATION	PRIORITY	RESPONSIBILITY	TIMING	PROGRESS	STATUS
Overpayments Our audit in 2016/17 identified a number of issues in respect of the incorrect classification of overpayments. We recommend that additional checks are carried out to ensure that overpayments are correctly classified.	High	Revenues and benefits team	June 2017	The audit of the 2017/18 claim did not identify ongoing issues in this area, therefore this recommendation is considered closed.	Closed
Manual adjustments Our audit in 2016/17 identified a large number of errors caused by manual adjustments, where staff had used manual adjustment error codes to try to achieve a particular outcome on a claim, without always knowing the full subsidy impact of using particular error codes. We recommend that management review the error codes being used for manual adjustments and limit the access to, and use of, these codes.	High	Revenues and benefits team	June 2017	While the audit of the 2017/18 claim identified further errors arising from manual adjustments, this was not to the same extent as the prior year due to action taken by the Council. Therefore this recommendation is considered closed.	Closed

APPENDIX II: 2017/18 RECOMMENDATIONS AND ACTION PLAN

CONCLUSIONS FROM WORK	RECOMMENDATIONS	PRIORITY	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
Housing benefits claim Our audit of the 2017/18 housing benefits subsidy claim identified a number of errors, as highlighted in this report.	We recommend that the Council carries out detailed reviews in the problem areas identified by the 2017/18 audit, to ensure that data is cleansed before preparing the 2018/19 subsidy claim.	High	The Council endeavours to address all the issues raised by the audit in year. Unfortunately, with the delays in getting the claim signed off year on year, this has negatively impacted the Council going forward. However we are constantly striving to cleanse the data and will continue to do make this a priority.	Senior Specialist Advisor, Thriving Communities	June 2019

APPENDIX III: FEES SCHEDULE

	2017/18 FINAL £	2017/18 PLANNED £	2016/17 FINAL £	EXPLANATION FOR VARIANCES
PSAA regime				
Certification fee (Housing benefit subsidy claim)	20,000	11,310	20,000	The 2016/17 fee is still subject to agreement by PSAA. We have proposed a fee of £20,000 for the 2017/18 audit. This is £8,690 higher than the estimated fee we previously reported, due to the higher number of 40+ and additional testing required this year as a result of identified errors.
TOTAL PSAA REGIME FEES	20,000	11,310	20,000	
Other certification work				
• Pooling of Housing Capital Receipts return	2,000	1,500	1,500	Increase of £500 agreed with management due to a change in MHCLG's requirements this year.
TOTAL CERTIFICATION FEES	22,000	12,810	21,500	

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The matters raised in our report prepared in connection with the audit are those we believe should be brought to the attention of the organisation. They do not purport to be a complete record of all matters arising. No responsibility to any third party is accepted.

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Report to:	Audit and Governance Committee
Date:	24 July 2019
Title:	Proposed amendments to Eastbourne Borough Council's Code of Conduct for Members
Report of:	Monitoring Officer
Ward(s):	All
Purpose of report:	To propose amendments to the Council's Code of Conduct for Members, based on best practice issued by the Committee on Standards in Public Life (CSPL)
Officer recommendation:	That the Committee recommends to full Council the adoption of (1) the response (at Appendix 1) to CSPL's best practice recommendations; and (2) the amended Code of Conduct for Members set out in Appendix 2.
Reasons for recommendations:	To ensure the Council's Code of Conduct for Members reflects national best practice
Contact Officer(s):	Name: Oliver Dixon Post title: Deputy Monitoring Officer E-mail: oliver.dixon@lewes-eastbourne.gov.uk Telephone number: 01323 415881

1 Introduction

- 1.1 Eastbourne Borough Council's Code of Conduct for Members is the principal tool that enables the Council to meet its legal duty to promote and maintain high standards of conduct by its members.
- 1.2 Under the Localism Act 2011, local authorities are free to create their own codes of conduct so long as the content is consistent with the Seven Principles of Public Life and provides for the registration and declaration of certain types of interests. To achieve consistency, however, the Council's Code is closely aligned to the code adopted by the majority of other local authorities.
- 1.3 Despite the Localism Act freedoms, it is good practice for local authorities to follow any guidance and recommendations from The Committee on Standards in Public Life (CSPL). This is an advisory non-departmental public body sponsored by the Cabinet Office, with its chair and members are appointed by the Prime Minister. Its terms of reference are "to examine current concerns about standards of conduct of all holders of public office, including arrangements relating to financial and commercial activities, and make recommendations as to any changes in present arrangements which might be required to ensure the

highest standards of propriety in public life.”

- 1.4 In 2018, CSPL carried out a review of the ethical standards framework for local government, the first of its kind since the current framework came into effect in 2012.
- 1.5 CSPL considered whether there was a need for a centralised body to govern and adjudicate on standards. It concluded that whilst the consistency and independence of the system could be enhanced, there was no need to reintroduce a centralised body, and that local authorities should retain ultimate responsibility for implementing and applying the Seven Principles of Public Life in local government.
- 1.6 CSPL made a number of recommendations and identified best practice to improve ethical standards. Certain recommendations require changes to primary legislation, all subject to Parliamentary timetabling, and also to secondary legislation and the Local Government Transparency Code. However, its advice on best practice is capable of implementation without changes to legislation, and CSPL expect local authorities to adopt these at the earliest opportunity.
- 1.7 The remainder of this report focuses on CSPL’s best practice, as implementation is within the Council’s own powers.

2 CSPL Best Practice Recommendations and Council Response

- 2.1 CSPL’s best practice points and the Council’s proposed response to each one are set out at Appendix 1. As noted there, the Council already follows best practice on some items.

3 Amendments to the Code of Conduct

- 3.1 The proposed amendments to the Council’s Code of Conduct for Members, reflecting CSPL’s best practice recommendations, are set out (as marked in red) at Appendix 2.

4 Local consistency

- 4.1 The proposed amendments in Appendix 2 are consistent with the changes that East Sussex County Council have made to their own Code of Conduct for Members.
- 4.2 The Monitoring Officer for Lewes District Council submitted a report, in the same terms as this one, to their Audit & Standards Committee on 16 July. A verbal update on the outcome of that meeting will be given to Eastbourne’s Audit & Governance Committee on 24 July.
- 4.3 Aligning the codes across the county and borough will make it easier for dual-hatted members to apply the same standards of conduct in whatever local authority capacity they are operating.

5 Proposal

- 5.1 It is proposed that the Audit and Standards Governance recommends to full Council the adoption of (1) the response (at Appendix 1) to CSPL's best practice points; and (2) the amended Code of Conduct for Members set out in Appendix 2.
- 5.2 The Localism Act prescribes that amendments to a council's code of conduct for members may only be approved by the authority as a whole, i.e. the full Council.

6 Financial appraisal

- 6.1 Adopting the amendments set out in Appendix 2 will have no financial implications of any significance.

7 Legal implications

- 7.1 The content of this report is consistent with the Council's obligations under the statutory framework for local government ethical standards, namely part 1, chapter 7, of the Localism Act 2011.

Lawyer consulted 05.07.19

Legal ref: 008160-JOINT-OD

8 Risk management implications

- 8.1 Whilst it is not obligatory for a local authority to adopt CSPL's best practice points, failure to do so would leave the authority (a) in a less than optimum position as regards its ethical standards governance, and (b) out of kilter with other local authorities.

9 Appendices

- Appendix 1 – Proposed Council response to CSPL best practice recommendations
- Appendix 2 – Amended Code of Conduct for Members

10 Background papers

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

- [Local Government Ethical Standards – A Review by the Committee on Standards in Public Life](#)

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Committee on Standards in Public Life – Best Practice Recommendations and Council Response

	Best Practice Recommendation	Council Response
1	Local authorities should include prohibitions on bullying and harassment in codes of conduct. These should include a definition of bullying and harassment, supplemented with a list of examples of the sort of behaviour covered by such a definition.	Paragraph 3(2)(b) of the Code should be amended, and a new appendix inserted with examples of the behaviour specified. See Appendix 2 of this report for proposed changes.
2	Councils should include provision in their code of conduct requiring councillors to comply with any formal standards investigation, and prohibiting trivial or malicious allegations by councillors.	New paragraphs 1(6) and (7) should be inserted in the Code – see Appendix 2
3	Principal authorities should review their code of conduct each year and regularly seek, where possible, the views of the public, community organisations and neighbouring authorities.	An annual review will be programmed into the Audit and Standards Committee work plan. The Monitoring Officer (MO) will seek to ensure that the Code continues to be aligned to that of neighbouring authorities, for local consistency.
4	An authority's code should be readily accessible to both councillors and the public, in a prominent position on the council's website and available in council premises.	The Council already meets this recommendation.
5	Local authorities should update their gifts and hospitality register at least once per quarter, and publish it in an accessible format.	This register is already updated immediately a councillor declares a gift or hospitality. In addition, Democratic Services remind councillors every December about the need to keep the register current. Each councillor's declarations are published in an accessible format on the Council's website.

6	Councils should publish a clear and straightforward public interest test against which allegations are filtered	The Council already publishes a document explaining how it deals with code of conduct complaints, and the key factors used to decide whether the complaint will be investigated. The MO will amplify those factors to ensure they reflect the public interest.
7	Local authorities should have access to at least two Independent Persons	The Council already meets this recommendation.
8	An Independent Person should be consulted as to whether to undertake a formal investigation on an allegation, and should be given the option to review and comment on allegations which the Monitoring Officer is minded to dismiss as being without merit, vexatious or trivial.	The Council's process for dealing with complaints about councillor conduct already includes this provision.
9	Where a local authority makes a decision on an allegation of misconduct following a formal investigation, a decision notice should be published as soon as possible on its website, including a brief statement of facts, the provisions of the code engaged by the allegations, the view of the Independent Person, the reasoning of the decision maker and any sanction applied.	The Council already follows this recommendation, except that the view of the Independent Person has not been reported as a separate item in the decision notice. This will be included in future.
10	A local authority should have straightforward and accessible guidance on its website on how to make a complaint under the code of conduct, the process for handling complaints, and estimated timescales for investigations and outcomes.	The Council already meets this recommendation
11	A local authority should have procedures in place to address any conflicts of interest when undertaking a standards investigation. Possible steps should include asking the MO from a different authority to undertake the investigation.	Under the Council's arrangements for dealing with councillor misconduct, the MO already has discretion to appoint a different person (if suitably qualified), from within or outside the Council, to conduct the investigation.
12	Councils should report on separate bodies they have set up or which they own, as part of their annual governance statement, and	With effect from 2020, the annual governance statement will report on this relationship.

	give a full picture of their relationship with those bodies. Separate bodies created by local authorities should abide by the Nolan principles of openness, and publish their board agendas and minutes and annual reports in an accessible place.	The annual reports of the companies set up by the Councils (e.g. EHL, EHICL, LHICL) are accessible via the Councils' website.
13	Senior officers should meet regularly with political group leaders or group whips to discuss standards issues.	The MO does, where appropriate, meet the relevant group leader to discuss a standards matter affecting one or more their members. Given the relatively low number of complaints, this is when required rather than on a regular basis.

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Section B

Code of Conduct for Members

By 28 July 2012 or on their election or co-option (whichever is the later date) to Eastbourne Borough Council, members are required to sign an undertaking to comply with the authority's Code of Conduct.

This Code of Conduct, adopted by the authority on 18 July 2012, is set out below. It is made under Chapter 7 of the Localism Act 2011 and includes, as standing orders made under Chapter 7 of that Act and Schedule 12 of the Local Government Act 1972, provisions which require members to leave meetings in appropriate circumstances, while matters in which they have a personal interest are being considered.

Part 1 -General provisions

1. Introduction and interpretation

- (1) This Code applies to **you** as a member of an authority, when acting in that capacity.
- (2) This Code is based upon seven principles fundamental to public service which are set out in Part 5, Section A of the constitution. You should have regard to these principles as they will help you to comply with the Code.
- (3) If you need guidance on any matter under this Code you should seek it from the authority's monitoring officer or your own legal adviser – but it is entirely your responsibility to comply with the provisions of this Code.
- (4) It is a criminal offence to fail to notify the authority's monitoring officer of a disclosable pecuniary interest, to take part in discussions or votes at meetings, or to take a decision where you have disclosable pecuniary interest, without reasonable excuse. It is also an offence to knowingly or recklessly to provide false or misleading information to the authority's monitoring officer.
- (5) Any written allegation received by the authority that you have failed to comply with this Code will be dealt with by the authority under the arrangements which it has adopted for such purposes. If it is found that you have failed to comply with the Code, the authority has the right to have regard to this failure in deciding -

(a) whether to take action in relation to you and

(b) what action to take.

(6) Councillors must comply with any request regarding the provision of information in relation to a complaint that alleges a breach of the Code of Conduct, and must comply with any formal standards investigation.

(7) Councillors must not misuse the standards process by, for example, making trivial or malicious allegations against another councillor.

(67) In this Code—

“authority” means Eastbourne Borough Council

“Code” means this Code of Conduct

“co-opted member” means a person who is not a member of the authority but who-

(a) is a member of any committee or sub-committee of the authority, or

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

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

"meeting" means any meeting of—

(a) the authority;

(b) the executive of the authority;

(c) any of the authority's or its executive's committees, sub-committees, joint committees, joint sub-committees, or area committees;

"member" includes a co-opted member.

“register of members’ interests” means the authority's register of members' pecuniary and other interests established and maintained by the authority's monitoring officer under section 29 of the Localism Act 2011.

Scope

2. —(1) Subject to sub-paragraphs (2) and (3), you must comply with this Code whenever you—

(a) conduct the business of your authority (which, in this Code, includes the business of the office to which you are elected or appointed); or

(b) act, claim to act or give the impression you are acting as a representative of your authority,

and references to your official capacity are construed accordingly.

(2) This Code does not have effect in relation to your conduct other than where it is in your official capacity.

(3) Where you act as a representative of your authority—

(a) on another relevant authority, you must, when acting for that other authority, comply with that other authority's code of conduct; or

(b) on any other body, you must, when acting for that other body, comply with your authority's code of conduct, except and insofar as it conflicts with any other lawful obligations to which that other body may be subject.

General obligations

3. —(1) You must treat others with respect.

(2) You must not—

(a) do anything which may cause your authority to breach any of its the equality duties (in particular as set out in the Equality Act 2010);

(b) bully or harass any person;

(Bullying means offensive, intimidating, malicious or insulting behaviour, or an abuse or misuse of power through means that undermine, humiliate, denigrate or injure the recipient.

Harassment means unwanted conduct which has the purpose or effect of violating an individual's dignity or creating an intimidating, hostile, degrading, humiliating or offensive environment for an individual.

For examples of conduct that constitute bullying or harassment, see Appendix 1.)

(c) intimidate or improperly influence or attempt to intimidate or improperly influence any person who is or is likely to be—

(i) a complainant,

(ii) a witness, or

(iii) involved in the administration of any investigation or proceedings, in relation to an allegation that a member (including yourself) has failed to comply with his or her authority's code of conduct; or

(d) do anything which compromises or is likely to compromise the impartiality of those who work for, or on behalf of, your authority.

4. You must not—

(a) disclose information given to you in confidence by anyone, or information acquired by you which you believe, or ought reasonably to be aware, is of a confidential nature, except where—

- (i) you have the consent of a person authorised to give it;
- (ii) you are required by law to do so;
- (iii) the disclosure is made to a third party for the purpose of obtaining professional advice provided that the third party agrees not to disclose the information to any other person; or
- (iv) the disclosure is—
 - (a) reasonable and in the public interest; and
 - (b) made in good faith and in compliance with the reasonable requirements of the authority;

(b) prevent another person from gaining access to information to which that person is entitled by law.

5. You must not conduct yourself in a manner which could reasonably be regarded as bringing your office or authority into disrepute.

6. You—

(a) must not use or attempt to use your position as a member improperly to confer on or secure for yourself or any other person, an advantage or disadvantage;

(b) must, when using or authorising the use by others of the resources of your authority—

- (i) act in accordance with your authority's reasonable requirements;
- (ii) ensure that such resources are not used improperly for political purposes (including party political purposes); and

(c) must have regard to any applicable Local Authority Code of Publicity made under the Local Government Act 1986.

7. —(1) When reaching decisions on any matter you must have regard to any relevant advice provided to you by—

- (a) your authority's chief finance officer; or

(b) your authority's monitoring officer,

where that officer is acting pursuant to his or her statutory duties.

(2) You must give reasons for all decisions in accordance with any statutory requirements and any reasonable additional requirements imposed by your authority.

Part 2 – Interests

Personal interests

8. – (1) The interests described in paragraphs 8(3) and 8(5) are your personal interests and the interests in paragraph 8(5) are your pecuniary interests which are disclosable pecuniary interests as defined by section 30 of the Localism Act 2011.

(2) If you fail to observe Parts 2 and 3 of the Code in relation to your personal interests-

(a) the authority may deal with the matter as mentioned in paragraph 1(5) and

(b) if the failure relates to a disclosable pecuniary interest, you may also become subject to criminal proceedings as mentioned in paragraph 1(4).

(3) You have a personal interest in any business of your authority where either—

(a) it relates to or is likely to affect—

(i) any body of which you are a member or in a position of general control or management and to which you are appointed or nominated by your authority;

(ii) any body—

(a) exercising functions of a public nature;

(b) directed to charitable purposes; or

(c) one of whose principal purposes includes the influence of public opinion or policy (including any political party or trade union),

of which you are a member or in a position of general control or management;

(iii) the interests of any person from whom you have received a gift or hospitality with an estimated value of at least £50

(b) a decision in relation to that business might reasonably be regarded as affecting your well-being or financial position or the well-being or financial position of a relevant person to a greater extent than the majority of (in the case of authorities with electoral divisions or wards) other council tax payers, ratepayers or inhabitants of the electoral division or ward, as the case may be, affected by the decision;

(4) In sub-paragraph (3)(b), a relevant person is—

(a) a member of your family or a close associate; or

(b) any person or body who employs or has appointed such persons, any firm in which they are a partner, or any company of which they are directors;

(c) any person or body in whom such persons have a beneficial interest in a class of securities exceeding the nominal value of £25,000; or

(d) any body of a type described in sub-paragraph (3)(a)(i) or (ii).

(5) Subject to sub-paragraphs (6) and (7), you have a personal interest which is also a disclosable pecuniary interest as defined by section 30 of the Localism Act 2011 in any business of your authority where (i) you or (ii) your partner has any interest as described in the following schedule:

SCHEDULE

Subject	Prescribed description
Employment, office, trade, profession or vacation	Any employment, office, trade, profession or vocation carried on for profit or gain.
Sponsorship	<p>Any payment or provision of any other financial benefit (other than from the relevant authority) made or provided within the relevant period in respect of any expenses incurred by M in carrying out duties as a member, or towards the election expenses of M.</p> <p>This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992(1).</p>
Contracts	Any contract which is made between the relevant person (or a body in

which the relevant person has a beneficial interest) and the relevant authority—

(a) under which goods or services are to be provided or works are to be executed; and

(b) which has not been fully discharged.

Land	Any beneficial interest in land which is within the area of the relevant authority.
Licences	Any licence (alone or jointly with others) to occupy land in the area of the relevant authority for a month or longer.
Corporate tenancies	<p>Any tenancy where (to M's knowledge)—</p> <p>(a) the landlord is the relevant authority; and</p> <p>(b) the tenant is a body in which the relevant person has a beneficial interest.</p>
Securities	<p>Any beneficial interest in securities of a body where—</p> <p>(a) that body (to M's knowledge) has a place of business or land in the area of the relevant authority; and</p> <p>(b) either—</p> <p>(i) the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body; or</p> <p>(ii) if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which the relevant person has a beneficial interest exceeds one hundredth of the total issued share capital of that class</p>

(6) In sub-paragraph (5), your partner means—

(a) your spouse or civil partner,

(b) a person with whom you are living as husband and wife, or

(c) a person with whom you are living as if you were civil partners,

(7) In sub-paragraph (5), any interest which your partner may have is only treated as your interest if you are aware that your partner has the interest.

Disclosure of personal interests (See also Part 3)

9. —(1) Subject to sub-paragraphs (2) to (5), where you have a personal interest in any business of your authority and you attend a meeting of your authority at which any matter relating to the business is considered, you must disclose to that meeting the existence and nature of that interest at the commencement of that consideration, or when the interest becomes apparent.

(2) Sub-paragraph (1) only applies where you are aware or ought reasonably to be aware of the existence of the personal interest.

(3) Where you have a personal interest but, by virtue of paragraph 14, sensitive information relating to it is not registered in your authority's register of members' interests, you must indicate to the meeting that you have a personal interest and, if also applicable, that it is a disclosable pecuniary interest, but need not disclose the sensitive information to the meeting.

(4) Subject to paragraph 12(1)(b), where you have a personal interest in any business of your authority and you have made an executive decision on any matter in relation to that business, you must ensure that any written statement of that decision records the existence and nature of that interest.

(5) In this paragraph, "executive decision" is to be construed in accordance with any regulations made by the Secretary of State under section 22 of the Local Government Act 2000.

Prejudicial interest generally

10. —(1) Subject to sub-paragraph (2), where you have a personal interest in any business of your authority you also have a prejudicial interest in that business where either-

(a) the interest is a disclosable pecuniary interest as described in paragraph 8(5), or

(b) the interest is one which a member of the public with knowledge of the relevant facts would reasonably regard as so significant that it is likely to prejudice your judgement of the public interest.

(2) For the purposes of sub-paragraph (1)(b), you do not have a prejudicial interest in any business of the authority where that business—

(a) does not affect your financial position or the financial position of a person or body described in paragraph 8;

(b) does not relate to the determining of any approval, consent, licence, permission or registration in relation to you or any person or body described in paragraph 8; or

(c) relates to the functions of your authority in respect of—

- (i) housing, where you are a tenant of your authority provided that those functions do not relate particularly to your tenancy or lease;
- (ii) school meals or school transport and travelling expenses, where you are a parent or guardian of a child in full time education, or are a parent governor of a school, unless it relates particularly to the school which the child attends;
- (iii) statutory sick pay under Part XI of the Social Security Contributions and Benefits Act 1992, where you are in receipt of, or are entitled to the receipt of, such pay;
- (iv) an allowance, payment or indemnity given to members;
- (v) any ceremonial honour given to members; and
- (vi) setting council tax or a precept under the Local Government Finance Act 1992.

Prejudicial interests arising in relation to overview and scrutiny committees

11. You also have a personal interest in any business before an overview and scrutiny committee of your authority (or of a sub-committee of such a committee) where—

(a) that business relates to a decision made (whether implemented or not) or action taken by your authority's executive or another of your authority's committees, sub-committees, joint committees or joint sub-committees; and

(b) at the time the decision was made or action was taken, you were a member of the executive, committee, sub-committee, joint committee or joint sub-committee mentioned in paragraph (a) and you were present when that decision was made or action was taken

Effect of prejudicial interests on participation

12. —(1) Subject to sub-paragraph (2) and (3), where you have a prejudicial interest in any matter in relation to the business of your authority—

(a) you must not participate, or participate further, in any discussion of the matter at any meeting, or participate in any vote, or further vote, taken on the

matter at the meeting and must withdraw from the room or chamber where the meeting considering the matter is being held—

- (i) in a case where sub-paragraph (2) applies, immediately after making representations, answering questions or giving evidence;
- (ii) in any other case, whenever it becomes apparent that the matter is being considered at that meeting;

unless you have obtained a dispensation from your authority's monitoring officer or Standards Panel ;

(b) you must not exercise executive functions in relation to that matter; and

(c) you must not seek improperly to influence a decision about that matter.

