

Audit and Standards Committee

20 January 2020



Time and venue:

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

Membership:

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

Quorum: 4

Published: Friday, 10 January 2020

Agenda

1 Minutes (Pages 5 - 8)

To confirm and sign the minutes of the previous meeting held on 23 September 2019 (attached herewith).

2 Apologies for absence/declaration of substitute members

3 Declarations of interest

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

4 Urgent items

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

5 Written questions from councillors

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

6 Update on Lewes District Council's use of covert surveillance powers (Pages 9 - 12)

Report of Assistant Director of Legal and Democratic Services

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

Report of Chief Internal Auditor

8 Internal Audit report for the first two quarters of the financial year 2019/2020 (Pages 23 - 36)

Report of Chief Internal Auditor

9 Delay to the External Audit of the 2018/19 Statement of Accounts (Pages 37 - 42)

Report of Chief Finance Officer

10 Treasury Management (Pages 43 - 50)

Report of Chief Finance Officer

11 Date of next meeting

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

Information for the public

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

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

Information for councillors

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

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

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

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

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

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

Democratic Services

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

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Audit and Standards Committee

Minutes of the meeting held in the Ditchling Room, Southover House, Southover Road, Lewes, East Sussex, BN7 1AB, on 23 September 2019 at 10.00am

Present:

Councillor Julian Peterson (Chair)

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

Officers in attendance:

Nicola Davies (Finance Officer)

Oliver Dixon (Senior Lawyer and Deputy Monitoring Officer)

Jackie Humphrey (Chief Internal Auditor)

Homira Javadi (Chief Finance Officer)

Catherine Knight (Assistant Director of Legal and Democratic Services and Monitoring Officer)

Jennifer Norman (Committee Officer, Democratic Services)

Ola Owolabi (Deputy Chief Finance Officer, Corporate Finance)

Also in attendance:

Graham Branton (Independent Person