(2) Where you have a prejudicial interest in any business of your authority which is not a disclosable pecuniary interest as described in paragraph 8(5), you may attend a meeting (including a meeting of the overview and scrutiny committee of your authority or of a sub-committee of such a committee) but only for the purpose of making representations, answering questions or giving evidence relating to the business, provided that the public are also allowed to attend the meeting for the same purpose, whether under a statutory right or otherwise.

(3) Where you have a prejudicial interest which is not a disclosable pecuniary interest as described in paragraph 8(5), arising solely from membership of any body described 8(3)(a)(i) or 8(3)(a)(ii)(a) then you do not have to withdraw from the room or chamber and may make representations to the committee but may not participate in the vote.

Part 3 -Registration of Interests

Registration of members' interests

13. —(1) Subject to paragraph 14, you must, within 28 days of—

(a) this Code being adopted by the authority; or

(b) your election or appointment to office (where that is later),
register in the register of members' interests details of-

- (i) your personal interests where they fall within a category mentioned in paragraph 8(3)(a) and
- (ii) your personal interests which are also disclosable pecuniary interests where they fall within a category mentioned in paragraph 8(5)

by providing written notification to your authority's monitoring officer.

(2) Subject to paragraph 14, you must, within 28 days of becoming aware of any new personal interest falling within sub-paragraphs (1)(b)(i) or (1)(b)(ii) or any

change to any personal interest registered under sub-paragraphs (1)(b)(i) or (1)(b)(ii), register details of that new personal interest or change by providing written notification to your authority's monitoring officer.

Sensitive information

14. —(1) Where you consider that the information relating to any of your personal interests is sensitive information, and your authority's monitoring officer agrees, the monitoring officer shall not include details of the interest on any copies of the register of members' interests which are made available for inspection or any published version of the register, but may include a statement that you have an interest, the details of which are withheld under this paragraph.

(2) You must, within 28 days of becoming aware of any change of circumstances which means that information excluded under paragraph (1) is no longer sensitive information, notify your authority's monitoring officer asking that the information be included in the register of members' interests.

(3) In this Code, "sensitive information" means information, the details of which, if disclosed, could lead to you or a person connected with you being subject to violence or intimidation.

Dispensations

15 - (1) The Standards Panel or the monitoring officer may, on a written request made to the monitoring officer of the authority by a member, grant a dispensation relieving the member from either or both of the restrictions in paragraph 12(1)(a) (restrictions on participating in discussions and in voting), in cases described in the dispensation.

(2) A dispensation may be granted only if, after having had regard to all relevant circumstances, the Standards Panel or the monitoring officer—

(a) considers that without the dispensation the number of persons prohibited by paragraph 12 from participating in any particular business would be so great a proportion of the body transacting the business as to impede the transaction of the business,

(b) considers that without the dispensation the representation of different political groups on the body transacting any particular business would be so upset as to alter the likely outcome of any vote relating to the business,

(c) considers that granting the dispensation is in the interests of persons living in the authority's area,

(d) if it is an authority to which Part 1A of the Local Government Act 2000 applies and is operating executive arrangements, considers that without the dispensation each member of the authority's executive would be prohibited by paragraph 12 from participating in any particular business to be transacted by the authority's executive; or

(e) considers that it is otherwise appropriate to grant a dispensation.

(2) A dispensation must specify the period for which it has effect, and the period specified may not exceed four years.

(3) Paragraph 12 does not apply in relation to anything done for the purpose of deciding whether to grant a dispensation under this paragraph.

Appendix 1

Non-exhaustive Examples of Bullying and Harassment

With reference to paragraph 3(2)(b) of this Code –

(1) Examples of bullying behaviour include, without limitation:

- spreading malicious rumours, or insulting someone by word or behaviour
- copying memos that are critical about someone to others who do not need to know
- ridiculing or demeaning someone – picking on them or setting them up to fail
- exclusion or victimisation
- unfair treatment
- overbearing supervision or other misuse of power or position
- unwelcome sexual advances – touching, standing too close, display of offensive materials, asking for sexual favours, making decision on the basis of sexual advances being accepted or rejected.
- making threats or comments about job security without foundation
- deliberately undermining a competent worker by overloading or constant criticism
- preventing individuals progressing by intentionally blocking promotion or training opportunities
- invading someone's personal space
- speaking to someone in an overbearing manner
- using aggressive body language
- undermining or belittling someone

(2) Examples of harassment include, without limitation:

- making abusive, derogatory, patronising, suggestive or sexualised comments or sounds
- making jokes or insulting gestures or facial expressions
- ridicule
- offensive e-mails, tweets or comments on social networking sites
- trolling via social networking sites
- threats of aggression or intimidation
- making false and malicious assertions
- intrusive questioning about private matters
- display of offensive material
- unwanted comments on dress or appearance

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Report To:	Audit and Governance Committee
Date:	24 July 2019
Report Title:	Financial Procedure Rules
Report of:	Homira Javadi, Chief Finance Officer
Cabinet member	Councillor Stephen Holt (Cabinet Member for Financial Services)
Ward(s) Affected:	All
Purpose of report:	To present to Audit and Governance Committee updated Financial Procedure Rules, and seek comment on them.
Officer recommendation(s):	Audit and Governance Committee are asked to review the draft Financial Procedure Rules in advance of them being submitted to Full Council for approval.
Reasons for recommendations:	It is a duty of the Chief Finance Officer (CFO) to maintain an up to date set of Financial Procedure Rules to ensure the Council has effective governance of finances in place.
Contact Officer(s)	Name: Homira Javadi Post title: Chief Finance Officer E mail: Homira.Javadi@lewes-eastbourne.gov.uk Telephone number: 01273 085512

1 Introduction

- 1.1** Eastbourne Borough Council exercises its powers and duties in accordance with the law and its Constitution. Part 4 of the Constitution of the Council sets out the Financial Procedure Rules of the Council. These Rules have been the subject of a number of incremental updates over recent years. Now that Eastbourne Borough Council and Lewes District Council are working very closely together it is timely that these rules are harmonized between the two councils and updated to reflect best practice.
- 1.2** The remit of the Audit and Governance Committee sets out that it is responsible for exercising the powers to maintain an overview of the Council's constitution in terms of contract procedure rules, financial regulations, and codes of conduct and behaviour. A report on the Financial Procedure Rules was also presented to Cabinet at its 9 July meeting. Following this meeting, the Financial Procedure Rules will be submitted to Full Council for approval.

2 Structure of the draft updated Financial Procedure Rules

- 2.1** Good practice and legislation have informed the draft update, including The Role of The Chief Finance Officer (CFO) in Local Government (CIPFA February 2016) and Section 114 of the Local Government Finance Act 1988. The Key elements of the structure of the draft update Financial Procedure Rules is set out as follows.

- Introduction (Role of the CFO, a summary of Financial Procedure Rules and responsibilities to the Council, responsibilities of Personal, the CFO, Directors/ Assistant Directors and Heads of Service)
- Financial Planning (This sets out the procedures and responsibilities for budgeting and maintenance of reserves)
- Financial Management (This sets out the procedures and responsibilities for managing income and expenditure)
- Financial Accounting (This sets out the procedures and responsibilities for accounting policies, accounting records and returns and the statement of accounts).
- Control of Resources (This sets out the procedures and responsibilities for internal controls, audit requirements (both internal and external audit), preventing fraud and corruption, assets and treasury management, banking and petty cash.
- Financial Systems and Procedures (This sets out the procedures and responsibilities for systems, security of income and expenditure, taxation and trading accounts and business units (including Local Authority Trading Companies).
- External Arrangements (This sets out the procedures and responsibilities for partnerships, external funding and working for third parties)).

3 Financial Appraisal

- 3.1** There are no financial implications arising from the recommendations in this report other than those already contained within existing budgets.

4 Legal Implications

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

5 Risk Management Implications

- 5.1** If the Council does not have up to date Financial Procedure Rules reviewed and approved by Councillors, it will not be able to demonstrate that it has in place adequate means to safeguard Council assets and services, and could be subject to criticism from the Council's external auditor or the public.

6 Equality analysis

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

7 Background Papers

The Constitution of Eastbourne Borough Council.

<https://www.lewes-eastbourne.gov.uk/about-the-councils/constitutions/>

8 Appendices

Appendix 1 – Eastbourne Borough Council Draft Financial Procedure Rules

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EASTBOURNE BOROUGH COUNCIL

DRAFT FINANCIAL PROCEDURE RULES

JULY 2019

1. INTRODUCTION

1.1 Role of the Chief Finance Officer (CFO)

- 1.1.1. Financial Procedure Rules are designed to maintain an acceptable standard of financial administration. They must be available to and followed by all Officers, Members and agents acting for the Council. Together with Standing Orders they regulate the conduct of the Council's business.
- 1.1.2. Section 151 of the Local Government Act 1972 requires every local authority "to make arrangement for the proper administration of their financial affairs and ensure that one of their officers has responsibility for the administration of those affairs". The officer designated by the Council as having the statutory responsibility set out in Section 151 is the Chief Finance Officer and the Deputy Chief Finance Officer is the designated deputy.
- 1.1.3. The Chartered Institute of Public Finance and Accounting (CIPFA) "Statement on the Role of the Chief Financial Officer (CFO) in Local Government 2016" defines the role of a CFO as:
 - a key member of the Leadership Team, helping it to develop and implement strategy and to resource and deliver the organisation's strategic objectives sustainably and in the public interest;
 - must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the organisation's financial strategy; and
 - must lead the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.
- 1.1.4. To deliver these responsibilities the CFO:
 - must lead and direct a finance function that is resourced to be fit for purpose;and
 - must be professionally qualified and suitably experienced.

1.2 Financial Procedure Rules

- 1.2.1 The Financial Procedure Rules provide the framework for the financial administration of the Council with a view to ensuring that financial matters are conducted in a sound and proper manner, constitute value for money and minimise the risk of legal challenge. Financial Procedure Rules are not intended to constitute a set of detailed rules to respond to every contingency.

- 1.2.2. All financial decisions and decisions with financial implications must have regard to proper financial control. Any doubt as to the appropriateness of a financial proposal or correctness of a financial action must be clarified in advance of the decision or action with the CFO.
- 1.2.3. Detailed procedure notes and other financial instructions may be issued from time to time by the CFO, where assistance is needed with the interpretation of Financial Procedure Rules.
- 1.2.4. Failure to observe Financial Procedure Rules (including any supplementary procedure notes and financial instructions), may result in action under the Council's disciplinary procedures.
- 1.2.5. These Financial Procedure Rules should be read in conjunction with the Contract Procedure Rules and the Scheme of Delegation.
- 1.2.6. The CFO is responsible for maintaining a continuous review of the Financial Procedure Rules and submitting any additions or changes necessary to the Council for approval. An annual review shall be undertaken.
- 1.2.7. The CFO is also responsible for reporting, where appropriate, breaches of the Financial Procedure Rules to the Council and/or to the Cabinet. The CFO is authorised to temporarily suspend Financial Procedure Rules in exceptional circumstances, and where such a suspension is authorised, a written record shall be kept of the reasons for this.
- 1.2.8. Directors, Assistant Directors and Heads of Service are responsible for ensuring that all staff in their Directorates/Services are aware of the existence and content of the Financial Procedure Rules and that they comply with them.

1.3. Responsibilities

To the Council

- 1.3.1 Councillors and employees of the Council are responsible for ensuring that they use the resources and assets entrusted to them in a responsible and lawful manner. They should strive to achieve value for money and avoid legal challenge to the Council.
- 1.3.2. These responsibilities apply equally to councillors and employees when representing the Council on outside bodies.

Personal

- 1.3.3. Any person charged with the use or care of Council resources and assets should make themselves aware of the Council's requirements under the Financial Procedure Rules. If anyone is in any doubt as to their obligations, then they should seek advice. Unresolved questions of interpretation should be referred to the CFO.

- 1.3.4. All employees must report immediately to their manager, supervisor or other responsible senior Officer any illegality, impropriety, serious breach of procedure or serious deficiency in the provision of services that they suspect or become aware of. Employees are able to do this without fear of recrimination providing they act in good faith via the Council's Whistle Blowing Policy. Compliance with the Council's Anti-Fraud and Corruption Strategy and the Code of Conduct for Officers is mandatory for all Officers.

Chief Finance Officer

- 1.3.5. Section 114 of the Local Government Finance Act 1988 requires the CFO to report to Council, Cabinet, and the External Auditor if the Council, any of its committees, or any person holding any office or employment with the Council:

- Has made, or is about to make, a decision which involves, or would involve, the authority incurring unlawful expenditure;
- Has taken, or is about to take, unlawful action which has resulted, or would result, in a loss or deficiency to the Council; or
- Is about to make an unlawful entry in the Council's accounts.

- 1.3.6. Section 114 of the 1988 Act also requires:

- The CFO to nominate a properly qualified member of staff to deputise should they be unable to perform the duties under section 114 personally; and
- The Council to provide the CFO with sufficient staff, accommodation and other resources, as are in his/her opinion sufficient to carry out his/her duties under Section 114.

- 1.3.7. The CFO has a range of general responsibilities, which underpin an overriding responsibility to ensure the proper administration of the financial affairs of the Council. These include:

- Setting financial management standards and to monitor compliance with them;
- Ensuring proper professional practices are adhered to, and to act as head of profession in relation to the standards, performance and development of finance staff throughout the Council;
- Advising on the key strategic controls necessary to secure sound financial management; and
- Ensuring that financial information is available to enable accurate and timely monitoring and reporting of financial and non-financial performance indicators.

Directors/ Assistant Directors and Heads of Service

1.3.8. Directors/ Assistant Directors and Heads of Service are responsible for ensuring that the Financial Procedure Rules are observed throughout all areas under their control and shall:

- Provide the CFO with such information and explanations as the CFO feels is necessary to meet their obligations under the Financial Procedure Rules;
- Consult with the CFO and seek approval on any matter liable to affect the Council's finances materially, before any commitments are incurred;
- Ensure that Cabinet Councillors are advised of the financial implications of all significant proposals and that the financial implications have been agreed by the CFO;
- Inform the CFO of failures of financial control resulting in additional expenditure or liability, or loss of income or assets;
- Wherever any matter arises which may involve irregularities in financial transactions consult with the CFO and, if a serious irregularity is confirmed, the matter shall be reported to the Chief Executive, appropriate Cabinet Member and Assistant Director HR and Transformation; and
- Ensure the legality of their Directorate/Service's actions.

1.3.9. Directors/ Assistant Directors and Heads of Service are also responsible for:

- Promoting the financial management standards set by the CFO in their departments and to monitor adherence to the standards and practices, liaising as necessary with the CFO; and
- Promoting sound financial practices in relation to the standards, performance and development of staff in their service areas.

2. FINANCIAL PLANNING

2.1. Budgeting

a) Budget Format

The budget format determines the level of detail to which financial control and management will be exercised. The format shapes how the rules around virement operate, the operation of cash limits and sets limits at which funds may be reallocated.

2.1.1. Advise Cabinet on the format and content of the budget to be approved by Council.

Directors/Assistant Directors and Heads of Service

- 2.1.2. Comply with budgetary guidance provided by CFO.

b) Budget and Medium Term Planning

The Council is a complex organisation responsible for delivering a wide variety of services. It needs to plan effectively and to develop systems to enable scarce resources to be allocated in accordance with carefully weighted priorities. The budget is the financial expression of the Council's plans and policies. The revenue budget must be constructed so as to ensure that resource allocation properly reflects the service plans and priorities of Council. Budgets (spending plans) are needed so that the Council can plan, authorise, monitor and control the way money is allocated and spent. It is illegal for a Council to budget for a deficit. Medium-term planning involves a cycle in which managers develop their own plans in conjunction with the CFO. As each year passes, another future year will be added to the Medium-Term Financial Strategy (MTFS). This ensures that the Council is always preparing for events in advance.

CFO Responsibilities

- 2.1.3. Prepare and submit reports on revenue budget forecasts to Cabinet, including resource constraints set by Government. Reports should take account of medium-term forecasts, where appropriate.
- 2.1.4. Determine detailed form of revenue budgets and the methods for preparation, consistent with the budget approved by Council, and after consultation with Cabinet, Directors/Assistant Directors and Heads of Service.
- 2.1.5. Prepare and submit reports to Cabinet on aggregate spending plans of service areas and on the resources available to fund them, identifying, where appropriate, implications for the level of taxation to be levied.
- 2.1.6. Advise on the medium-term implications of spending decisions and alternative options.
- 2.1.7. Work with Directors/Assistant Directors and Heads of Service, and all Council Officers, to identify opportunities to improve economy, efficiency and effectiveness, encouraging good practice financial appraisals of development or savings options, and in developing the financial aspects of service planning.
- 2.1.8. Advise Council on Cabinet proposals in accordance with responsibilities under Section 151 of the Local Government Act 1972.

Directors/ Assistant Directors and Heads of Service Responsibilities

- 2.1.9. Prepare detailed draft revenue budgets in consultation with the CFO, for submission to Cabinet and approval by Council.

- 2.1.10. Integrate financial and budget plans into service planning, so that budget plans can be supported by financial and non-financial performance measures.
- 2.1.11. When drawing up draft revenue budgets, have regard to spending/income patterns and pressures, volatility to external influences, legal requirements, policy requirements, initiatives already underway and external grants and contributions.

c) Capital Programme

Capital expenditure involves acquiring or enhancing fixed assets with long-term value to the Council, such as land, buildings, and major items of plant, equipment or vehicles. Capital assets shape the way services are delivered in the long term and create financial commitments for the future in the form of financing costs and revenue running costs.

CFO Responsibilities

- 2.1.12. Prepare capital budgets jointly with Directors/ Assistant Directors and Heads of Service and report them to Cabinet for approval. The Cabinet will make recommendations on the capital budgets and on any associated financing requirements to Council. Cabinet Member approval is required where a Director/Assistant Director and Head of Service proposes to bid for or exercise additional borrowing, not anticipated in the Capital Programme (extra borrowing will create future commitments to financing costs).
- 2.1.13. Prepare and submit reports to Cabinet on projected income, expenditure and resources compared with approved budgets.
- 2.1.14. Issue guidance on capital schemes and controls e.g. revenue costs, project appraisal techniques. The definition of capital will be determined by the CFO, having regard to government regulations and accounting requirements.
- 2.1.15. Obtain Cabinet authorisation for individual schemes where estimated expenditure exceeds Capital Programme provision by more than 10% or £50,000 whichever is the lower (subject to minimum overspend of £5,000)

Directors/ Assistant Directors and Heads of Service Responsibilities

- 2.1.16. Comply with guidance on capital projects and controls issued by CFO.
- 2.1.17. Develop and implement asset management plans in conjunction with CFO.
- 2.1.18. Ensure that all capital projects have undergone a robust appraisal which has been approved by Financial and Legal Services, before being presented and discussed by the appropriate management group.

- 2.1.19. Prepare regular reports reviewing Capital Programme provisions for their services, and prepare a quarterly return of estimated final costs of schemes in the approved Capital Programme for submission to CFO.
- 2.1.20. Ensure adequate records are maintained for all capital contracts.
- 2.1.21. In consultation with the CFO, accelerate the progress of a scheme by deferring the start of another scheme in that year's programme or, if delays are occurring generally, may bring forward a scheme programmed to start in a later year.
- 2.1.22. Proceed with projects only when there is adequate provision in the Capital Programme, following Cabinet or Council approval, and with the agreement of the CFO where required. Cabinet can approve projects up to a cumulative value of £500,000 (General Fund) and £500,000 (Housing Revenue Account) in any one financial year. Projects that breach the £500,000 limits – either alone or cumulatively – require Council approval.
- 2.1.23. Prepare and submit reports, jointly with the CFO, to Cabinet, of any variation in contract costs greater than approved limits. The Cabinet may meet cost increases of up to 5% of the project by virement from identified savings arising from other projects within the capital programme.
- 2.1.24. Prepare and submit reports, jointly with the CFO, to Cabinet on completion of schemes where the final expenditure varies from the approved budget by more or less than 10% or £50,000 whichever is the lower (subject to minimum overspend/underspend of £5,000).
- 2.1.25. Ensure credit arrangements, such as leasing agreements, are not entered into without prior CFO approval, who will need to undertake an assessment of the type of lease arrangement being entered into and, if applicable, approval of the scheme through the Capital Programme.
- 2.1.26. Consult with the CFO and seek Cabinet approval where Director/ Assistant Director and Head of Service proposes to bid for Government approvals to support expenditure that has not been included in current year's Capital Programme.

2.2. Maintenance of Reserves

The Council must decide the minimum level of General Reserves it wishes to maintain before it can decide the level of Council Tax. Reserves are maintained as a matter of prudence. They enable the Council to provide for unexpected events and thereby protect it from overspending, should such events occur. There are also reserves earmarked for specific purposes.

- 2.2.1. To advise Cabinet and/or Council on prudent levels of reserves for the Council, and to take account of the advice of CIPFA in this matter.

Directors/ Assistant Directors and Heads of Service Responsibilities

- 2.2.2. To ensure that reserves are used only for the purposes for which they were intended.

3. FINANCIAL MANAGEMENT

3.1. Managing Income and Expenditure

a) Budget Monitoring and Control

Proper budget management ensures that, once the budget has been approved by Council, allocated resources are used for their intended purposes and are properly accounted for. Budgetary control is a continuous process, enabling the Council to review and adjust its budget targets during the financial year. It also provides the mechanism that calls to account, managers responsible for defined elements of the budget.

By continuously identifying and explaining variances against budget targets, the Council can identify changes in trends and resource requirements at the earliest opportunity. The Council itself operates within an annual revenue limit, approved when setting the annual budget. To ensure that the Council does not overspend in total, each service is required to manage its own income and expenditure within the budget allocated to it. For the purposes of budgetary control by managers, a budget will usually be the planned income and expenditure excluding support and capital charges, for a Department.

CFO Responsibilities

- 3.1.1. Submit reports to Cabinet and Council, in consultation with the relevant Director/ Assistant Director and Head of Service, where a Director/ Assistant Director and Head of Service's expenditure and resources are significantly outside the approved budgets under their control.
- 3.1.2. Prepare and submit quarterly reports on the Council's projected income and expenditure compared with the budget to the Cabinet.
- 3.1.3. Establish an appropriate framework of budgetary management and control that ensures that:
- Budget management is exercised within the approved budget unless Cabinet approves a supplementary estimate;
 - Each Director/Assistant and Head of Service has timely information on income and expenditure on each budget which is sufficiently detailed to enable managers to monitor their budgetary responsibilities;
 - As a minimum, quarterly updates are held between a Head of Service, budget holder and their Finance representative;

- Expenditure is committed only against the approved budget cost centre;
- All Officers responsible for income and expenditure, comply with the relevant guidance and the Financial Procedure Rules;
- Each cost centre has a single named manager, designated by the relevant Director/Assistant Director and Head of Service. As a general principle, budgetary responsibility should be aligned as closely as possible to the decision-making processes that commit expenditure; and
- Significant variances from approved budget are investigated and reported by budget holders monthly and advised to the Strategic Management Team and Cabinet.

3.1.4. Administer the Council's Scheme of Virement (refer to subsection b) below).

Directors/ Assistant Directors and Heads of Service Responsibilities

- 3.1.5. Consult with CFO on any matter which is liable materially to affect the finances of the Council before any provision or other commitment is incurred and before reporting to Members.
- 3.1.6. Maintain budgetary control within their services, in adherence to the principles above, and to ensure that all income and expenditure is properly recorded and accounted for.
- 3.1.7. Ensure that an accountable budget holder is identified for each item of income and expenditure under the control of the Director/ Assistant Director and Head of Service (grouped together in a series of department codes). Budget responsibility should be aligned as closely as possible to the decision-making that commits the expenditure.
- 3.1.8. Ensure that spending remains within the service's overall budget limit, and that individual budget heads are not overspent, by monitoring and taking appropriate corrective action where significant variations from the approved budget are forecast and to report these to the CFO. This regulation shall also apply to any action or decision, which will give rise to a reduction in income.
- 3.1.9. Ensure that a monitoring process is in place to review performance levels in conjunction with the budget and is operating effectively within the guidelines set down by the CFO.
- 3.1.10. Obtain prior approval by Council or Cabinet (as appropriate) for new proposals (Supplementary Estimates) outside of the budget and policy framework, of whatever amount, that:
- Create financial commitments in the current year and future years (Cabinet approval limit up to £500,000 cumulative in a single financial

year individually for both General Fund and HRA , Council approval for higher amounts)

- Change existing policies, initiate new policies or cease existing policies; and
- Materially extends or reduces Council services.

3.1.11. Ensure compliance with Scheme of Virement (refer to subsection b) below).

3.1.12. Consult with the relevant Director/ Assistant Director and Head of Service, where it appears that a budget proposal, including a virement proposal, may impact on another service area or another Director/ Assistant Director or Head of Service's service activity, prior to any action being taken.

b) Virement

A virement is the transfer between budgets that enables Cabinet, Directors, Assistant Directors and Heads of Service and their staff, to manage budgets with a degree of flexibility within the overall budget and policy framework determined by the Council, and therefore to optimise the use of resources.

3.1.13. The Scheme of Virement is administered by the CFO within guidelines set by Council and any variation from the Scheme requires Council approval.

3.1.14. Virement does not create additional overall budget liability and should not be used to create additional budget demand in future years.

3.1.15. Virement is not allowed:

- From capital financing charges, interest credits, council tax and housing benefit payments and projects financed by external grants and contributions, corporate finance costs (e.g. bank charges), precepts etc. or internal recharges (e.g. departmental support service recharges); or
- For a transfer of resources between funds or Capital projects.

3.1.16. Virement is only allowed from employee costs with the approval of the CFO and after consideration of the overall budget position on employees, since the budget anticipates savings on employee budgets from natural staff turnover.

CFO Responsibilities

3.1.17. Prepare, jointly, with the relevant Director/Assistant Director and Head of Service a report to Cabinet on proposed virements, where required under the Scheme.

Directors/ Assistant Directors and Heads of Service Responsibilities

- 3.1.18. Directors/Assistant Directors and Heads of Service may exercise virement on budgets under their control for gross amounts up to £30,000 in total (cumulative within a single financial year), within Departmental budgets or between Departmental budgets within the same Service budget (any combination thereof), following the approval of the CFO and subject to the conditions in paragraphs 3.1.19 to 3.1.22 below.
- 3.1.19. Amounts greater than £30,000 require Portfolio Holder approval, following a joint report by the CFO and the Director/Assistant Director and Head of Service, which must specify the proposed expenditure and the source of funding, and must explain the implications in the current and future financial year. Each Cabinet Member has a cumulative limit of £250,000 per financial year.
- 3.1.20. Amounts greater than £250,000 require Cabinet approval. The Cabinet has a cumulative limit of £500,000 per financial year. Amounts greater than £500,000 require Council approval.
- 3.1.21. Prior Cabinet approval is required for any virement where it is proposed to:
- vire between budgets of different accountable Cabinet Members; and
 - vire between budgets managed by different Directors/ Assistant Directors and Heads of Service.
- 3.1.22. Virements relating to a specific financial year should not be made after 31st March in that year.
- 3.1.23. Where an approved budget is a lump-sum budget or contingency intended for allocation during the year, its allocation will not be treated as a virement, provided that:
- The amount is used in accordance with the purposes for which it has been established; and
 - Cabinet has approved the basis and the terms, including financial limits, on which it will be allocated. Individual allocations in excess of the financial limits should be reported to the Cabinet.

c) Year-End Balances

The treatment of year-end balances is administered by the CFO within guidelines set by the Council. The rules below cover arrangements for the transfer of resources between accounting years, i.e. a carry-forward.

- 3.1.24. The Scheme of Carry-Forwards is administered by the CFO within guidelines set by Council and any variation from the Scheme requires Council approval.

- 3.1.25. The rules cover arrangements for transferring resources between accounting years (i.e. carry-forwards).

CFO Responsibilities

- 3.1.26. Administer the Scheme of Carry-Forwards within guidelines approved by Council:
- Underspent Capital budgets at year-end will be carried forward in the Capital Programme automatically unless no longer required
 - Underspent Revenue budgets up to £30,000 on individual budgets may be carried forward with CFO approval
 - Underspent Revenue budgets in excess of £30,000 on individual budgets may be carried forward with Cabinet approval
 - All underspent Revenue budgets approved to be carried forward will be retained in an earmarked reserve.
- 3.1.27. Report jointly with relevant Director/Assistant Director and Head of Service on all material overspends and underspends on service budgets carried forward to the Cabinet and to Council.

Directors/ Assistant Directors and Heads of Service Responsibilities

- 3.1.28. Underspends on service budgets up to £30,000 under the control of the Director/Assistant Director and Head of Service may be carried forward with prior CFO approval. Underspends over £30,000 require Cabinet approval.
- 3.1.29. Take account of Capital underspends carried forward into the following years Capital Programme.

d) Emergency Expenditure

<p>The Council needs a procedure in place for meeting immediate needs if an emergency situation arises in the borough.</p>

- 3.1.30. The Chief Executive and CFO shall have authority to approve expenditure on items essential to meet immediate needs created by an emergency or which is referable to Section 138 of the Local Government Act 1972, subject to a subsequent report to Cabinet and/or Council depending on whether or not the expenditure can be met within the current budget framework.
- 3.1.31. The Leader or Deputy Leader (having received report from Chief Executive and CFO), shall have power to incur expenditure essential to meet immediate needs created by an emergency, or which is referable to Section 138 of the Local Government Act 1972 (or subsequent legislation) which is not otherwise authorised, or where it is necessary in the Council interest to settle legal proceedings. A subsequent report shall be submitted to Cabinet and/or Council, depending on whether or not the expenditure can be met within the current budget framework.

- 3.1.32. The CFO will ensure, retrospectively, the submission of a claim for reimbursement under the “Bellwin Scheme” for any eligible emergency costs incurred i.e. costs incurred on, or in connection with, immediate actions to safeguard life and property or to prevent suffering or severe inconvenience as a result of a disaster or emergency in the borough. Grant is limited by Section 155 of the Local Government and Housing Act 1989 and local authorities are expected to have budgeted for a certain amount of emergency expenditure (the ‘threshold’).

4. FINANCIAL ACCOUNTING

4.1. Accounting Policies

The CFO is responsible for preparing the Council’s Statement of Accounts, in accordance with proper practices as set out in the format required by the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) issued by (CIPFA/LASAAC), for each financial year.

CFO Responsibilities

- 4.1.1. Select suitable accounting policies and ensure they are applied consistently. Accounting policies are set out in the annual Statement of Accounts.

Directors/ Assistant Directors and Heads of Service Responsibilities

- 4.1.2. Adhere to accounting policies, timetables and guidelines approved by the CFO.

4.2. Accounting Records

Maintaining proper accounting records is one of the ways in which the Council discharges its responsibility for the stewardship of public resources. The Council has a statutory responsibility to prepare an annual Statement of Accounts that give a “true and fair view” of the financial position and transactions of the Council. The accounting records are subject to external audit. The audit provides assurance that the Statement of Accounts have been prepared properly, that proper accounting practices have been followed and that robust arrangements have been made for securing economy, efficiency and effectiveness in the use of Council resources.

CFO Responsibilities

- 4.2.1. Determine the accounting procedures and records for the Council. Where these are maintained outside of Financial Services, the CFO should consult the Director/Assistant Director and Head of Service concerned.

- 4.2.2. Arrange for the compilation of all accounts and accounting records under his or her direction.
- 4.2.3. Comply with the following principles when allocating accounting duties:
- Separating the duties of providing information about sums due to or from the Council and calculating, checking and recording these sums from the duty of collecting or disbursing them; and
 - Employees with the duty of examining or checking the accounts of cash transactions must not themselves be engaged in these transactions.
- 4.2.4. Ensure that claims for funds, including grants, are made by the due date.
- 4.2.5. Make proper arrangements for the audit of the Council's Statement of Accounts in accordance with the latest Accounts and Audit (England) Regulations.
- 4.2.6. Prepare and publish the Statement of Accounts for each financial year in accordance with the statutory timetable, and present audited Statements for approval by the Audit and Governance Committee before 31st July each year. Submit provisional outturn results for financial year to Cabinet as soon as practicable.
- 4.2.7. Ensure the retention of financial documents in accordance with the Council's Document Retention Policy.
- 4.2.8. Undertake or receive monthly reconciliations for all fundamental IT financial systems and sign off as evidence of CFO's review.

Directors/ Assistant Directors and Heads of Service Responsibilities

- 4.2.9. Consult and obtain the approval of the CFO before making changes to accounting arrangements, records and procedures.
- 4.2.10. Comply with segregation of duties principles outlined in Paragraph 4.2.3 when allocating accounting duties.
- 4.2.11. Maintain records that provide a management trail, leading from income/expenditure source through to the accounting statements, and carry out regular monthly reconciliations of fundamental IT financial systems to the Council's corporate financial management information system.
- 4.2.12. Supply information required to enable the Statement of Accounts to be completed by the statutory deadline of 31st May each year and in accordance with guidelines issued by the CFO.

4.3. Statement of Accounts

The Council has a statutory responsibility to prepare its own Statement of Accounts, which give a "true and fair view" of the financial position and transactions of the Council.

The Audit & Governance Committee is responsible for approving the statutory annual Statement of Accounts.

CFO Responsibilities

- 4.3.1. Select suitable accounting policies and to apply them consistently.
- 4.3.2. Make judgements and estimates that are reasonable and prudent.
- 4.3.3. Ensure compliance the CIPFA/LASAAC Accounting Code of Practice.
- 4.3.4. Sign and date the Statement of Responsibilities with the Statement of Accounts, stating it gives a true and fair view of the financial position and transactions of the Council (including group financial statements where applicable) at the year ended 31st March.
- 4.3.5. Draw up the timetable for final accounts preparation and to advise Officers and external auditors accordingly.

Directors/ Assistant Directors and Heads of Service Responsibilities

- 4.3.6. Comply with accounting guidance provided by the CFO and supply the CFO with information when required.

5. RISK MANAGEMENT AND CONTROL OF RESOURCES

5.1. Risk Management

All organisations, whether in the private or public sector, face risks to people, property and continued operations. Risk is the chance or possibility of loss, damage, injury or failure to achieve objectives caused by an unwanted or uncertain action or event. Risk Management is the planned and systematic approach to the identification, evaluation and control of risk. Its objectives are to secure the assets of the organisation and to ensure its continued financial and organisational wellbeing. In essence it is an integral part of good business practice. Risk Management is concerned with evaluating the measures an organisation already has in place to manage perceived risks and then recommend the actions the organisation needs to take to control these risks effectively. The Audit and Governance Committee monitors the effective development and operation of Risk Management, and it is the overall responsibility of Cabinet to approve the Risk Management Strategy, and to promote a culture of risk management awareness throughout the Council.

CFO Responsibilities

- 5.1.1. Develop and maintain a Risk Management Strategy.
- 5.1.2. Develop and maintain a Risk Register.

- 5.1.3. Develop and promote a proactive and positive corporate Risk Management culture, including awareness and the implementation and maintenance of Risk Management controls.
- 5.1.4. Include all appropriate employees in suitable Fidelity Guarantee insurance cover.
- 5.1.5. Arrange suitable corporate insurance cover, through external insurance and internal funding, and negotiate claims for losses in consultation with other Officers, and partner organisations, where necessary.

Directors/Assistant Directors and Heads of Service Responsibilities

- 5.1.6. Promote a proactive and positive Risk Management culture within service area, including raising awareness and the implementation and maintenance of Risk Management controls.
- 5.1.7. Show due regard to advice from specialist Officers (e.g. health and safety) and review risks through the Service Planning process at least quarterly.
- 5.1.8. Promptly notify CFO of all significant new risks, properties, vehicles or other assets that require insurance and of any alterations affecting existing insurances and to provide information when requested.
- 5.1.9. Immediately notify CFO of any loss, liability or damage that may lead to a claim against the Council, together with any information or explanation required by the CFO or the Council's insurers.
- 5.1.10. Consult with the CFO and the Assistant Director Legal and Democratic Services on the terms of any indemnity that the Council is requested (or has offered) to give.
- 5.1.11. Ensure that employees, or anyone covered by Council insurance, do not admit liability or make any offer to pay compensation that may prejudice the assessment of liability in respect of any insurance claim.

5.2. Internal Controls

The Council is complex and beyond the direct control of individuals. It therefore requires internal controls to manage and monitor progress towards strategic objectives and to monitor compliance with statutory obligations.

The Council faces a wide range of financial, legal, administrative and commercial risks, both from internal and external factors, which threaten the achievement of its objectives. Internal controls are necessary to manage these risks and to protect the Council from the impact of uncertainties.

CFO Responsibilities

- 5.2.1. Assist the Council to put in place an appropriate control environment and effective internal controls which provide reasonable assurance of effective and efficient operations, financial stewardship, probity and compliance with laws and regulations.
- 5.2.2. Ensure an effective internal audit function is resourced and maintained.
- 5.2.3. Ensure that the Council has put in place effective arrangements for internal audit of the control environment and systems of internal control as required by professional standards and in line with CIPFA's Code of Practice.
- 5.2.4. Ensure an effective audit committee is developed and maintained.

Directors/ Assistant Directors and Heads of Service Responsibilities

- 5.2.5. Ensure that external auditors are given access at all reasonable times to premises, human resources, documents and assets which the external auditors consider necessary for the purposes of their work.
- 5.2.6. Ensure that all records and systems are up to date and available for inspection.
- 5.2.7. Review existing controls in the light of changes affecting the Council and to establish and implement new ones in line with guidance from the CFO. Directors/ Assistant Directors and Heads of Service should also be responsible for removing controls that are unnecessary or not cost or risk effective – for example, because of duplication.
- 5.2.8. Ensure Officers have a clear understanding of the consequences of lack of control.

5.3. Audit Requirements

a) Internal Audit

The requirement for an internal audit function for local authorities is implied by Section 151 of the Local Government Act 1972, which requires that authorities “make arrangements for the proper administration of their financial affairs”. More specific requirements are set out in the Accounts and Audit Regulations 2015, which require the Council to “undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.”

Chief Executive

- 5.3.1. Ensure that the Chief Internal Auditor has direct access to and freedom to report in his or her own name and without fear or favour to the Chief Executive and the CFO, the Cabinet and the Audit & Governance

Committee, all levels of management, Officers and elected Councillors. This should include the ability to meet the Chair of the Audit & Governance Committee alone (outside of the Committee meeting) and External Auditors to discuss significant concerns that they may have over the adequacy and effectiveness of internal controls and risk management activities.

CFO Responsibilities

- 5.3.2. Implement appropriate measures to prevent and detect fraud and corruption and ensure that effective procedures are in place to investigate promptly any identified fraud or irregularity.
- 5.3.3. Report to Cabinet requesting additional funding where insufficient internal audit resources have been identified.

Chief Internal Auditor Responsibilities

- 5.3.4. Ensure that Internal Audit has unrestricted access to all information (including records, computer files, property and personnel) and activities undertaken by the Council, and those of partner organisations and third party service providers where contract terms include Internal Audit access rights.
- 5.3.5. Assisting the CFO in discharging their responsibilities under Section 151 of the Local Government Act 1972 in relation to internal controls.
- 5.3.6. Providing and maintaining an Internal Audit function which meets the requirements of the Public Sector Internal Audit Standards (PSIAS).
- 5.3.7. Developing and delivering an Annual Audit Plan for the Council using a risk based methodology. Following consultation with the Chief Executive Officer, CFO and CMT, the Chief Internal Auditor will submit such plan to the Audit & Governance Committee for review and approval prior to the commencement of each financial year.
- 5.3.8. Providing an annual Internal Audit opinion, compliant with PSIAS requirements, which informs the Annual Governance Statement on how the Council's control environment, including risk management processes, accounting records, governance and value for money arrangements, established by management, are operating within the Council.
- 5.3.9. Issuing other reports which provide assurance to the Chief Executive, CFO, Monitoring Officer and the Strategic Management Team, and making recommendations for improvement.
- 5.3.10. Comply with any requests from the External Auditor or access to any information, files or working papers obtained or prepared during audit work that is required to discharge their responsibilities.
- 5.3.11. Reporting to the Chief Executive, CFO and the Audit and Governance Committee, if the Chief Internal Auditor concludes that resources are insufficient.

Directors/ Assistant Directors and Heads of Service Responsibilities

- 5.3.12. Ensure that Internal Audit are given access at all reasonable times to premises, human resources, documents and assets that the auditors consider necessary for the purposes of their work.
- 5.3.13. Ensure that auditors are provided with any information and explanations that they seek in the course of their work.
- 5.3.14. Consider and respond promptly to recommendations/actions in Internal Audit reports.
- 5.3.15. Ensure that agreed actions arising from audit recommendations are carried out in a timely and efficient fashion.
- 5.3.16. Notify the Chief Internal Auditor immediately of any suspected fraud, theft, irregularity, improper use or misappropriation of Council property, assets or resources. Pending investigation and reporting, the Director/ Assistant Director or Head of Service should take all necessary steps to prevent further loss and to secure records and documentation against removal or alteration.
- 5.3.17. Ensure that new systems for maintaining financial records, or records of assets, or changes to such systems, are discussed with and agreed by the Chief Internal Auditor prior to implementation.

b) External Audit

The Local Audit and Accountability Act 2014 (“the Act”) sets out the framework for audit of local authorities. It replaces the provisions of the Audit Commission Act 1998 following the closure of the Audit Commission. The duties and responsibilities of external auditors are primarily set out in Part 5 of the Act and reflected in a Code of Audit Practice issued by the National Audit Office.

The Statement of Accounts is scrutinised by the external auditors, who must be satisfied that they give a “true and fair view” of the financial position and transactions of the Council (including any group financial statements where applicable) during the year and complies with all legal requirements.

CFO Responsibilities

- 5.3.18. Ensure that external auditors are given access at all reasonable times to premises, human resources, documents and assets that the external auditors consider necessary for the purposes of their work.
- 5.3.19. Ensure there is effective liaison between external and internal audit.

- 5.3.20. Work with the external auditor and advise Council, Cabinet and Directors/Assistant Directors and Heads of Service on their responsibilities in relation to external audit.

Directors/ Assistant Directors and Heads of Service Responsibilities

- 5.3.21. Ensure that external auditors are given access at all reasonable times to premises, human resources, documents and assets which the external auditors consider necessary for the purposes of their work.
- 5.3.22. Ensure that all records and systems are up to date and available for inspection.

5.4. Preventing Fraud and Corruption

The Council will not tolerate fraud and corruption in the administration of its responsibilities, whether from inside or outside the Council.

The Council's expectation of propriety and accountability is that Members and Officers at all levels will lead by example in ensuring adherence to legal requirements, rules, procedures and practices.

The Council also expects that individuals and organisations, including partner organisations, suppliers, contractors and service providers with whom it comes into contact will act towards the Council with integrity and without thought or actions involving fraud and corruption.

Chief Executive Responsibilities

- 5.4.1. Maintain adequate and effective internal control arrangements.

CFO Responsibilities

- 5.4.2. Implement appropriate measures to prevent and detect fraud and corruption.

Chief Internal Auditor Responsibilities

- 5.4.3. Develop and maintain a comprehensive Anti-Money Laundering Strategy.
- 5.4.4. Develop and maintain a comprehensive Anti-Fraud and Corruption Strategy.
- 5.4.5. Report all suspected irregularities (as appropriate) to the Chief Executive, the CFO, and the Audit & Governance Committee.

Directors/ Assistant Directors and Heads of Service Responsibilities

- 5.4.6. Ensure that all suspected irregularities are reported to the Chief Internal Auditor without delay.
- 5.4.7. Instigate the Council's disciplinary procedures where the outcome of an audit investigation indicates improper behaviour.
- 5.4.8. Ensure that where financial impropriety is discovered, the CFO and Chief Internal Auditor are informed as soon as possible, and where sufficient

evidence exists to believe that a criminal offence may have been committed, this will be investigated by Counter Fraud Officers of the councils.

- 5.4.9. Maintain a Register of Interests' for both Councillors and Officers.

5.5. Assets

a) Security of Property

The Council holds assets in the form of property, vehicles, plant, software, equipment other items worth many millions of pounds. It is important that assets are safeguarded and used efficiently in service delivery, and that there are arrangements for the security of both assets and information required for service operations. An up-to-date asset register is a prerequisite for proper fixed asset accounting and sound asset management.

CFO Responsibilities

- 5.5.1. Maintain an Asset Register in accordance with good practice for all fixed assets with a value in excess of £10,000. The function of the Asset Register is to provide the Council with information about fixed assets so that they are safeguarded, used efficiently and effectively and adequately maintained.
- 5.5.2. Receive and process information required for accounting, costing and financial records from each Director/ Assistant Director and Head of Service.
- 5.5.3. Ensure that assets are valued in accordance with the Code issued by (CIPFA/LASAAC).
- 5.5.4. Issue guidelines on best practice ("Local Authority Assets: Disposal Guidance - DCLG March 2016") for asset disposals.
- 5.5.5. Ensure appropriate accounting entries are made to remove the value of asset disposals from the Council's records, including the proceeds of sale where appropriate.
- 5.5.6. (Independently) review and authorise proposed stock write-offs (including obsolete and surplus stock) submitted by Directors/ Assistant Directors Heads of Service, within predetermined limits. Values in excess of predetermined limits should be forwarded for approval by the Portfolio Holder for Finance and/or Cabinet as appropriate.

Directors/ Assistant Directors and Heads of Service Responsibilities

- 5.5.7. Notify the CFO immediately of any additions/disposals/variations to the Asset Register. Any use of property by a service area or establishment, other than for direct service delivery, should be supported by documentation identifying terms, responsibilities and duration of use.
- 5.5.8. Arrange for the valuation of assets for accounting purposes to meet requirements specified by the CFO.

- 5.5.9. Recommend surplus land and buildings for sale to the Asset Management Group (AMG), followed by a joint report prepared by the relevant Director/ Assistant Director and Head of Service and the CFO to Cabinet.
- 5.5.10. Follow best practice guidelines for asset disposals, issued by the CFO.
- 5.5.11. Ensure prospective occupiers of Council land are not allowed to take possession or enter until a lease or agreement (in a form approved by the Director/ Assistant Director and Head of Service in consultation with the Assistant Director – Legal and Democratic Services) has been established as appropriate.
- 5.5.12. Ensure security of buildings and other assets, including vehicles, plant, equipment, furniture, stock, stores and other property, within service area. Consult CFO where security is thought to be defective or where it is considered that special security arrangements may be needed.
- 5.5.13. Pass title deeds to Assistant Director - Legal and Democratic Services, for safe custody. The Head of Operations must keep a record of all properties owned by the Council, recording Portfolio, the purpose for which it is held, the location, the plan reference, purchase details, particulars of interest and rent payable, and particulars of tenancies granted.
- 5.5.14. Ensure that cash holdings on premises are kept within insurance limits (determined by CFO) and keys to safes and similar receptacles are carried on the person of those responsible at all times. Loss of any such keys must be reported to the CFO immediately.
- 5.5.15. Ensure all employees are aware of their personal responsibility to protect and retain the confidentiality of information, whether held in manual or computerised records. Information may be sensitive or privileged, or may possess some intrinsic value, and its disclosure or loss could result in a cost to the Council.

Inventories

- 5.5.16. Maintain an Inventory List within service area, recording descriptions of any furniture, fittings, equipment, plant and machinery, with individual values of £75 or more. The Purchasing & Payables Manager must be notified if the value of a single item exceeds £10,000.
- 5.5.17. Carry out annual check of all significant inventory items to verify location, condition and take action in relation to surpluses or deficiencies, annotating the inventory accordingly. Portable items such as computers, cameras and video recorders should be identified with Council security markings.
- 5.5.18. Make sure that property is only used in the course of Council business, unless the Director/ Assistant Director and Head of Service concerned has given permission otherwise.

Stocks and Stores

- 5.5.19. Make appropriate arrangements for the care and custody of stocks and stores within service area.
- 5.5.20. Maintain stocks at reasonable levels and ensure regular (minimum quarterly) independent physical stock checks. Stock discrepancies should be immediately investigated and pursued to a satisfactory conclusion.
- 5.5.21. Recommend stock write-offs (including obsolete and surplus stock) by submitting proposal in writing to CFO (seeking advice from purchasing advisors where appropriate).

5.6. Treasury Management, Banking and Petty Cash

Millions of pounds pass through Councils' accounts each year. This has led to the establishment of CIPFA's "Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes" (the Code).

The Code aims to provide assurance that Council money is properly managed in a way that balances risk with return, with overriding consideration given to the security of capital sums.

Banking arrangements and petty cash should also be managed appropriately with key responsibilities confined to the CFO and a limited number of authorised individuals.

CFO Responsibilities

- 5.6.1. Undertaking borrowing and investment activities in full compliance with CIPFA's "Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes". Any other lending or borrowing cannot be undertaken without the approval of Council, following consultation with the CFO.
- 5.6.2. Ensuring that all borrowing and investing activities are undertaken in the name of the Council (or nominee approved by Council) and detailed records/registers maintained and appropriate arrangements are made for the safe custody of all securities and title deeds.
- 5.6.3. Arranging and administering banking arrangements, including negotiate banking arrangements, opening accounts, signing Direct Debit mandates, ordering cheque books and arranging BACS payments.
- 5.6.4. Along with the Chief Executive, signing bank mandates authenticating the signatures of Officers designated as cheque signatories, and signatories for other instruments for the payment, collection or transfers of monies. All cheques must bear the signature of two authorised Officers of the Council and dispatched directly from the CFO (or his or her staff) to payees.

- 5.6.5. Making arrangements with the bank for the issue of corporate Purchasing Cards.
- 5.6.6. Developing, maintaining and disseminating a detailed Purchasing Card Policy, ensuring that all card holders sign their acceptance of its terms and conditions.
- 5.6.7. Developing and operating a Petty Cash Imprest system (including a set of CFO prescribed rules), which balances operational need with efficiency and appropriate cash control measures.

Directors/ Assistant Directors and Heads of Service Responsibilities

- 5.6.8. Following instructions on banking and purchase cards issued by the CFO.
- 5.6.9. Utilising Purchasing Cards in accordance with the corporate Purchasing Card Policy. Cardholders must formally sign to indicate their acceptance of the Policy, prior to usage.
- 5.6.10. Ensure Trust Funds are held in the Council's name wherever possible. Officers acting as Trustees, due to their official position, must deposit securities etc. relating to the Trust with the CFO, unless the deed otherwise provides.
- 5.6.11. Ensure Trust Funds are operated within relevant legislation and the specific requirements for each Trust. Secure administration arrangements must be approved by the CFO.
- 5.6.12. Ensure employees within service area operate Petty Cash Imprest system in compliance with CFO prescribed rules.

6. FINANCIAL SYSTEMS AND PROCEDURES

Service areas have many systems and procedures relating to the control of the Council's assets, including purchasing, costing and management systems. Service areas are increasingly reliant on ICT for their financial management information. The information must therefore be accurate and the systems and procedures sound and well administered. They should contain controls to ensure that transactions are properly processed, errors detected promptly and system reconciliations completed and evidenced monthly.

The CFO has a professional responsibility to ensure that Council financial systems are sound and should therefore be consulted at an early stage in the process prior to the implementation of any new developments or changes/upgrades to existing systems.

CFO Responsibilities

6.1.1. Make arrangements for the proper administration of the Council's financial affairs, including:

- Issuing advice, guidance and procedures for Officers and others acting on the Council's behalf
- Determining the accounting systems, form of accounts and supporting financial records
- Establishing arrangements for audit of the Council's financial affairs
- Approving any new financial systems to be introduced; and
- Approving any changes to be made to existing financial systems.

Directors/ Assistant Directors and Heads of Service Responsibilities

6.1.2. Comply with procedures and guidance issued by the CFO.

6.1.3. Ensure that accounting records are properly maintained and held securely.

6.1.4. Ensure that vouchers and documents with financial implications are not destroyed, except in accordance with arrangements set out in the approved Document Retention Policy.

6.1.5. Ensure that a complete management trail, allowing financial transactions to be traced from the accounting records to the original document, and vice versa, is maintained.

6.1.6. Incorporate appropriate controls to ensure that, where relevant:

- All input is genuine, complete, accurate, timely and not previously processed
- All processing is carried out in an accurate, complete and timely manner
- Output from the system is complete, accurate and timely; and
- Output is reconciled, at least monthly, to the Council's general ledger and signed off by the preparer and reviewer of the reconciliation.

6.1.7. Ensure that the organisational structure provides an appropriate segregation of duties to provide adequate internal controls and to minimise the risk of fraud or other malpractice.

6.1.8. Ensure there is a documented and tested disaster recovery plan to allow information system processing to resume quickly in the event of an interruption.

6.1.9. Ensure systems are documented and Officers trained in operations.

- 6.1.10. Consult with CFO before changing existing financial systems or introducing new financial systems.
- 6.1.11. Establish a scheme of delegation identifying Officers authorised to act upon the Director/Assistant Director and Head of Service's behalf in respect of payments, income collection and placing orders, including variations, and showing the limits of their authority.
- 6.1.12. Supply lists of authorised Officers, with specimen signatures and delegated limits, to the CFO, together with any subsequent variations.
- 6.1.13. Ensure that effective contingency arrangements, including back-up procedures, exist for computer systems. Where possible, back-up information should be retained in a secure location, preferably off site or at an alternative location within the building.
- 6.1.14. Ensure that, where appropriate, computer systems are registered in accordance with data protection legislation and that staff are aware of their responsibilities under the legislation.
- 6.1.15. Ensure relevant standards and guidelines for computer systems issued by Directors/Assistant Directors and Heads of Service are observed.
- 6.1.16. Ensure computer equipment and software is protected from loss and damage through theft, vandalism etc.
- 6.1.17. Comply with the copyright, designs and patents legislation. In particular, ensure that only software legally acquired and installed by the Council is used on its computers.

6.2. Income and Expenditure

a) Income

Income can be a vulnerable resource and effective income collection systems are necessary to ensure that all income due is identified, collected, receipted and properly banked. It is preferable to obtain income in advance of supplying goods or services as this improves cash flow and avoids the time and cost of administering debts.

CFO Responsibilities

- 6.2.1. Agree arrangements for the collection of income due to the Council and approve the procedures, systems and documentation for its collection.
- 6.2.2. Periodically issuing guidance on charging policy, including key principles on fees and charges (e.g. full cost recovery and benchmarking), taxation and inflationary assumptions
- 6.2.3. Order and supply to service areas receipt forms, books or tickets and similar items and satisfy themselves regarding control arrangements.

6.2.4. Agree the write-off of bad debts (in consultation with the relevant Director/ Assistant Director or Head of Service) up to £15,000 in value in each case and refer sums in excess of this limit, but up to £100,000, to the Cabinet Member for Resources for approval. Individual sums to be written off that exceed £100,000 require Cabinet approval.

6.2.5. Keep records of all sums written off and ensure appropriate accounting adjustments are made.

6.2.6. Ensure that refunds are not made for sums under £5.00, unless specifically requested by the individual.

Directors/ Assistant Directors and Heads of Service Responsibilities

6.2.7. Establish charging policy for the supply of goods or services in accordance with guidance issued by the CFO, reviewing it regularly, in line with corporate policies.

6.2.8. Separate responsibility for identifying amounts due and responsibility for collection, as far as is practicable.

6.2.9. In consultation with the CFO, establish and initiate appropriate recovery procedures, including legal action where necessary, for debts that are not paid promptly.

6.2.10. Issue official receipts for all cash transactions (except where a legal document is the receipt for money received) and maintain other documentation for income collection where receipts are not required.

6.2.11. Ensure wherever practical that at least two employees are present when post is opened at a site where income is regularly received.

6.2.12. Securely hold receipts, tickets and other records of income in accordance with Document Retention Policy.

6.2.13. Lock away all cash to safeguard against loss or theft, and to ensure security of cash handling.

6.2.14. Ensure income is paid promptly and fully into Council bank account in the form in which it is received. Appropriate details should be recorded to provide a full audit trail. Money collected and deposited must be reconciled to bank account on a monthly basis (minimum).

6.2.15. Ensure income received is not used to cash personal cheques or make any other payments.

6.2.16. Supply CFO with details relating to work done, goods supplied, services rendered or other amounts due, to enable the CFO to record correctly the sums due to the Council and to ensure accounts are sent out promptly. To do this, Directors/Assistant Directors and Heads of Service should use established debt recovery systems to monitor the recovery of income and

flag up areas of concern to the CFO. Heads of Service have a responsibility to assist the CFO in collecting debts that they have originated, by providing any further information requested by the debtor, and in pursuing the matter on the Council's behalf.

- 6.2.17. Keep a record of every transfer of money between employees of the Council. The receiving Officer must sign for the transfer and the transferor must retain a copy.
- 6.2.18. Recommend debts for write-off to the CFO and keep a record of all sums written off. Once raised, bona fide debts must not be cancelled, except by full payment or by formal write off. A credit note to replace a debt can only be issued to correct a factual inaccuracy or administrative error in the calculation and/or billing of the original debt, a waiver or reduction in charges.
- 6.2.19. Where delegated authority has been granted by the CFO, individuals can write-off bad debts up to their specified limit in each case (Note – delegated authority must be exercised in strict observance of 'separation of duties' principles; referred to above in Paragraph 6.2.8). Sums in excess of their limit must be referred to the CFO for approval, who in turn will seek Cabinet Member approval for write-off of bad debt exceeding £15,000 in line with Paragraph 6.2.4 above.
- 6.2.20. Notify CFO of outstanding income relating to the previous financial year as soon as possible after 31st March in line with timetable determined by the CFO, and not later than 10th April or nearest working day thereafter.

b) Ordering and paying for work, goods and services

Public money should be spent with demonstrable probity and in accordance with Council policies. Councils have a statutory duty to achieve best value, in part through economy and efficiency. Council procedures should help to ensure that services obtain value for money from their procurement arrangements. These procedures should be read in conjunction with the Council's Contract Procedure Rules.

- 6.2.21. Officers and Members engaged in contractual or procurement decisions on behalf of the Council have a responsibility to declare links or personal interests that they may have with purchasers, suppliers and/or contractors, in accordance with appropriate codes of conduct.
- 6.2.22. Official orders must be issued for all work, goods or services to be supplied to the Council, except for supplies of utilities, periodic payments such as rent or rates, corporate purchasing card purchases, petty cash purchases or other exceptions specified by the CFO. Any order placed by telephone shall be confirmed by the issue of an official order within 5 working days.

- 6.2.23. Purchase orders must conform to guidelines approved by Council for the procurement of goods, services and suppliers. Standard terms and conditions must not be varied without the prior CFO approval.
- 6.2.24. The normal payment method will be by BACS payment direct to the customer, drawn on the Council bank account, approved by the CFO. Direct debits will require prior CFO agreement, or a designated bank signatory, before any agreement is signed. Purchasing card payments may be made by Officers preauthorised by the CFO and identified on the Authorised Signatory List. VAT receipts for all goods must accompany monthly statements submitted to the CFO. Spending limits will be set/approved the CFO.
- 6.2.25. Official orders must not be raised for personal or private purchases, nor must personal or private use be made of Council contracts.

CFO Responsibilities

- 6.2.26. Ensure Council financial systems and procedures are sound and properly administered, approving changes to existing systems (whether new systems or upgrades) before implementation.
- 6.2.27. Approve the form of official orders and associated terms and conditions.
- 6.2.28. Make payment from Council funds on Directors/Assistant Directors and Heads of Service authorisations that expenditure has been duly incurred in accordance with Financial Procedure Rules.
- 6.2.29. Make payment (irrespective of budget provision) where it is required by statute or court order.
- 6.2.30. Arrange for the keeping of a Contract Register where contracts provide for payment by instalments.
- 6.2.31. Make payments to contractors upon receipt of properly completed certificates from Directors/Assistant Directors and Heads of Service. Such payments must be entered and appropriately cross referenced in the Contract Register.
- 6.2.32. Provide advice and encouragement on making payments by the most economical means.

Directors/ Assistant Directors and Heads of Service Responsibilities

- 6.2.33. The Assistant Director - Legal and Democratic Services will determine the form of contract to be used for building, constructional or engineering work.
- 6.2.34. Ensure that all contract variations are in writing and agreed before work on the variation commences.

- 6.2.35. Refer claims from contractors on matters not clearly within existing contract terms to Assistant Director - Legal and Democratic for consideration of Council liability and to the CFO for financial consideration, before settlement is reached.
- 6.2.36. Take appropriate action, in consultation with Assistant Director - Legal and Democratic, in respect of any claim for liquidated and ascertained damages where contract completion is delayed. This provision will not apply if there are reasons qualifying for an extension.
- 6.2.37. Ensure that unique Cafi generated official orders are used for all goods and services, other than the exceptions specified in Paragraph 6.2.22.
- 6.2.38. Ensure orders are only used for goods and services provided to the relevant service area. Members and Officers must not use official orders to obtain goods or services for private use. Neither may Officers place orders for goods or services for personal use using the Council's e-procurement system.
- 6.2.39. Ensure that only staff authorised by Directors/Assistant Directors and Heads of Service authorise orders and maintain an up-to-date list of such authorised staff, including specimen signatures, identifying the limits of their authority. The authoriser of the order should be satisfied that works, goods, supplies and services ordered are appropriate and needed, that there is adequate budgetary provision and that Contract Procedure Rules have been followed.
- 6.2.40. Ensure that works, goods, supplies and services are checked on receipt to verify that they are in accordance with the order. This check should, where possible, be carried out by a different Officer from the authoriser of the order. Entries should then be made in inventories or stores records where appropriate.
- 6.2.41. Ensure payment is not made unless a proper VAT invoice has been received, checked, coded and certified for payment.
- 6.2.42. Ensure a minimum of two authorised members of staff are involved in the ordering, receiving and payment process. If possible, a different Officer from the person who signed the order, and in every case, a different Officer from the person checking a written invoice, should authorise invoices.
- 6.2.43. Periodically review a list of their staff approved to authorise invoices. New authorising Officers, together with specimen signatures, and details of their authority limits, must be forwarded to the CFO.
- 6.2.44. Ensure that payments are not made on photocopied or faxed invoices, statements or other documents. Any instances of these being rendered should be reported to the Chief Internal Auditor. In exceptional circumstances, where payment is made against such a document and where

properly authenticated, the transaction must be processed in accordance with CFO guidance.

- 6.2.45. Encourage suppliers to accept payment by the most economical means for the Council. Payments made by Direct Debit must have the prior approval of the CFO or an authorised bank signatory.
- 6.2.46. Ensure service area achieves value for money by taking appropriate steps to obtain competitive prices for works, goods, supplies and services of appropriate quality, in line with best practice guidelines issued by the CFO, consistent with best value principles and contained within the Contract Procedure Rules.
- 6.2.47. Utilise the Procurement Team in putting purchases, where appropriate, out to competitive quotation or tender. These will comply with Contract Procedure Rules.
- 6.2.48. Ensure that employees are aware of the Code of Conduct (Part 5 of the Constitution).
- 6.2.49. Ensure that loans, leases or rental arrangements are not entered into without prior CFO agreement. This is to protect the Council against entering into unapproved credit arrangements that might adversely affect financial standing and to ensure that value for money is being obtained.
- 6.2.50. Notify CFO of outstanding committed expenditure relating to previous financial year as soon as possible after 31st March in line with timetable determined by CFO and, in any case, not later than 10th April.
- 6.2.51. With regard to construction contracts and alterations to buildings and for civil engineering works, to document and agree with CFO the systems and procedures to be adopted in relation to all financial aspects, including certification of interim and final payments, checking, recording and authorising payments, the system for monitoring and controlling capital schemes and the procedure for validation of subcontractors' tax status.
- 6.2.52. Notify the CFO immediately of any expenditure to be incurred as a result of statute/court order where there is no budgetary provision.
- 6.2.53. Ensure that all appropriate payment records are retained and stored for the defined period, in accordance with the Document Retention Policy.

c) Payments to employees and Members

Staff costs are the largest item of expenditure for most Council services. It is therefore important that payments are accurate, timely, made only where they are due for services to the Council and that payments accord with individuals' Contract of Employment. It is also important that all payments are accurately and completely recorded and accounted for and that Member allowances are authorised in accordance with the scheme adopted by Council.

CFO Responsibilities

- 6.2.54. Ensure appropriate arrangements are in place to control secure and reliable payment of salaries, wages, compensation or other emoluments to existing and former employees, in accordance with procedures prescribed by them, on the due date.
- 6.2.55. Record and make arrangements for the accurate and timely payment of tax, pension contributions and other deductions and to complete all relevant HMRC returns.
- 6.2.56. Make arrangements for payment of all travel and subsistence claims or financial loss allowance.
- 6.2.57. Make arrangements for paying Members travel or other allowances upon receiving the prescribed documentation, duly completed and authorised.
- 6.2.58. Provide advice and encouragement to secure payment of salaries by the most economical means.
- 6.2.59. Ensure that there are adequate arrangements for administering pension matters on a day-to-day basis.
- 6.2.60. Act as an advisor on areas such as taxation and monitoring of the East Sussex County Council Pension Fund, as appropriate.

Directors/Assistant Directors and Heads of Service Responsibilities

- 6.2.61. Ensure that appointments are made in accordance with the regulations of the Council and the approved Establishment List, grades and scale of pay and that adequate budget provision is available.
- 6.2.62. Notify the Head of Human Resources of all appointments, terminations or variations which may affect the pay or pension of an employee or former employee, in the form and to the timescale required by the Head of Human Resources.
- 6.2.63. Ensure that adequate and effective systems and procedures are operated, so that:
 - Payments are only authorised to bona fide employees
 - Payments are only made where there is a valid entitlement
 - Conditions and contracts of employment are correctly applied; and
 - Employees' names listed on the payroll are checked at regular intervals to verify accuracy and completeness.
- 6.2.64. Provide and maintain an up-to-date list of the names of Officers authorised to complete and return records to the Head of Human Resources, together with specimen signatures, where appropriate. The CHRIS HR system

should contain update lists of Human Resources Officers and Officers authorised to approve timesheets and claims.

- 6.2.65. Ensure that payroll transactions are processed only through the payroll system. Directors/Assistant Directors and Heads of Service should give careful consideration to the employment status of individuals employed on a self-employed consultant or subcontract basis and take advice from the Head of Human Resources.
- 6.2.66. Approve travel and subsistence claims and other allowances, but only when they have been made on an approved travel expenses form and within three months of the travel or subsistence being incurred. Approval is taken to mean that journeys were authorised and expenses properly and necessarily incurred, and that allowances are properly payable by the Council, ensuring that cost-effective use of travel arrangements is achieved. Due consideration should be given to tax implications and that the Head of Human Resources is informed where appropriate.
- 6.2.67. Ensure that the Head of Human Resources is notified of the details of any employee benefits in kind, to enable full and complete reporting within the income tax self-assessment system.
- 6.2.68. Ensure that all appropriate payroll documents are retained and stored for the defined period in accordance with the Document Retention Policy.
- 6.2.69. The Head of Human Resources to act as an advisor to Directors/Assistant Directors and Heads of Service on areas such as employment status, National Insurance and Pension Contributions, as appropriate.
- 6.2.70. Ensure that the staffing budget is an accurate forecast of staffing levels in accordance with the approved Establishment List and is equated to an appropriate revenue budget provision (including on-costs and overheads).
- 6.2.71. Ensure the Chief Executive (or the Officer delegated by them) has approved any changes in employment conditions where the full year cost of such changes would exceed £1,000.
- 6.2.72. Monitor staff activity to ensure adequate control over costs such as sickness, overtime, training and temporary staff.
- 6.2.73. Ensure that the staffing budget is not exceeded without prior authority from the CFO / Head of Human Resources and that it is managed to enable the agreed level of service to be provided.
- 6.2.74. Ensure that the Head of Human Resources and the CFO are immediately informed if the staffing budget is likely to be significantly overspent or underspent.

Member Responsibilities

- 6.2.75. Submit claims for Member travel and subsistence allowances on a monthly basis (or within three months of incurring the travel or subsistence) and, in any event, within one month of year end.

6.3 Taxation

The Council is responsible for ensuring its tax affairs are in order. Tax issues are often very complex and the penalties for incorrectly accounting for tax are severe. It is therefore very important for all Officers to be aware of their role. The creation and use of Local Authority Trading Companies (LATC's), has resulted in added Tax considerations, including Corporation Tax and 'different VAT rules'.

CFO Responsibilities

- 6.3.1. Complete Council VAT returns and annual Partial Exemption calculations in accordance with HMRC timescales.
- 6.3.2. Discharge Tax related responsibilities for Council-owned trading companies (LATCs), including all Corporation Tax and VAT duties and returns.
- 6.3.3. Provide details to the HMRC regarding the Construction Industry Scheme (CIS).
- 6.3.4. Maintain up-to-date guidance for Council employees on taxation issues.

Directors/ Assistant Directors and Heads of Service Responsibilities

- 6.3.5. Ensure that the correct VAT liability is attached to all income due and that all VAT recoverable on purchases complies with HMRC regulations.
- 6.3.6. Ensure that, where construction and maintenance works are undertaken, the contractor fulfils the necessary CIS requirements.
- 6.3.7. Ensure that all persons employed by the Council are added to the Council's payroll and tax deducted from any payments, except where the individuals are bona fide self-employed or are employed by a recognised staff agency.
- 6.3.8. Follow the guidance on taxation issued by the CFO.

6.4. Trading Accounts and Business Units (including Local Authority Trading Companies)

Trading accounts and business units have been growing in importance for many years as local councils have progressively developed a more commercial culture. Under proper accounting practices, Councils are required to keep trading accounts for services provided on a basis other than a straightforward recharge of cost in accordance with the Accounting Code of Practice.

Ongoing reductions in Government support is further increasing the rate of 'council commercialisation'. Councils are seeking ever more innovative ways to achieve financial self-sufficiency, with legislative changes (notably the introduction of a "general power of competence" under Section 1 of the Localism Act 2011) aiding the proliferation of local authority trading companies.

CFO Responsibilities

- 6.4.1. Advise on the establishment and operation of trading accounts and business units.
- 6.4.2. Advise on the establishment and operation of local authority trading companies, including the professional financial appraisal of proposed commercial investments, projects and trading opportunities.
- 6.4.3. Prepare financial statements for local authority trading companies in accordance with relevant proper accounting practice.
- 6.4.4. Ensure compliance with all relevant extant companies and tax legislation in respect of local authority trading companies, including the preparation of taxation and other financial returns.
- 6.4.5. Arrange and maintain adequate insurance cover for local authority trading companies, where appropriate.

Directors/ Assistant Directors and Heads of Service Responsibilities

- 6.4.6. Follow CFO advice on the establishment and operation of trading accounts and business units.
- 6.4.7. Follow CFO advice on the establishment and operation of local authority trading companies. In particular, it is essential that the robustness of all commercial proposals is established through CFO input at the concept and development stage(s).
- 6.4.8. Consult with the CFO where a business unit wishes to enter into a third party contract where the contract expiry date exceeds the remaining life of their main contract with the Council. In general, such contracts should not be entered into unless they can be terminated within the main contract period without penalty.
- 6.4.9. Ensure that appropriate accounting principles (as guided by the CFO) are applied in relation to Council trading accounts, and statutory accounts required for trading companies, including any tax implications, where applicable.
- 6.4.10. Ensure that each business unit and trading company prepares an annual business plan.

7. EXTERNAL ARRANGEMENTS

Partnerships- Partnerships can exist in many forms and play a key role in delivering community strategies and in helping to promote and improve the well-being of the area. Councils are working in partnership with others – public agencies, private companies, community groups and voluntary organisations. Councils still deliver some services, but their distinctive leadership role is to bring together the contributions of the various stakeholders. They therefore need to deliver a shared vision of services based on user and community wishes.

Councils will mobilise investment, bid for funds, champion the needs of their areas and harness the energies of local people and community organisations. Councils will be measured by what they achieve in partnership with others.

Jointly Controlled Operations (JCO's) are activities undertaken by the Council in conjunction with partners that involve the use of assets and resources of the partners, rather than the establishment of a separate entity.

7.1.1. A partner is defined as either:

- (a) An organisation (private or public) undertaking, part funding or participating as a beneficiary in a project; or
- (b) A body whose nature or status gives it a right or obligation to support the project

CFO Responsibilities

7.1.2. Advise on effective controls and the key elements of entering into any partnership, including JCO's, to ensure that resources are not wasted. Examples include, but are not limited to:

- (a) A scheme appraisal for financial viability in both the current and future years, together with capital/revenue cash flow forecasts for at least three years
- (b) Risk appraisal and management
- (c) Resourcing, including taxation / VAT issues
- (d) Audit, security and control requirements

- (e) Carry-forward arrangements; and
 - (f) Ensure that an annual business plan is prepared.
- 7.1.3. Ensure that the partnership accounting and governance arrangements comply with all relevant regulations and codes of practice.
- Directors/ Assistant Directors and Heads of Service Responsibilities**
- 7.1.4. Ensure that, before entering into any agreement with external bodies, including the terms of operation, the CFO is consulted and the Cabinet approval is obtained.
- 7.1.5. Maintain a register of all contracts entered into with external bodies in accordance with procedures specified by the CFO.
- 7.1.6. Ensure that, before entering into agreements with external bodies, a risk management appraisal has been prepared for the CFO.
- 7.1.7. Ensure that arrangements are in place for cessation of a partnership, including an exit strategy.
- 7.1.8. Ensure that such agreements and arrangements do not impact adversely upon existing Council services.
- 7.1.9. Ensure that all agreements and arrangements are properly documented.
- 7.1.10. Provide appropriate information to the CFO to determine if any requirement for a note to be entered into the Council's Statement of Accounts in accordance with relevant accounting Codes of Practice is required.

7.2 External Funding

External funding is an important source of income, but funding conditions need to be carefully considered to ensure that they are compatible with the aims and objectives of the Council. Councils are increasingly encouraged to provide seamless service delivery through working closely with communities, other agencies and private service providers.

In some instances, although the scope for external funding has increased, such funding is linked to tight specifications and may not be flexible enough to link to the Council's overall corporate/spending plans.

CFO Responsibilities

- 7.2.1. Ensure that arrangements are approved in advance by Cabinet.
- 7.2.3. Ensure that funding notified by external bodies is received and properly recorded in the Council's accounts.

7.2.4. Ensure that match-funding requirements are considered prior to entering into agreements and that future revenue budgets reflect these requirements.

7.2.5. Ensure that internal and external audit requirements are met.

Directors/ Assistant Directors and Heads of Service Responsibilities

7.2.6. Ensure that the CFO is consulted prior to the completion of all applications for external funding and is provided with a written copy of all grant approvals, together with grant and auditing conditions, and that all claims for funds are made in conjunction with Finance staff and submitted by the due date.

7.2.7. Ensure that the project progresses in accordance with the agreed project and that all expenditure is properly incurred and recorded.

7.2.8. Records of achievements against key targets to be met must be maintained for both financial and Non-Financial indicators.

7.2.9. Documentation must be made available for access by either internal and/or external audit where required.

7.2.10. To ensure that the retention and archiving of records complies with the conditions and requirements of the funding body.

7.3 Working with Third Parties

Legislation has enabled the Council to provide a range of services to other bodies for some time. Such work may enable a unit to maintain economies of scale and existing expertise. Such services may increasingly be delivered through local authority trading companies.

Whatever service-delivery arrangements are used (either 'in house' or through a company), robust procedures should be in place to ensure that any risks associated with such work are minimised, and that such work is legal.

CFO Responsibilities

7.3.1. Advise on appropriate service delivery arrangements for third party working proposals.

7.3.2. Where work is to be delivered through a trading company, ensure compliance with the Rules in respect of that.

7.3.3. Issue guidance with regard to the financial aspects of third party contracts.

7.3.4. Provide financial information in order for the relevant Director/Assistant Director and Head of Service to monitor the contract.

- 7.3.5 Arrange and maintain adequate insurance cover for third party contracts through corporate policy, where appropriate.

Directors/ Assistant Directors and Heads of Service Responsibilities

- 7.3.6. Follow CFO advice on appropriate service delivery arrangements for third party working proposals.
- 7.3.7. Where work is to be delivered through a trading company, ensure compliance with the Rules in respect of that.
- 7.3.8. Ensure that potential proposals are properly costed in advance in accordance with CFO guidance. It is essential that no contract is subsidised by the Council.
- 7.3.9. Ensure Cabinet approval is obtained before negotiations are concluded to work for third parties.
- 7.3.10. Maintain third party contracts register in accordance with procedures specified by CFO and ensure all contracts are properly documented.
- 7.3.11. Ensure that, wherever possible, payment is received in advance of service delivery, but in any event, payments must be promptly paid in accordance with the contract.
- 7.3.12. Ensure service area has the appropriate expertise to undertake the contract.
- 7.3.13. Ensure contracts do not adversely impact on services provided for the Council.
- 7.3.14. Provide appropriate information to CFO to determine any Accounting Code of Practice requirements.

Report to:	Audit and Governance Committee
Date:	24th July 2019
Title:	Treasury Management Annual Report 2018/19
Report of:	Chief Finance Officer
Cabinet member:	Councillor Stephen Holt, Financial Services
Ward(s):	All
Purpose of report:	To report on the activities and performance of the Treasury Management service during 2018/19
Decision type:	Budget and Quality Framework
Officer recommendation(s):	(1) To note the annual Treasury Management report for 2018/19. (2) To note the 2018/19 prudential and treasury indicators.
Reasons for recommendations:	Requirement of CIPFA Treasury Management in the Public Sector Code of Practice (the Code).
Contact Officer:	Name: Janet Martin Post title: Principal Accountant E-mail: janet.martin@lewes-eastbourne.gov.uk Telephone number: 01323 415983

1 Introduction

- 1.1 This Council is required through regulations issued under the Local Government Act 2003 to produce an annual treasury report reviewing treasury management activities and the actual prudential and treasury indicators for 2018/19. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

During 2018/19 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 21 February 2018)
- a mid year (minimum) treasury update report (Council 12 December 2018)
- an annual report following the year describing the activity compared to the strategy (this report).

In addition Treasury Management updates are included in the quarterly

performance management reports, considered by both the Cabinet and Scrutiny Committee.

Recent changes in the regulatory environment place a much greater onus on Members for the review and scrutiny of treasury management policy and activities. This report is important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

This Council also confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit & Governance Committee before they were reported to the full Council. Member training on treasury management issues was undertaken on 23 November 2015 in order to support Members' scrutiny role. Further training is expected to take place in 2019-20.

This report was considered and approved by Cabinet on 9 July 2019 and approved by Full Council on 10 July 2019.

1.2 This report summarizes:

- Capital activity during the year;
- Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement (CFR));
- Reporting of the required prudential and treasury indicators and changes to be approved;
- Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances;
- Summary of interest rate movements in the year;
- Debt activity and investment activity.

2.0 The Council's Capital Expenditure and Financing 2018/19

2.1 The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

	2017/18 Actual £m	2018/19 Estimate £m	2018/19 Actual £m
Non-HRA capital expenditure	45.0	46.1	38.9
HRA capital expenditure	6.3	4.3	4.7
Total capital expenditure	51.3	50.4	43.6
Resourced by:			
• Capital receipts	1.4	0.6	6.5
• Capital grants & external funding	9.9	2.7	4.2
• Capital Reserves	4.9	4.4	4.2
• Revenue	-	-	0.5
Use of internal balances/ borrowing	35.1	42.7	28.2

3.0 **The Council's overall borrowing need**

3.1 The Capital Financing Requirement (CFR) represents the Council's total underlying need to borrow to finance capital expenditure, i.e. capital expenditure that has not been resourced from capital receipts, capital grants and contributions or the use of reserves. Some of this borrowing is from the internal use of cash balances.

3.2 Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board [PWLb] or the money markets), or utilising temporary cash resources within the Council.

3.3 **Reducing the CFR** – the Council's (non HRA) underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision (MRP), to reduce the CFR. This is effectively a repayment of the non-Housing Revenue Account (HRA) borrowing need (there is no statutory requirement to reduce the HRA CFR). This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

The total CFR can also be reduced by:

- the application of additional capital financing resources (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a

Voluntary Revenue Provision (VRP).

- 3.4 The Council's 2018/19 MRP Policy (as required by CLG Guidance) was approved as part of the Treasury Management Strategy Report for 2018/19 on 7 February 2018.

The Council's CFR for the year is shown below, and represents a key prudential indicator. The figures include a credit sales agreement on the balance sheet, which increases the Council's borrowing need, the CFR.

CFR	31 March 2018 Actual £m	31 March 2019 Original Indicator £m	31 March 2019 Actual £m
Opening balance	88.9	146.2	122.6
Add unfinanced capital expenditure (per table 2.0)	35.0	42.7	28.2
Less MRP	(1.3)	(1.5)	(0.9)
Closing balance	122.6	187.4	149.9

- 3.5 The borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the Authorised Limit.

Net borrowing and the CFR - in order to ensure that borrowing levels are prudent over the medium term the Council's external borrowing, net of investments, must only be for a capital purpose. This essentially means that the Council is not borrowing to support revenue expenditure. Net borrowing should not therefore, except in the short term, have exceeded the CFR for 2017/18 plus the expected changes to the CFR over 2018/19 and 2019/20. This indicator allows the Council some flexibility to borrow in advance of its immediate capital need in 2018/19. The table below highlights the Council's net borrowing position against the CFR. The Council has complied with this prudential indicator.

	31 March 2018 Actual £m	31 March 2019 Original Estimate £m	31 March 2019 Actual £m
Net borrowing position	105.1	166.3	123.6
CFR	122.6	187.4	149.9

The Authorised limit - the Authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. The table below demonstrates that during 2018/19 the Council has maintained gross borrowing within its Authorised limit.

The operational boundary – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the

Authorised limit not being breached.

Actual financing costs as a proportion of net revenue stream - this indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

	2018/19
Authorised limit	£202.4m
Maximum gross borrowing position	£166.7m
Operational boundary	£187.4m
Average gross borrowing position	£114.3m
Financing costs as a proportion of net revenue stream:	
Non HRA	12.3%
HRA	13.3%

4.0

4.1

Treasury Position as at 31 March 2019

The Council's debt and investment position is organised by staff within Financial Services in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices. At the beginning and the end of 2018/19 the Council's treasury position was as follows:

TABLE 1	31 March 2018 Principal	Rate/Return	31 March 2019 Principal	Rate/Return
Fixed rate funding:				
-PWLB	£67.6m		£87.1m	
-Market	£37.5m		£36.5m	
- Serco Paisa	£0.4m		£0.0m	
Total debt	£105.5m	2.87%	£123.6m	2.74%
CFR	£122.6m		£149.9m	
Over/ (under) borrowing	(£17.2m)		(£26.3m)	
Total investments (excl. cash)	£0m		£0m	

The Council held cash balances of £2.2m in a current account on which interest of 0.65% was being earned.

4.2 The maturity structure of the debt portfolio excluding Serco Paisa was as follows:

	31 March 2018 Actual £m	2018/19 Original limits £m	31 March 2019 Actual £m
Under 12 months	23.00	20.0	28.1
12 months and within 24 months	5.00	4.0	-
24 months and within 5 years	14.02	22.0	18.3
5 years and within 10 years	1.52	2.1	-
10 years and above	61.51	111.3	77.2

The exposure to fixed and variable rates (including Serco Paisa) was as follows:

	31 March 2018 Actual £m	2018/19 Original Limits £m	31 March 2019 Actual £m
Principal - Debt Fixed rate	105.5	159.4	123.6
Principal – Investments Variable rate	0	N/a	0

5.0 The Strategy for 2018/19

5.1

The expectation for interest rates within the treasury management strategy for 2018/19 anticipated that Bank Rate would not start rising from 0.5% until quarter 3 2019 and then only increase once more before 31.12.19. There would also be gradual rises in medium and longer term fixed borrowing rates during 2018/19 and the two subsequent financial years. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

In this scenario, the treasury strategy was to postpone borrowing to avoid the cost of holding higher levels of investments and to reduce counterparty risk.

Since PWLB rates peaked during October 2018, most PWLB rates have been on a general downward trend, though longer term rates did spike upwards again during December, and, (apart from the 1 year rate), reached lows for the year at the end of March.

6.0 **Borrowing Outturn for 2018/19**

6.1 **Treasury Borrowing.**

Borrowing – new loans totalling £20m were drawn down from PWLB in 2018/19 to fund the net unfinanced capital expenditure and to replace maturing loans. Interest rates for PWLB borrowing was between 1.70% and 2.28% compared with a budget assumption of 2.5%. Various temporary loans were taken to cover cash flow requirements. All loans drawn were for fixed rate and are detailed in Appendix 1.

Rescheduling – no debt rescheduling was carried out during the year as there was no financial benefit to the Council.

Repayment – £4m of long term PWLB debt was repaid at maturity on 19 June 2018 and £433,333 was an instalment repayment for the repayment (EIP) loans. Various temporary loans were repaid during the year, see Appendix A.

Summary of debt transactions – the overall position of the debt activity resulted in a fall in the average interest rate by 0.1%, representing a saving to the General Fund.

7.0 **Interest Rates in 2018/19**

7.1 The tight monetary conditions following the 2008 financial crisis continued through 2018/19 with little material movement in the shorter term deposit rates.

7.2 Bank Rate remained at 0.5% until 1 August 2018 when it rose to 0.75%. Investment rates remained very low. With many financial institutions failing to meet the Council's investment criteria, the opportunities for investment returns were limited. The investment rates at the beginning, average and end of the year are provided below.

Investment Term	Interest Rate March 2018	Average Rate	Interest rate April 2019
Overnight	0.45%	0.50%	0.55%
1 Month	0.50%	0.60%	0.70%
3 Months	0.75%	0.78%	0.80%
6 Months	0.90%	0.85%	0.80%
12 Months	1.00%	0.98%	0.95%

The PWLB rates (including the 0.2% reduction for Certainty Rate) at the beginning, average and end of the year are provided below.

Term	Interest Rate March 2018	Average Rate	Interest rate April 2019
1 Year	1.47%	1.47%	1.46%
5 Years	1.85%	1.69%	1.52%
10 Years	2.23%	2.04%	1.84%
25 Years	2.57%	2.49%	2.41%
50 Years	2.29%	2.27%	2.24%

8.0 **Investment Outturn for 2018/19**

8.1 **Investment Policy** – the Council's investment policy is governed by MHCLG guidance, which was been implemented in the annual investment strategy approved by the Council on 21 February 2018. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

8.2 The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

8.3 **Resources** – the Council's longer term cash balances comprise, primarily, revenue and capital resources, although these will be influenced by cash flow considerations. The Council's core cash resources comprised as follows, and met the expectations of the budget:

Balance Sheet Resources	31 March 2018 £m	31 March 2019 £m
Balances	3.03	3.13
Earmarked reserves	8.70	7.80
HRA	5.19	5.94
Major Repairs Reserve	0.86	1.06
Capital Grants & Contributions	4.77	2.60
Usable capital receipts	7.54	7.55
Total	30.09	28.08

8.4 **Investments held by the Council** - the Council maintained an average balance of £6.4m of internally managed funds. The internally managed funds earned an average rate of return of 0.55%. The comparable performance indicator is the average 7-day LIBID rate, which was 0.36%. This excludes the Council's investment with Lloyds Bank of £1m for 5 years, (matured January 2019) at 3.03% which supported the Local Authority Mortgages Scheme (LAMS).

9.0 **The Economy and Interest Rates Forecast**

9.1 The Brexit delay means that rate hikes are not likely to be considered before October but with the Bank of England (BoE) expecting growth to be stronger than previously, there could be a fairly early move from the BoE thereafter. Any moves, however, are likely to be gradual. The economy will probably remain

drifting for a year or so, but a Brexit deal would put the UK in a good position to gather pace in 2021. If so, then analysts suggest that Gross Domestic Product (GDP) growth, interest rates and sterling could strengthen more than markets are currently projecting. A no deal exit would still have the greater short term impact, but some economists believe that any outcome would not be as bad as some believe. A softer Brexit deal seems the more likely outcome, though. In the current circumstances, the economy will remain in limbo for the remainder of the year and overseas demand is unlikely to offer support as recent global economic weakness will not be reversed in the short term.

The degree and timing of the slowing of global economic growth has caught some economists by surprise, with the external sector now thought likely to weigh more on the UK economy over the next few years. The weakness of the Eurozone (EZ), the UK's largest trading partner is a worry. Export orders are already in decline, tracking the global trend. The global situation is not seen as either deteriorating or improving in the near term so that is likely to ensure that export growth will remain subdued, which is reflected in the export orders balances of the manufacturing Purchasing Managers Index (PMI).

A Brexit deal may see Sterling strengthen, which in turn would be a further drag on exports, though the post-referendum weakening offered little boost so the impact could be marginal. Trade tensions and tariffs will also dent exports. The biggest influence, though, remains Brexit, with stockpiling of imported goods ahead of the October separation a factor. Some of the levels of stockpiling may be exaggerated, but a sharp jump in imports over the year is forecast. However, post Brexit, these levels will fall back sharply in subsequent years. Net trade is forecast to make a negative contribution to GDP this year, while the trade deficit may surge on increased imports.

Consumers are expected to prop up the economy as they seem unperturbed by Brexit, with spending growth tracking real incomes higher, though the latter may have peaked. Spending has been supported by a decline in the savings rate when earnings growth has slowed, but this has not dulled household investments. Business investment has, however, been held back by Brexit, having declined in Q4 and investment intentions suggesting further declines ahead. The ability and need to invest is there, but uncertainty is the deciding factor, and were a deal to be agreed, there would be a lag before investment bounced.

The unemployment rate should hold around the 3.9% level over the next year or so, before edging higher in 2021. The tight market will ensure that wage growth should remain around an average of 3-3.5%. With rising wage growth and subdued productivity growth, unit labour costs have edged a little above the long term average.

Temporary factors and persistent labour cost pressures will likely push inflation through the 2% level for a period but CPI remained just below the target for a third month in March. Food inflation is expected to pick up quite sharply this year, while the raising of the utility price cap will also offer some upside pressure to inflation. Given that energy retailers purchase in advance the impact could, therefore, result in upside pressures for twelve or so months, before recent

declines in wholesale prices start to benefit retail prices. Core inflation is also expected to pick up, with wage growth indicating rising core services inflation to over 3% in 2020. Some of the rising wage costs in the services' sector have been absorbed by firms but once a Brexit deal has been agreed this may prove an opportune time to rebuild margins by raising prices.

Overall inflation is forecast to rise to 2.5% in 2020, where core inflation is also projected to peak. Retail Price Index (RPI) will be pushed higher by mortgage interest payments, if expected interest rate hikes are forthcoming, but that is probably still some way off.

9.2 The Council's treasury advisor, Link, provides the following forecast as at June 2019:

	End Q2 2019	End Q3 2019	End Q4 2019	End Q1 2020	End Q2 2020	End Q3 2020	End Q4 2020
Bank Rate	0.75%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%
5yr PWLB Rate	1.80%	1.80%	1.90%	2.00%	2.10%	2.20%	2.20%
10yr PWLB Rate	2.10%	2.20%	2.30%	2.40%	2.50%	2.50%	2.60%
25yr PWLB Rate	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%
50yr PWLB Rate	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	3.00%

The Link central forecast is for the Bank Rate to increase to 1.00% in quarter 1 of 2020.

10.0 **Executive Summary and Conclusion**

10.1 During 2018/19, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Actual prudential and treasury indicators	2017/18 Actual £m	2018/19 Original Estimate £m	2018/19 Actual £m
Actual capital expenditure	51.3	50.4	43.6
Total Capital Financing Requirement:			
• Non-HRA	80.0	144.8	107.3
• HRA	<u>42.6</u>	<u>42.6</u>	<u>42.6</u>
• Total	122.6	187.4	149.9
Net borrowing	105.1		123.6
External debt	105.1		123.6
Investments (all under 1 year)	-		-

Other prudential and treasury indicators are to be found in the main body of this report. The Chief Finance Officer also confirms that borrowing was only undertaken for a capital purpose and the statutory borrowing limit (the

Authorised limit), was not breached.

The financial year 2018/19 continued the challenging environment of previous years; low investment returns and continuing counterparty risk continued.

11 Corporate plan and council policies

- 11.1 The priority themes were considered as part of the overall Capital Programme which forms part of the Treasury Management Strategy.

12 Financial appraisal

- 12.1 Financial appraisals were considered as part of the overall Capital Programme which forms part of the Treasury Management Strategy.

13 Legal implications

- 13.1 Comment from the Legal Services Team is not necessary for this routine monitoring report.

14 Risk management implications

- 14.1 Risks relating to the timing of borrowing and terms of borrowing are considered and advice is provided by Link. Risk management is considered for each of the schemes within the Capital Programme.

15 Equality analysis

- 15.1 Equality issues are considered

16 Appendices

Appendix A – Loans taken during 2018/19.

17 Background papers

The Background Papers used in compiling this report were as follows:

CIPFA Treasury Management in the Public Services code of Practice (the Code)

Cross-sectorial Guidance Notes

CIPFA Prudential Code

Treasury Management Strategy and Treasury Management Practices adopted by the Council on 18 May 2010.

Link Asset Services Citywatch and interest rate forecasts

To inspect or obtain copies of background papers please refer to the contact officer listed above.

Appendix 1

Temporary loans taken during 2018-19

Lender - Temp Debt	£m	Start Date	End Date	Rate
N Yorkshire CC	4.0	09/03/2018	20/04/2018	0.85%
Middlesbrough BC	7.0	14/03/2018	15/05/2018	0.70%
N Yorkshire CC	5.0	30/05/2017	29/05/2018	0.45%
London Bor Brent	5.0	15/05/2018	15/08/2018	0.55%
Vale of Glamorgan CC	3.0	19/02/2018	20/08/2018	0.70%
N Yorkshire CC	4.0	20/04/2018	22/10/2018	0.80%
Derbyshire CC	5.0	15/08/2018	15/11/2018	0.80%
Barnsley Met Council	3.0	20/08/2018	20/11/2018	0.75%
Lewes DC	2.0	22/10/2018	23/01/2019	0.70%
Liverpool City Council	1.0	07/11/2018	07/02/2019	0.75%
Cheshire East BC	5.0	23/11/2018	12/02/2019	0.82%
Lewes DC	3.0	03/12/2018	01/03/2019	0.75%
Lewes DC	3.0	01/03/2019	13/03/2019	0.65%
E Northamptonshire DC	2.0	15/05/2018	14/05/2019	0.90%
Barnsley Met Council	3.0	20/11/2018	20/05/2019	0.95%
Greater Manchester Council	5.0	29/05/2018	23/05/2019	0.80%
East Riding of Yorkshire Council	2.0	22/10/2018	17/10/2019	1.00%
Epping Forest District Council	3.0	21/02/2019	21/08/2019	0.98%
Portsmouth City Council	7.0	13/03/2019	13/12/2019	1.07%

Long Term Loans taken during 2018-19

Lender - Long Term Debt	£m	Start Date	End Date	Rate
PWLB Maturity	2.0	03/04/2018	24/03/2068	2.28%
PWLB Maturity	2.0	31/05/2018	24/03/2068	2.25%
PWLB EIP	4.0	04/02/2019	24/09/2033	1.89%
PWLB EIP	4.0	12/02/2019	24/09/2033	1.82%
PWLB EIP	5.0	19/03/2019	24/09/2033	1.88%
PWLB EIP	3.0	26/03/2019	24/09/2033	1.70%

Maturity loans – repayment is due in full at maturity.

EIP loans – loans are repaid over the term of the loan in equal instalments paid half yearly.

The long term borrowing interest rates vary between 1.70% and 2.28% compared with a budget assumption of borrowing at an interest rate of 2.5%.

Report to:	Audit and Governance Committee
Date:	24th July 2019
Title:	Strategic Risk Register Quarterly Review
Report of:	Chief Internal Auditor
Ward(s):	All
Purpose of report:	To report to Committee the outcomes of the quarterly review of the register by Corporate Management Team.
Officer recommendation(s):	To receive and note the update to the Strategic Risk Register
Reasons for recommendations:	The Council is committed to proper risk management and to regularly updating the committee with regard to the Strategic Risk Register.
Contact Officer(s):	Name: Jackie Humphrey Post title: Chief Internal Auditor E-mail: Jackie.humphrey@lewes-eastbourne.gov.uk Telephone number: 01323 415925

1 Introduction

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

2 June 2019 Review

- 2.1 The Strategic Risk Register was taken to Corporate Management Team on 11 June 2019 for the latest quarterly review.
- 2.2 Previously the “risk owner” was shown as the Corporate Management Team for each risk. However, it has been agreed that risks should be allocated to appropriate members of the team. The register has therefore been updated

accordingly.

- 2.3 Two risk scores have been increased. These are for risks number 3 (changes of demands and expectations) and 4 (unsustainable employment base). In both instances the likelihood score has been raised from a 2 (possible) to a 3 (likely). This reflects the decrease in funding but the increased expectations for the authority and the increasing difficulties in recruiting to fill vacancies.

3 Future Work

- 3.1 During the year, the risk management strategy and processes and the Strategic Risk Register itself will be reviewed, as a full review has not been undertaken for some years.
- 3.2 Zurich is being approached to discuss what training packages they can provide, in order to ensure that our approach is up to date and robust.
- 3.3 The Chief Internal Auditor is also working with the Head of Business Planning and Performance to look at the links between risk and performance, in order to review how the reporting can complement both aspects.
- 3.4 Once work on this is progressing, updates will be brought to committee.

4 Financial appraisal

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

5 Legal implications

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

Lawyer consulted 17.06.19

Legal ref: 008358-EBC-OD

6 Risk management implications

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

7 Equality analysis

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

8 Appendices

- Appendix 1 - Strategic Risk Register

9 Background papers

None

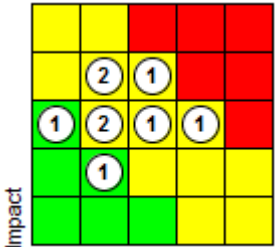
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STRATEGIC RISK REGISTER

JUNE 2019



Code & Title	SR_000 Strategic Risk Register
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Current Risk Matrix		LIKELIHOOD 1 - Unlikely 2 - Possible 3 - Likely 4 - Highly Likely 5 - Almost Certain	IMPACT 1 - Minor 2 - Moderate 3 - Significant 4 - Major 5 - Critical
		The numbers relate to the amount of risks currently positioned in each box.	

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
SR_001	No political and partnership continuity/consensus with regard to organisational objectives	Sudden changes of political objectives at either national or local level renders the organisation, its current corporate plan and Medium Term Financial Strategy unfit for purpose.	4	4	16	<u>Reduces Likelihood</u> 1. Create inclusive governance structures which rely on sound evidence for decision making. <u>Reduces Impact</u> 2. Annual review of corporate plan and Medium Term Financial Strategy 3. Creating an organisational architecture through the Joint Transformation Programme that can respond to changes in the environment.	Chief Executive	2	3	6	Amber	Aug-2019
SR_002	Changes to the economic environment makes the Council economically less sustainable	1. Economic development of the town suffers. 2. Council objectives cannot be met.	4	4	16	<u>Reduces Impact</u> 1. Robust Medium Term Financial Strategy reviewed annually and monitored quarterly. Refreshed in line with macro economic environment triennially. 2. Creating an organisational architecture through the Joint Transformation Programme that can respond to changes in the environment.	Chief Finance Officer	4	3	12	Amber	Aug-2019

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
SR_003	Unforeseen socio-economic and/or demographic shifts creating significant changes of demands and expectations.	1. Unsustainable demand on services. 2. Service failure. 3. Council structure unsustainable and not fit for purpose. 4. Heightened likelihood of fraud.	2	4	8	<u>Reduces Impact</u> 1. Grounding significant corporate decisions based on up to date, robust, evidence base. (e.g. Census; Corporate Plan Place Surveys; East Sussex in Figures data modelling). 2. Ensuring community and interest group engagement in policy development (e.g. Neighbourhood Management Schemes; Corporate Consultation Programme)	Director of Service Delivery	3	3	9	Amber	Aug-2019
SR_004	The employment market provides unsustainable employment base for the needs of the organisation	Employment market unable to fulfil recruitment and retention requirements of the Council resulting in a decline in performance standards and an increase in service costs.	4	4	16	<u>Reduces Likelihood</u> 1. Joint Transformation programme to increase non-financial attractiveness of EBC to current and future staff. 2. Appropriate reward and recognition policies reviewed on a regular basis. <u>Reduces Likelihood and Impact</u>	Asst Dir of HR and Transformation	3	2	6	Amber	Aug-2019

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
						3. Review of organisation delivery models to better manage the blend of direct labour provision. Pursuit of mutually beneficial shared service arrangements.						
SR_005	Not being able to sustain a culture that supports organisational objectives and future development.	1. Decline in performance. 2. Higher turnover of staff. 3. Lack of staff motivation 4. Increase in absenteeism. 5. Service failure 6. Increased possibility of fraud and error.	4	4	16	<u>Reduces Likelihood</u> 1. Deliver a fit for purpose organisational culture through Joint Transformation programme. 2. Continue to develop our performance management capability to ensure early intervention where service and/or cultural issues arise. 3. Continue to develop communications through ongoing interactions with staff.	Asst Dir of HR and Transformation	3	4	12	Amber	Aug-2019
SR_006	Council prevented from delivering services for a prolonged period of time.	1. Denial of access to property 2. Denial of access to technology/information	3	5	15	<u>Reduces Likelihood</u> 1. Adoption of best practice IT and Asset Management policies and procedures. <u>Reduces Likelihood and</u>	Chief Executive	2	4	8	Amber	Aug-2019

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
		3. Denial of access to a significant contract or partnership. 3. Denial of access to people				<u>Impact</u> 2. Joint Transformation programme has created a more flexible, less locationally dependent service architecture. <u>Reduces Impact</u> 3. Regularly reviewed and tested Business Continuity Plans. 4. Regularly reviewed and tested Disaster Recovery Plan.						
SR_007	Council materially impacted by the medium to long term effects of an event under the Civil Contingencies Act	1. Major incident caused by fire, flood or other disaster resulting in homelessness, disruption to Council services and local business communities 2. Service profile of the Council changes materially as a result of the impact of the event. 3. Cost profile of the	3	5	15	<u>Reduces Likelihood and Impact</u> 1. Working in partnership with other public bodies. 2. Robust emergency planning and use of Council's emergency powers. <u>Reduces Impact</u> 3. Ongoing and robust risk profiling of local area (demographic and geographic). 4. Review budget and	Asst Dir for Corporate Governance	1	3	3	Green	Aug-2019

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
		Council changes materially as a result of the impact of the event.				reserves in light of risk profile.						
SR_008	Failure to meet regulatory or legal requirements	1. Credibility of the Council is negatively impacted. 2. Deterioration of financial position as a result of regulatory activity/penalties. 3. Deterioration of service performance as a result of regulatory activity/penalties. 4. Increased probability of prosecutions and compensation claims as a result of inadequate management of Health and Safety duties. 5. Possibility of fraud and bribery.	3	4	12	<u>Reduces Likelihood</u> 1. Developing, maintaining and monitoring robust governance framework for the Council. 2. Building relationships with regulatory bodies. 3. Develop our Performance Management capability to ensure early intervention where service and/or cultural issues arise. 4. Take forward the actions of the Asset Management Strategy to ensure we meet regulatory/legal requirements regarding the management of property. 5. Ensure there is full understanding the impact of new legislation. 6. All managers are required	Asst Dir Legal and Democratic	2	4	8	Amber	Aug-2019

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
		6. Ensure compliance with legislation such as Data Protection and Safeguarding. 7. Entering into contracts etc. without having adequate finance in place.				to abide by the Council's procurement rules. 7. JTP Board considers activity mapping, ensuring that it covers regulatory/legal and main financial matters. 8. Ensure that fire risk regulations are adhered to and that Fire Risk Assessments are regularly reviewed.						
SR_009	Commercial enterprises that are fully controlled by the authority do not deliver financial expectations or do not meet governance requirements.	1. Unfamiliar activity with staff inexperienced in this area 2. Council finances affected if projects do not meet financial expectations. 3. Reputational damage if governance procedures are inadequate. 4. Failure to abide by	3	4	12	<u>Reduces Likelihood</u> 1. Hire suitably qualified/experienced staff to give legal and specialist support. 2. Appoint Head of Commercial Activities. 3. Ensure that projects meet core principles. 4. Up or re-skill staff to maximise commercial opportunities. 5. Ensure governance processes are set up and	Director of Regeneration and Planning And Director of Tourism and Enterprise	3	3	9	Amber	Aug-19

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
		company law.				adhered to.						

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Report to:	Audit and Governance Committee
Date:	24 July 2019
Title:	Annual Governance Statement
Report of:	Chief Internal Auditor
Ward(s):	All
Purpose of report:	To seek Councillors' approval of the Annual Governance Statement.
Officer recommendation(s):	To comment on and approve the draft Annual Governance Statement
Reasons for recommendations:	To meet the Council's legal requirement to produce an Annual Governance Statement.
Contact Officer(s):	Name: Jackie Humphrey Post title: Chief Internal Auditor E-mail: Jackie.humphrey@lewes-eastbourne.gov.uk Telephone number: 01323 415925

1 Introduction

- 1.1 Corporate governance involves everyone in local government. Two definitions are:
- “Ensuring the organisation is doing the right things, in the right way, for the right people, in an open, honest, inclusive and timely manner” – Audit Commission.
- “How the local government bodies ensure 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 and processes, and cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities.” – CIPFA/SOLACE
- 1.2 The Council has a legal requirement to produce an Annual Governance Statement each year in accordance with the Accounts and Audit Regulations, 2015. The statement accompanies the Statutory Statement of Accounts once adopted.
- 1.3 The Audit and Standards Committee is tasked with overseeing the risk management, internal control and reporting to the Council. A key component of this work is to approve the Annual Governance Statement.

2 Governance Framework

- 2.1 The Annual Governance Statement is the report produced at the end of the year on the control environment of the Council. However this is just the end product of the framework of governance operating within the authority throughout the year.
- 2.2 Appendix 1 shows the framework for gathering the assurances and how this is affected by, and affects, the relationship with partners, stakeholders and the community. Following this framework should ensure that the Council meets the principles of corporate governance.
- 2.3 Use of this framework also allows the Council to demonstrate how its assurance gathering process links the strategic objectives and statutory requirements of the authority and how these objectives are to be delivered.
- 2.4 Appendix 2 shows a timetable for the gathering of assurances to produce the Annual Governance Statement. Certain elements are ongoing throughout the year whereas others are specifically produced at the year-end in order to feed directly into the Annual Governance Statement.
- 2.5 It is important to have a defined timeline for the gathering of information on assurance as there is a deadline for the publication of the Statement of Accounts alongside of which the Annual Governance Statement must be published.
- 2.6 Appendix 3 shows the Managers' Assurance Statement which includes coverage of the Bribery Act, Safeguarding, RIPA and frauds over £10k as well as items of general governance. The statements are intended to cover the operational, project and partnership responsibilities of Heads of Service. These can also be used to highlight concerns and actions required to improve governance throughout the Council.
- 2.7 These statements are completed by Directors, Assistant Directors and Heads of Service. The comments made on the statements are considered for inclusion in the Annual Governance Statement. Members of the Corporate Management Team are also required to complete the declarations which appear at the bottom of Appendix 3.

3 Content of the Annual Governance Statement

- 3.1 The Annual Governance Statement is a document that provides a structure in which to consider the Council's governance arrangements and their effectiveness. This ensures that major control issues are identified and action taken to address these issues.
- 3.2 There are essentially three parts to the statement:
 - A statement of responsibility and purpose
 - A description of the components of the governance framework that exist in the Council
 - The resulting issues and actions arising from those arrangements

- 3.3 The Annual Governance Statement also carries a statement on the adequacy of the Authority's counter fraud arrangements.

4 The 2018-2019 review

- 4.1 The Annual Governance Statement last year contained a paragraph about the ongoing Joint Transformation Programme. This paragraph has been updated to read:

During the financial year the Council continued with its Joint Transformation Programme. However, it was reaching its conclusion at the year end. This programme was intended to create a more flexible, customer focussed and cost effective way of delivering services across Eastbourne Borough Council and Lewes District Councils. These changes were implemented to improve customer service and reduce costs by enabling each authority to reach their savings targets by 2020. The programme was agreed by the Cabinet at each authority and overseen by a cross party project board from both authorities. The programme was also overseen by senior management and Members, and was managed using established project management tools.

- 4.2 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, RIPA and frauds over £10k. The senior manager can highlight concerns and the necessary actions required to improve governance. Assurance statements are sent out to Directors and Assistant Directors and Heads of Service. Once completed their contents are used to inform the governance statement.

- 4.3 Completed Managers' Assurance Statements were returned from Directors, Assistant Directors and Heads of Service. Many statements contained a range of concerns around the impact of the Joint Transformation Programme. These included: aligning policies, training staff, resource issues, developing new teams and building a joint culture.

- 4.4 Last year a paragraph was included by CMT in the Annual Governance Statement to cover these risks. This has been updated as below.

During the financial year the Council continued with its Joint Transformation Programme. However, it was reaching its conclusion at the year end. This programme was intended to create a more flexible, customer focussed and cost effective way of delivering services across Eastbourne Borough Council and Lewes District Councils. The inherent risks of the programme were recognised throughout and every effort made to mitigate these risks. Now that the programme is reaching its conclusion a review of outcomes is being undertaken. A Supporting Change Steering Group has also been set up to support services going forward giving an overview to all projects and new systems with a view to understanding costs, benefits, impacts and resources.

- 4.5 Document retention and risk management were also raised in several statements. However a project group has been set up to look at document retention and work is about to begin looking at the risk management process across the authorities. It is therefore suggested that these do not currently constitute significant issues.
- 4.6 The new housing software was also raised by several respondents. The issues around its implementation has taken a lot of staff resources both in the department and in other departments. These issues are ongoing and have had an impact on the closure of accounts. It is also considered that the project has not met its objectives. This has been included in the Annual Governance Statement as a significant governance issue.
- 4.7 The Director of Tourism and Enterprise raised significant governance issues in their declaration. These were around the deterioration building assets. In each instance surveys and longer-term plans are required. CMT considered this and agreed that a paragraph be added to the body of the statement but that this did not constitute a significant governance issue. The added paragraph is below.

Asset Management issues were also raised in the Managers' Assurance Statements returned. The Corporate Management Team agreed that an external review had been commissioned that had resulted in a detailed report on the current condition and future of some assets. This report is being reviewed to consider future options.

- 4.8 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.

5 Financial appraisal

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

6 Legal implications

- 6.1 This report demonstrates compliance with regulation 6 of The Accounts and

Audit Regulations 2015. Regulation 6 requires the Council, in reviewing its system of internal control, to prepare an annual governance statement and secure its approval by resolution of the appropriate committee; in the case of EBC, this is the Audit and Governance Committee.

Lawyer consulted 13.06.19

Legal ref: 008347-EBC-OD

7 Risk management implications

- 7.1 Failure to produce an Annual Governance Statement, and to 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 Governance Committee review of the Annual Governance Statement significantly reduces these risks.

8 Equality analysis

- 8.1 A detailed Equality analysis is not required for this report.

9 Appendices

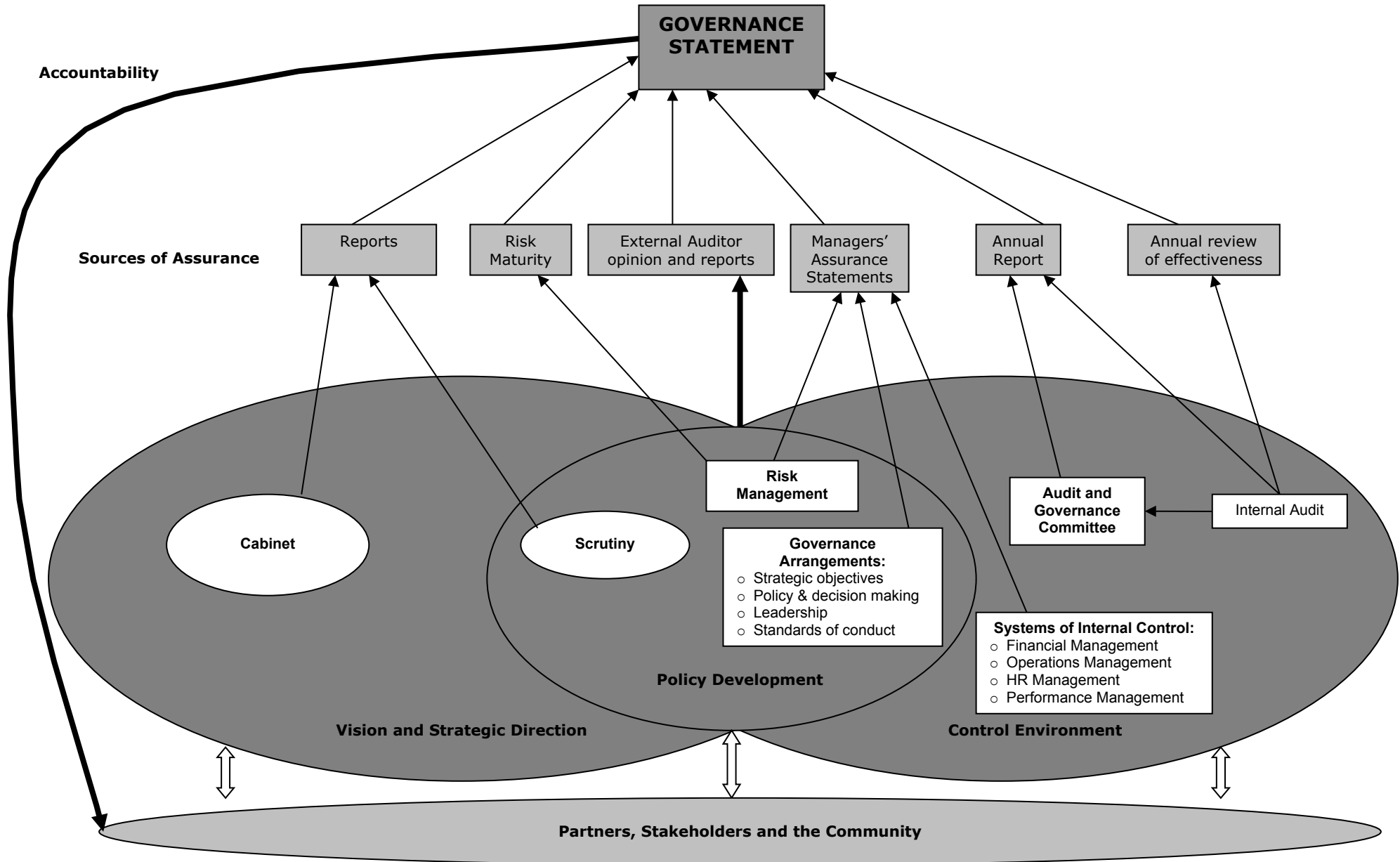
- Appendix 1 – Governance Framework
- Appendix 2 – Annual Governance Statement Timetable
- Appendix 3 – Managers' Assurance Statement
- Appendix 4 – Annual Governance Statement

10 Background papers

- 10.1 Internal Audit Report for the financial year 2018-2019.

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APPENDIX 1



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Appendix 2

ANNUAL GOVERNANCE STATEMENT TIMETABLE

Deadline	Responsibility	Action
Throughout year		1/4ly updates of the Strategic Risk Register
	Internal Audit Manager	Internal Audit reports
	BDO	External Audit reports
	All Managers	Management reports
		Other sources of assurance
April/May	All Managers	Managers Assurance Statements completed (to include RIPA statement)
	Chief Finance Officer	Preparation of the Annual Governance Statement
	CMT	Annual Governance Statement considered
June/July	Internal Audit Manager	Internal Audit Annual report presented to Audit Committee
	Internal Audit Manager	Internal Audit Annual report presented to Audit Committee
	Chief Finance Officer, Leader and Chief Executive	Annual Governance Statement signed by Leader and Chief Executive
	Audit Committee	Annual Governance Statement published

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APPENDIX 3 – Managers’ Assurance Statement and Governance Statement for the Corporate Management Team.

Governance Responsibility	Demonstrated by:
Services are planned and managed to implement the priorities of Eastbourne Borough Council.	<ul style="list-style-type: none"> • Service plan aligned to the Council’s priorities • Plans in place to monitor the quality of service to users and seek continuous improvements • Making best use of resources to ensure excellent service and value for money is achieved • Dealing effectively with any failures in service delivery.
There are good working relationships with Members and officers responsibilities are clearly defined.	<ul style="list-style-type: none"> • Statutory Officers have clearly defined scope and status to fulfil their roles • Delegated powers are clearly defined and understood • Member/officer protocol operates effectively in practice • Partnership governance arrangements are clearly defined and appropriate
The values of good governance are demonstrated and high standards of conduct and behaviour.	<ul style="list-style-type: none"> • Effective communication to all staff of the code of conduct, standing orders, Financial Procedure Rules, Contract Procedure Rules and Anti Fraud and Corruption Policy • Effective performance management of staff and regular appraisals • The Council’s values are understood and promoted
Management decision making and advice to Members are well founded and involve consideration of professional advice and identified risks.	<ul style="list-style-type: none"> • Effective arrangements to ensure data quality (complete, accurate, timely and secure) • The internal control framework operates effectively • Professional advice is obtained where appropriate and is recorded • Risk management operates effectively in strategic, project and operational areas • Decisions made are in accordance with delegated powers and the Council’s constitution • Arrangements are in place to obtain assurance on the management of key risks

APPENDIX 3 – Managers’ Assurance Statement and Governance Statement for the Corporate Management Team.

The capacity and capability of officers has been developed to ensure effective performance.	<ul style="list-style-type: none"> • Training and development of staff • Workforce planning to ensure there are adequate staffing levels • Statutory officers have sufficient resources to fulfil their role
Robust public accountability is ensured by engaging with local people and stakeholders	<ul style="list-style-type: none"> • Arrangements to communicate with relevant sections of the community • Undertaking effective consultation with public and other stakeholders • Consultation with staff and engagement in decision making is undertaken
Adequate processes have been put in place for the safeguarding of children and vulnerable adults.	
Adequate action has been taken to ensure compliance with the requirements of the Bribery Act.	<ul style="list-style-type: none"> • Proportionate procedures have been put in place to prevent bribery • The risks of bribery have been assessed and added to the departmental risk register • Procedures and risks are regularly monitored and reviewed.
Are you satisfied that documents are held and disposed of in accordance with data protection requirements and the Councils' Retention and Disposal Schedule?	
Has any external review been carried out in your department?	
Have you had reason for using/considering using surveillance which would fall under RIPA?	
Have you used or considered using covert/directed surveillance either under RIPA or outside it?	
Are you aware of any frauds over £10k that have not already been informed to the Internal Audit section.	

SIGNIFICANT GOVERNANCE ISSUES 2018/19

The Managers’ Assurance Statement will help you consider whether there are any significant governance issues which have occurred in 2017/18 and which may be considered appropriate for inclusion in the Council’s Annual Governance Statement. Please identify any Significant Governance Issues.

Guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA) indicates that a single definition of a significant governance issue is not possible. Officers will need to exercise judgement in deciding whether or not a particular issue should be regarded as falling into this category. Factors which may be helpful in exercising this judgement include:

- The issue has seriously prejudiced or prevented achievement of a principal objective.
- The issue has resulted in a need to seek significant additional funding to allow it to be resolved, or has resulted in significant diversion of resources from another aspect of the Council.
- The issue has led to a material impact on the accounts.
- The Audit and Standards/Governance Committee has advised it should be considered significant for this purpose.
- The Head of Audit and Counter Fraud has reported on it as significant for this purpose in the annual opinion on the internal control environment.
- The issue, or its impact, has attracted significant public interest or has seriously damaged the reputation of the Council.
- The issue has resulted in formal action being undertaken by the Section 151 Officer and/ or Monitoring Officer.

Can I ask that you also complete the following statements for Lewes District Council and Eastbourne Borough Council separately.

APPENDIX 3 – Managers’ Assurance Statement and Governance Statement for the Corporate Management Team.

LEWES DISTRICT COUNCIL

There ARE/ ARE NO (delete as appropriate) significant governance issues which I consider require reporting in the Lewes District Council Annual Governance Statement for 2018/19.

Significant Governance issue	Action required/ proposed

EASTBOURNE BOROUGH COUNCIL

There ARE/ ARE NO (delete as appropriate) significant governance issues which I consider require reporting in the Eastbourne Borough Council Annual Governance Statement for 2018/19.

Significant Governance issue	Action required/ proposed

Any Significant Governance Issues or other concerns you have raised in the Management Assurance Statement will be considered by Corporate Management Team as a whole as to whether they are included in the Annual Governance Statement.

Annual Governance Statement

Scope of responsibility

Eastbourne Borough 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.

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.

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

This statement explains how the Council has complied with the code and also meets the requirements of Part 2, 6(1) of the Accounts and Audit Regulations 2015 which requires all relevant bodies to prepare an annual governance statement.

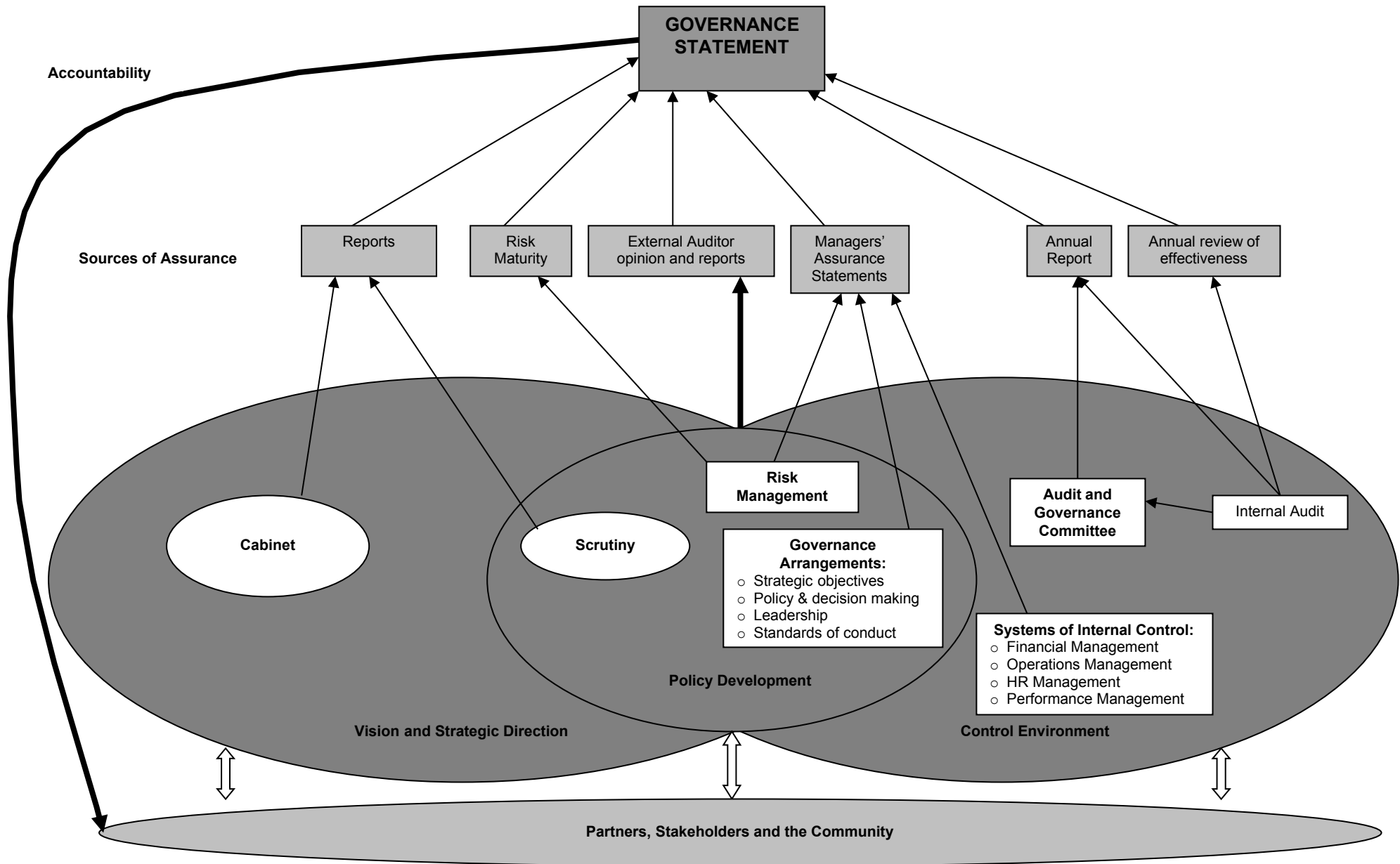
The purpose of the governance framework

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 governance framework has been in place at the Council for the year ended 31 March 2019 and up to the date of approval of the Annual Reports on financial Outturn and performance and Statement of Accounts.

THE GOVERNANCE FRAMEWORK



THE GOVERNANCE FRAMEWORK

The diagram of the governance framework at Eastbourne Borough Council demonstrates how the information concerning the needs, requirements and views of partners, stakeholders and the community are used in decision making processes across the authority and eventually feeds into the Annual Governance Statement as part of our accountability to the community.

Key elements of the systems and processes that comprise the authority's governance arrangements are described below.

The Council approved the new Corporate Plan for 2016-20 on 11 May 2016. The new plan builds on the work of the previous one and has been the subject of extensive consultation with local residents and stakeholders with over 1500 responses to those consultations. The overarching corporate priority themes remain unchanged but the vision statements going forward have been refreshed and updated, and are underpinned by both new and continued priority projects going forward. These priorities have been chosen both as a result of consultation responses received and also in respect of the current economic climate and data demonstrating Eastbourne's standing on a local, regional and national comparative basis.

The plan is reviewed annually with high level public consultation exercises taking place to re-test the top priorities ahead of a refresh of the plan. The plan was updated in July 18. Each year the plan is approved by full Council. The Corporate Plan is available to view on the Council's website.

The priorities listed in the Corporate Plan are set up as programmes and key projects / activities feeding into these are specified. Each project is allocated an owner and the relevant objectives, milestones, performance indicators, planned activities and time tables are identified. All this information is uploaded into performance management software to allow for ease of monitoring and reporting. This is then regularly updated with information about progress against the objectives. There are monthly monitoring management and intervention arrangements in place through the Corporate Management Team and Scrutiny in addition to quarterly reporting to Cabinet.

The Council is required to hold a written constitution under the provisions of the Local Government Act 2000. The constitution sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable to the people it serves. The Council's current constitution was originally adopted in May 2002 and has been the subject of update and amendment since that time. Some of the content of the constitution is required by law and other content is for the Council itself to determine. There is also a raft of legislation which is reflected in the constitution e.g. Access to Information. The constitution also details the responsibility for functions and roles across the Council including Council, Cabinet and committees

(see “The Modernised Political Structure – How It Works” diagram). It also contains a Scheme of Delegation which allows officers to take decisions on behalf of the Council. The responsibilities of each officer are clearly documented.

Standards of behaviour and conduct of Members and staff are laid down in relevant sections of the constitution. Other relevant policies include the Anti Fraud and Corruption Policy (containing sections on Whistleblowing and the Bribery Act), disciplinary and grievance procedures and the Dignity at Work Policy. The Monitoring Officer and the Standards Panel have responsibility for considering complaints against Members. All policies and guidance are available to staff and Members on the Council’s intranet.

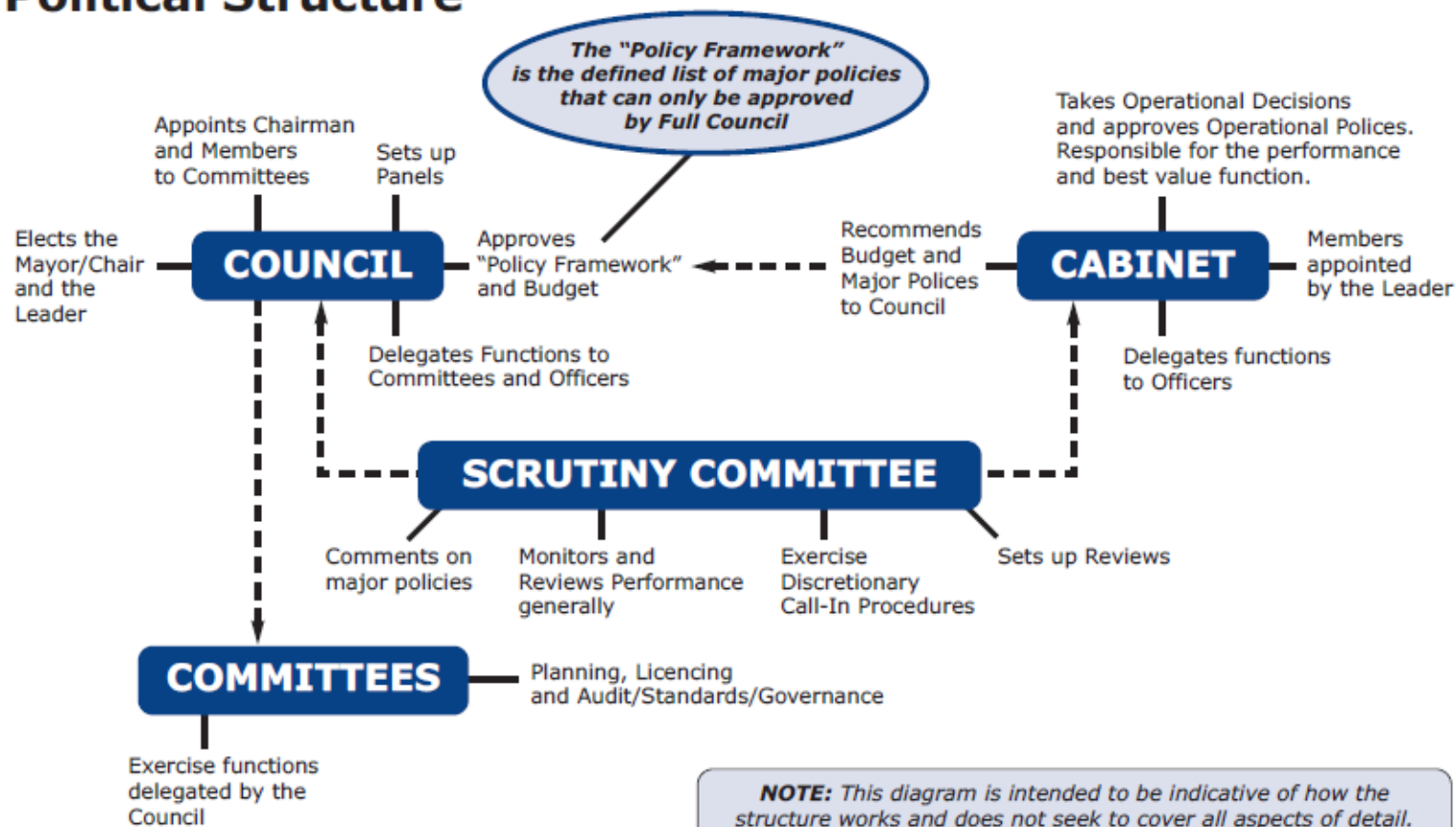
All aspects of the decision making framework, including schemes of delegation, are contained in detail in the Council’s constitution and summarised in the articles of the constitution. The content of this document is specifically ratified each year by the annual meeting of the Council. Any proposed changes to the Council’s constitutional rules and delegations can be considered at any time, drafted, and put to the next available Council meeting for decision. Different elements of the constitution are owned by the Monitoring Officer and the Section 151 Officer as relevant. The Constitution is published in full on the Council’s website.

The Council holds a Risk Management Strategy which sets out the way in which risks are to be identified, scored and recorded. This strategy is reviewed annually. Project, operational, departmental and strategic risk registers are now held on performance management software so that they can be updated regularly by managers who have complete ownership and responsibility for reviewing and updating the registers. The Strategic Risk Register is reviewed by the Corporate Management team quarterly.

The terms of reference for the Audit and Governance Committee include the requirement to review the effectiveness of the Council’s arrangements for identifying and managing risks, internal control environment and corporate governance arrangements.

How it Works...

The Modernised Political Structure



The Council holds an Anti-Fraud and Corruption Policy which contains sections on Whistleblowing, Anti Money Laundering and the Bribery Act. This is reviewed annually to ensure that it is kept up to date. The Council has a Counter Fraud team which proactively seeks out cases of fraud across all areas of the Authority. The Council also participates in the biennial National Fraud Initiative programme which seeks to identify fraud by matching data with other authorities and agencies. An overview of these areas is set out in the terms of reference for the Audit and Governance Committee.

During the financial year the Council continued with its Joint Transformation Programme. However, it was reaching its conclusion at the year end. This programme was intended to create a more flexible, customer focussed and cost effective way of delivering services across Eastbourne Borough and Lewes District Councils. These changes were implemented to improve customer service and reduce costs by enabling each authority to reach their savings targets by 2020. The programme was agreed by the Cabinet at each authority and overseen by a cross party project board from both authorities. The programme was also overseen by senior management and Members, and was managed using established project management tools.

The Chief Finance Officer and s.151 Officer role is a member of the Council's Corporate Management Team. In this position the Chief Finance Officer and s.151 Officer has input into developing and implementing strategies and advising on financial resources. The Chief Finance Officer and s.151 Officer is responsible for developing the authority's financial strategies and will consider business decisions in line with these. The Chief Finance Officer and s.151 Officer manages the Finance and Internal Audit teams and is a suitably qualified accountant. The Council therefore conforms with the governance arrangements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).

The Council holds Financial Procedure Rules and monthly budget monitoring meetings are held by Finance staff with managers responsible for budgets. Financial performance is reported regularly to Members.

The Chief Internal Auditor proposes a risk-based audit plan for the year which is discussed with, and agreed by, the Corporate Management Team and the Audit and Governance Committee. It is ensured that the scope of the plan is sufficient to allow the Chief Internal Auditor to be able to use the evidence gained during the year to base the opinion of the control environment upon at the end of the year. Each audit review carried out during the year is given an assurance rating based on the risks and controls in operation in that area. Each of these is taken into consideration when the annual report of the work of Internal Audit is written and feeds into the overall opinion of the control environment operating at the Authority.

The Chief Internal Auditor undertakes an annual review of the Internal Audit function which assesses the function against the Public Sector Internal Audit Standards. The results of this self-assessment and any non-conformity with the standards is reported to the Audit and Governance Committee.

The role of Monitoring Officer sits with the post of Assistant Director Corporate Services. As monitoring officer, the post has appropriate autonomy and/or a direct reporting line to the Chief Executive. The function is also supported by a designated deputy and a network of officers trained in investigative procedures. Reporting line to members is to a specifically constituted Standards Sub Committee which in turn reports to the Council's Audit and Governance Committee.

The Council has established an Audit and Governance Committee. The committee generally conforms to the best practice identified in CIPFA's "Audit Committees – Practical Guidance for Local Authorities". Its terms of reference include:

- To receive reports on and to monitor the operation of the Council's constitution;
- Have an overview on the Council's whistleblowing policy;
- Deal with audit or ethical standards issues which may arise;
- Carry out independent scrutiny and examination of the Council's processes, procedures and practices with a view to providing governance arrangements and risk and financial management;
- Meet the requirements of the Audit and Account Regulations Act 2015;
- Consider reports from the external auditors;
- To make recommendations to Council, the Cabinet or Scrutiny as appropriate with a view to improving the effectiveness, accountability and transparency of the decision making process and the Council's governance arrangements;
- Promoting and maintaining high standards of conduct within the Council and monitoring the operations of the Council's codes of conduct and registers of interest.

The Council holds a Whistleblowing Policy which forms part of the Anti-Fraud and Corruption Policy. This clearly sets out how concerns raised should be handled, recorded and reported. The Authority also has a Comments, Compliments and Complaints procedure. The public may contact the Council with a complaint via telephone, email, letter or online. A page on the website clearly explains the process. Complaints are managed and monitored using performance management software. Similarly the public can make complaints about Councillors. Information on how to do so can also be found on the website. These complaints are handled by the Monitoring Officer.

When there is a change of administration or a raft of new Councillors then a general induction programme is organised. Annually the leaders of the parties will discuss with members any specific training or development needs. Human Resources will then put together a programme of training events for Members to attend. There are also statutory updates. Senior officers have annual appraisals at which any training and development needs are identified. Some of this may be necessary CPD (continuing professional development) required for professional memberships.

Annual bespoke consultation is designed each year alongside the Corporate Plan, budget and service planning processes jointly owned by senior management and Scrutiny. This consultation uses a variety of methods including social media, online surveys, presentations to groups and open public sessions to test the proposed priority projects in the annual refresh of the Corporate Plan.

Other communications include:

- Comprehensive consultation on corporate priority themes and goals prior to the publication of each new 5-year Corporate Plan.
- Monthly electronic communiqué to a list of free subscribers (business partners and community groups) providing updates on progress of major projects.
- Frequent engagement with equality groups – DIG (Disability Involvement Group), Faiths Forum and Bourne-Out.
- A new scheme “Talk with Us” has been put together whereby ward Councillors in partnership with neighbourhood officers from other agencies (e.g. Police and Housing agencies) will visit communities for direct contact. Estate audits will also be carried out and all observations will be fed back into relevant projects at the Council.
- Annual Youth Fair to bring together agencies that provide services and activities with the youth of the town to increase awareness.
- Standing items on Cabinet and committee agendas enabling public rights of address on items to be discussed and/or open questions by members of the public.
- Improving service delivery from the Council with the introduction of the Neighbourhood First Team which has regular community contact and feedback surgeries.

All working partnerships have previously been the subject of equality impact assessments and are properly constituted. Elected member representatives appointed annually by full Council and listed in the Council’s constitution.

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 process that has been applied in maintaining and reviewing the effectiveness of the governance framework includes the following elements:

Internal Audit and Counter Fraud

The Council's Internal Audit section is an independent assurance function that reports on the adequacy of the whole system of internal control across the Authority.

From July 2017 this service has been provided by a shared service between Eastbourne Borough Council and Lewes District Council.

The Chief Internal Auditor carries out an annual self-assessment of the Audit function and states that the section generally conforms with the Public Sector Internal Audit Standards (PSIAS). During the financial year 2016-17 an external peer review has been carried out and this also concluded that the work of the section generally conforms with the standards. This was reported to the Audit and Governance Committee.

Quarterly and annual reports on the work carried out by the Internal Audit function are considered by both the Corporate Management Team and the Audit and Governance Committee. The "audit opinion" of the control environment, including IT governance, given in the annual report feeds into the Annual Governance Statement.

The opinion of the Chief Internal Auditor, as noted in the annual report on the work of Audit, was that the internal controls in processes and IT systems across the authority were generally found to be sound.

The Council has a strong counter fraud culture that is supported by Councillors and officers. The Counter Fraud 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 Right to Buy fraud. The outcome of this work helps to inform the opinion of the control environment. The Council works closely with the national Single Fraud Investigation Service (SFIS) in the Department of Work and Pensions to ensure an effective response to cases of Housing Benefit fraud.

The Strategic Risk Register has been adopted by the Audit and Governance Committee. The register is reviewed quarterly by the Chief Internal Auditor

and the Corporate Management Team and any changes are reported to the Audit and Governance Committee.

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.

Corporate Management Team

The roles of this team are to provide strategic management and planning, oversee priority and budget setting, service planning and performance management. The team provides organisational leadership, engages with Cabinet on strategic issues/direction and, in partnership with members, develops relationships with key stakeholders.

Individual members of the team are responsible for the performance of their relevant department/service area, progress of their relevant portfolio themes and liaison with portfolio holding members.

The Corporate Management Team gives consideration to the Internal Audit Plan, Strategic Risk Register and Annual Governance Statement.

Consideration was given by the Corporate Management Team to any significant non-delivery of strategic objectives, potential exposure to loss through fraud, corruption or error and litigation through non-compliance. No instances were identified as significant governance issues.

Audit and Governance Committee

The Audit and Governance Committee is responsible, amongst other things, to carry out independent scrutiny and examination of the Council's financial and non-financial processes, procedures and practices to the extent that they affect the Council's control environment and exposure to risk. This is with a view to providing assurance on the adequacy and effectiveness of

internal controls, risk, financial and performance management, fraud detection and prevention and the work of Internal Audit.

The Audit and Governance Committee reviews reports submitted by the Chief Internal Auditor including the Annual Governance Statement, Internal Audit provision, all internal audits and the Strategic Risk Register. It also considers the annual financial statements including the Annual Governance Statement in July.

Scrutiny Committee

The Scrutiny Committee meets to review the delivery of services as a result of previous council decisions, the performance of existing policies and strategies, the submission of performance indicators and recommend appropriate courses of action to the Council or Cabinet.

The Scrutiny Committee reviews the delivery of services and performance and supports the work of the Cabinet and the Council as a whole. 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. It also acts as the Council's Crime and Disorder Committee to look at the formulation and implementation of the Crime and Disorder strategies.

Cabinet

The Cabinet is responsible for most day-to-day decisions of the Council. The Cabinet is made up of the Leader of the Council and 5 Councillors from the majority political group, the Liberal Democrats. Each member is assigned portfolios identifying areas of responsibility for which they provide a political lead at Cabinet meetings and for working in consultation with officers.

The Shadow Cabinet is made up of 7 members of the Opposition, the Conservative group, with each member similarly being assigned portfolios.

Cabinet can consider the External Auditor's Annual Audit and Inspection Letter and other commissioned audit reports. It also sponsors and recommends adoption of the accounts.

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, RIPA and frauds over £10k. The senior manager can highlight concerns and the necessary actions required to improve governance. Assurance statements are sent out to Directors and Assistant Directors and Heads of Service. Once completed their contents are used to inform the governance statement.

Completed Managers' Assurance Statements were returned from Directors, Assistant Directors and Heads of Service. Many statements contained minor

concerns around the impact of the Joint Transformation Programme. These included: aligning policies, training staff, resource issues, developing new teams and building a joint culture.

The Corporate Management Team was asked to consider whether any of these individual issues or the Joint Transformation Programme as a whole should be noted as a significant governance issue or just noted in the body of the Annual Governance Statement.

During the financial year the Council continued with its Joint Transformation Programme. However, it was reaching its conclusion at the year end. This programme was intended to create a more flexible, customer focussed and cost effective way of delivering services across Eastbourne Borough Council and Lewes District Councils. The inherent risks of the programme were recognised throughout and every effort made to mitigate these risks. Now that the programme is reaching its conclusion a review of outcomes is being undertaken. A Supporting Change Steering Group has also been set up to support services going forward giving an overview to all projects and new systems with a view to understanding costs, benefits, impacts and resources. It was therefore agreed that this should appear in the body of the Annual Governance Statement but not as a separate significant governance issue.

Asset Management issues were also raised in the Managers' Assurance Statements returned. The Corporate Management Team agreed that an external review had been commissioned that had resulted in a detailed report on the current condition and future of some assets. This report is being reviewed to consider future options.

External Reviews

The external auditor's Annual Audit Letter and other commissioned audit reports are presented to, and considered by, the Audit and Governance Committee.

Reviews carried out by external agencies, e.g. APP; Benefit Performance Review; RIPA inspection, which impact on the governance framework are taken into consideration when preparing the Annual Governance Statement.

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.

SIGNIFICANT GOVERNANCE ISSUES 2018/19

Area	Issue	Action
Housing software	<p>A new system was implemented in December which has not met the outcomes expected.</p> <p>There have been ongoing issues with extra staff resources being diverted to identify and rectify/mitigate issues.</p> <p>Knock on effects have affected the final accounts</p>	<p>The issues have been monitored and mitigating actions put in place as and where necessary.</p> <p>A conversation is ongoing with the supplier to rectify the issues and an action plan is being set up and will be monitored.</p> <p>A review of the implementation and issues will be carried out by Internal Audit in 2019/2020.</p>

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 the arrangements continue to be regarded as fit for purpose in accordance with the governance framework.

Signed on behalf of Eastbourne Borough Council:

.....
Leading Member

.....
Chief Executive

Date:

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Report to	Audit and Governance Committee
Date:	24 July 2019
Title:	Internal Audit Report for the financial year 2018-2019.
Report Of:	Chief Internal Auditor
Ward(s):	All
Purpose of report:	To provide a summary of the activities of Internal Audit and Counter Fraud for the year 1st April 2018 to 31st March 2019.
Officer recommendation(s):	That the information in this report be noted and members identify any further information requirements.
Reasons for recommendations:	The remit of the Audit and Governance Committee includes the duties to agree an Annual Audit Plan and keep it under review, and to keep under review the probity and effectiveness of internal controls, both financial and operational, including the Council's arrangements for identifying and managing risk.
Contact:	Jackie Humphrey, Chief Internal Auditor, Telephone 01323 415925 or internally on extension 5925. E-mail address jackie.humphrey@lewes-eastbourne.gov.uk

1.0 Introduction

- 1.1 The work of Internal Audit is reported on a quarterly basis to demonstrate work carried out compared to the annual plan and to report on the findings of audit reports issued since the previous meeting of the committee.
- 1.2 The annual audit plan for 2018/19 was agreed by the Audit and Governance Committee in March 2018.

2.0 Review of work carried out in the financial year 2018-2019.

- 2.1 A list of all the audit reports issued in final from 1st April 2018 to 31st March 2019 is as follows:

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

Debtors (Annual 2017/18)	Performing Excellently
Housing Rents(Annual 2017/18)	Performing Well
Main Accounting (Annual 2017/18)	Performing Excellently
NNDR (Annual 2017/18)	Performing Excellently
Safeguarding	Performing Inadequately
Devolved Budgets	Performing Well
Contracts Monitoring	Performing Adequately
Corporate Credit Card Usage	Performing Excellently
Land Charges and Searches	Performing Well
Estates Management	Performing Well
Private Housing Grants	Performing Excellently
Car Parking	Performing Adequately
Cemeteries and Crematorium	Performing Well
Use of Council Vehicles	Performing Well
HMO Licensing	Performing Well
Estates (Block) Management	Performing Well
Theatres (Annual 2018-19)	Performing Excellently
Payroll (Annual 2018-19)	Performing Excellently

Levels of Assurance - Key

Performing inadequately	Major weaknesses. Insufficient controls in place or controls not being applied. Fundamental improvements required. – High risk.
Performing adequately	Some important weaknesses. Key controls need to be improved. – Medium to high risk.
Performing well	Important strengths but some areas for improvement. – Medium to low risk.
Performing excellently	Major strengths. Minor or no recommendations. A good example of internal control. – Low risk.

2.2 Appendix A shows the work carried out against the annual plan to the end of the financial year 2018-19. The following has been previously reported which has had a large impact on completion of the audit plan.

- An Auditor post has been vacant since the post holder left at the beginning of June 2018.
- One member of the team had 6 weeks of absence.
- The Audit Manager had two large projects which impacted on the completion of the audit plan.

In addition there are currently two annual reviews that have gone over time allocated. This is because this is the first time the review has been carried out across both authorities and Auditors are learning who they need to contact. This has also been impacted by the changes in Finance resulting from the JTP 3 changes.

2.3 Appendix B is the list of all reports issued in final during the year which were given an assurance level below “Performing Well”, with any issues highlighted in the reviews which informed the assurance level given.

2.4 The committee is reminded that these are the assurance levels that were given at

the time the final report was issued and do not reflect recommendations that have been addressed. In order to clarify this a column has been added to show the assurance level given in the latest follow up carried out.

3.0 Restructure and software.

- 3.1 The managing of the restructure of the Audit and Counter Fraud teams took a significant amount of management time away from the audit plan at a time when there was already a vacancy in the Audit team. However, following the restructure the posts are now being filled. The Counter Fraud/Audit Liaison post was filled from mid May. Two internal appointments have been made which has created two further vacancies. The Audit Manager has become the Chief Internal Auditor and an Auditor was successful in their application for the Audit Manager post. One Auditor post has been filled at the beginning of June and the second post will be filled at the beginning of July. Once these posts have been filled the teams will be fully staffed and can concentrate on completing the audit plan for 2019-20.
- 3.2. Another significant amount of management time was taken away from the audit plan was in the set up and testing of the new audit software. The new software package for carrying out audit reviews is now completely set up and tested. Some staff are using the system to carry out some of the annual audit reviews for 2018-19. These staff will become familiar with the system and will train the other staff so that, in future, all audit reviews will be carried out using this software.

4.0 Counter Fraud

- 4.1. The Counter Fraud Team (CFT) have continued the range of work commenced in 2017/18 with a steady flow of work in the existing areas of housing tenancy, Right to Buy, revenues and Council Tax. Projects, including a review of Council Tax discounts/exemptions and NDR, have brought successful outcomes which will be built on further with the joint Single Person Discount review and procurement of data matching software. The team are now also working under one management structure within Audit across Lewes and Eastbourne and this is expected to improve working practices and develop areas of counter fraud work further.
- 4.2 The team continue to work closely with Homes First, with a marked improvement in results in comparison to the previous year. A total of 33 subletting and abandonment allegations have been investigated, with 8 properties returned through either investigation or joint working activities, this has resulted in a net saving to the authority of £279,000 (any joint work has not been included as a financial figure). 14 other cases were investigated for various safeguarding, changes to housing and succession issues.
- 4.3 Right to Buy applications have gradually reduced from the second quarter onwards which has resulted in a smaller net saving than in the previous year. A total of 27 applications were received during the financial year, all of which were validated to prevent money laundering. Of these applications 17 were withdrawn as part of the CFT involvement, resulting in a saving of £1,293,108 to the authority and the prevention of losing these properties from the housing stock.
- 4.4 Work has also been undertaken with Homes First looking at a number of

potentially fraudulent homeless presentations as well as the implementation of using the National Anti-Fraud Network facilities for credit checks for all new applications as a preventative measure. It is planned for Housing Applications to be the first area subject to a linked approach using both Fraud and Audit teams together.

- 4.5 A detailed review of Council Tax Exemptions and Disregards has been undertaken which looked at areas of weakness or where reviews have not been completed for some time. This work has highlighted 97 Council Tax cases requiring further investigation and resulted in amendments to 84 of these accounts creating in excess of £126,000 in cash income. The CFT are due to commence a joint working operation with the revenue Specialist Advisors and Datatank reviewing high risk Single Person Discounts. This is expected to become a regular source of referrals and may result in the introduction of the Council Tax Penalty of £70 for undeclared changes in circumstances.
- 4.6 The CFT are continuing a review of Small Business Rate Relief cases, in particular limited companies that may run other businesses in this area or other boroughs. This activity has generated 11 cases for review which has resulted in adjustments of £38,000 in cash income. Further activities are now planned using data matching exercises through the National Fraud Initiative and the application of data analytical software with our neighbouring authorities
- 4.7 The team are continuing to review Council Tax Reduction (CTR) applications which have not been re-assessed for over 2 years; this has resulted in finding over £90,000 in CTR overpayments with a net cashable increase in Council Tax liability. There has also been a consistent level of Housing Benefit activity through our Single Point of Contact (SPOC) work with the DWP's Housing Benefit Matching Service (HBMS). This has resulted in combined recoverable overpayments of £170,000.
- 4.8 The work on investigating the data matches supplied by the National Fraud Initiative for 2017-18 has now completed with a net finding of £5,000 in errors. Work has now started on the 2019/20 reports. Owing to the limited results coming out of previous exercises testing is commencing on just 10% of cases. The results of this initial testing will be reviewed and if it is felt that the results are reasonable further testing will be carried out. To date 498 cases have been cleared with 31 awaiting further investigation.
- 4.9. Appendix C shows the savings identified by the Counter Fraud team during the financial year.

5.0 Managing the Risk of Fraud and Corruption

- 5.1. CIPFA suggests it is good practice to make a statement on the adequacy of an authority's counter fraud arrangements in the annual governance report. CIPFA has published a Code of Practice on Managing the Risk of Fraud and Corruption which contains five principles:

- Acknowledge responsibility
- Identify risks
- Develop a strategy

- Provide resources
- Take action

5.2. Having considered all the principles the Chief Internal Auditor is satisfied that the Council meets these by having fully resourced Counter-Fraud and Audit teams who review the 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 policy.

6.0 Annual Governance Statement and Opinion of the Chief Internal Auditor

6.1 The work referred to in this report has been used as the basis for the opinion of the overall effectiveness and adequacy of the internal control environment along with other ad hoc work undertaken by the auditors.

6.2 Owing to an Auditor vacancy being carried through the year the breadth of audit coverage was limited and the full audit plan was not completed.

6.3 Considering the findings, and caveated by 6.2 above, it is the opinion of the Internal Chief Internal Auditor that internal controls in processes and IT systems across the authority were found to be generally sound.

6.4 There is an exception to this opinion in respect of the new Housing Management software. This is specifically dealt with in the Annual Governance Statement

6.5 This opinion feeds into the Annual Governance Statement which is reported separately to this committee.

7.0 Conforming with the Public Sector Internal Audit Standards

7.1 The Public Sector Internal Audit Standards came into effect from 1st April 2013 and the work of the Internal Audit section is assessed for compliance against these standards annually.

7.2 A checklist for compliance has been completed and it is found that the Internal Audit function is “generally conforming” to the standards. Conformance remains at about 99% of the points listed in the standards.

7.3 There are two areas of only partial compliance. These are where the Audit Manager’s annual appraisal is expected to have the input of the Chief Executive and the Chair of the Audit Committee. It has been agreed that although these two posts are not specifically asked to contribute they are both able to give feedback on the work of the Manager throughout the year through various meetings.

7.4 It is the opinion of the Internal Audit Manager that the Council’s Internal Audit Service generally conforms with the Public Sector Internal Audit Standards (PSIAS) which came into effect from 1 April 2013.

7.5 The standards require an external review to be carried out at least every five years. A review of the audit function was carried out as a peer review by other

members of the Sussex Audit Group in 2016. The results of this review were fully reported to the Audit and Governance Committee at the September 16 meeting. The report from the reviewers stated that the audit function at Eastbourne generally conforms with the standards.

- 7.6. The Internal Audit team has maintained its independence throughout 2018/19 in accordance with the Audit Charter.

8.0 Financial appraisal

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

9.0 Legal implications

- 9.1 This report demonstrates compliance with regulation 5 of The Accounts and Audit Regulations 2015, which requires Eastbourne Borough Council to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.

Lawyer consulted 13.06.19

Legal ref: 008345-EBC-OD

10.0 Risk management implications

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

11.0 Equality analysis

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

12.0 Appendices

Appendix 1 – Work against plan

Appendix 2 – Reports issued with assurance levels below “Well”

Appendix 3 – Counter Fraud work and savings.

13.0 Background papers

- 13.1 Audit reports issued throughout the year.

			Planned days	Actual days	Notes / Reason for Variance
ANNUAL REVIEWS	Benefits	Governance	15	10.8	Ongoing
	Cash and Bank	Governance	10	0	Commenced in 2019-20
	Council Tax	Governance	10	7.7	Ongoing
	Creditors	Governance	15	21.8	Covering both authorities
	Debtors	Governance	15	0.3	Commenced in 2019-20
	Housing Rents	Governance	15	6	Completing 17-18 review (5.4) and beginning the 18-19 review.
	Main Accounting	Governance	10	10.7	Covering both authorities
	NDR (Business Rates)	Governance	10	8.6	Ongoing
	Payroll	Governance	10	6.6	Completed
	Treasury Management	Governance	5	0.6	Fully commenced in 2019-20
	IT	Governance	4	2	Ongoing
	Theatres Reconciliation	Governance	5	4.9	Completed
	Claims work		115	151.8	Completing 16-17 and carrying out 17-18 work
			239	231.8	
Page 153 EBC resources only	Corporate Credit Card Usage	Operational	10	10.3	Completed
	Theatres	Operational	20	0	
	Housing (inc EHL contract)	Operational	20	0	
	Land Charges and Searches	Operational	5	5.7	Completed
	Devolved Budgets	Operational	7	7.6	Completed
	Cafi - Purchasing	IT	10	0	
	Car Parking including permits	Operational	10	12	Completed
	Elections and Electoral Register	Operational	10	0	
	Cemeteries and Crematorium	Operational	10	11.6	Completed
	Officers Expenses	Operational	5	0	
	Use of Council Vehicles	Operational	8	7.1	Completed
	HMO licensing	Operational	10	4.1	Completed
	Postal Services	Operational	10	8	Ongoing
	Procurement (compliance with CPRs)	Operational	10	0	
			145	66.4	
Half EBC and half LDC resources	Arrears collection (across depts)	Operational	10	0	
	Estates Management	Operational	10	12.8	Completed
	Ethics	Operational	5	0	Completed by Lewes without requiring EBC input
	Customer Services	Operational	10	0	
			35	12.8	
Homes	Estate Management	Operational	10	5.5	Completed
	Void Management	Operational	10	0.3	Asked to postpone until new software in place
	Aids and Adaptations	Operational	10	0	
			30	5.8	

		Planned days	Actual days	Reason for Variance
Contingency		40		
Special Investigations/advice		25	15.6	
Follow ups re audits carried out in previous year and completion of audits begun in previous year		46	29.1	
		111	44.7	
PLAN TOTAL		560	361.5	

APPENDIX 2**Reasons for original assurance levels given (below Well)**

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

Quarters -1

AUDIT REVIEW	ASSURANCE LEVEL	ISSUES NOTED	Level at follow up
Safeguarding	Inadequate	<ul style="list-style-type: none"> Recruitment policy does not reflect vetting processes detailed in the Safeguarding Policy "Safer recruitment" training required for certain staff. Inadequate records held to evidence checks being made. Not all relevant job descriptions explicitly mention Safeguarding responsibilities Retention and Disposal schedule is not clear on length of retention of documents. 	<p><u>Performing Excellently</u></p> <p>At follow up it was found that all high and medium risks had been addressed.</p>
Contracts Monitoring	Adequate	<ul style="list-style-type: none"> A number of contracts in one area expired and no new contracts let. Formal meetings and ad hoc visits not being adequately recorded Contract details not held centrally No documented procedures for ensuring assets are returned at the end of a contract (e.g. keys). 	<p><u>Performing Well</u></p> <p>The expired contracts are being updated but this work is not yet complete.</p>
Car Parking	Adequate	<ul style="list-style-type: none"> Website does not contain all relevant information. The Council is not a member of PATROL, a joint committee formed for parking appeal purposes. Frequency of emptying machines and of patrolling car parks needs to be reviewed. 	<p><u>Performing Well</u></p> <p>Recommendations have been or are being addressed.</p>

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NATIONAL FRAUD INITIATIVE	QUARTER ONE			QUARTER TWO			QUARTER THREE			QUARTER FOUR			YEAR TOTAL	
	Cases	Income	Savings	Cases	Income	Savings	Cases	Income	Savings	Cases	Income	Savings	Income	Savings
Number of cases open	1			0			0			31				
Number of cleared cases	46			0			0			452				
Number of errors identified	10			0			0			3				
Number of frauds identified	0			0			0			0				
Overpayments identified			5,114.52			0.00			0.00			1,698.18		6,812.70
HOUSING BENEFIT MATCHING SERVICE														
Number of open matches	13			0			0							
Number of closed matches	109			94			64							
Overpayments identified			23,843.52			114,694.97			21,684.63			8,897.71		169,120.83
Weekly incorrect benefit identified			3,707.20			63,365.12			35,303.36			22,011.84		124,387.52
OTHER INVESTIGATIONS														
Number of open investigations	80			48			60			98				
Number of closed investigations	69			80			109			66				
Overpayments identified														0.00
Weekly incorrect benefit identified														0.00
Value of ongoing CT increase per week			904.80			2,815.43			329.69			5,763.52		9,813.44
Increase in Council Tax liability			20,771.84			51,350.92			36,791.77			17,243.67		126,158.20
Recovery of Council property	3								186,000.00			93,000.00		279,000.00
Housing Intervention														0.00
CTR Excess			4,841.17			26,650.52			38,181.47			20,237.70		89,910.86
CTR WIB			5,819.20			10,061.12			22,354.56			18,148.80		56,383.68
NDR			2,136.00			21,634.01						16,860.11	0.00	40,630.12
Income from Adpen collection		1445.67			903.6			1188.37			977.80		4,515.44	
Right To Buy interventions	4		319,000.00			532,557.51			213,200.00			229,250.00		1,294,007.51
TOTALS		£1,445.67	£386,138.25		£903.60	£823,129.60		£1,188.37	£553,845.48		£977.80	£433,111.53	£4,515.44	£2,196,224.86

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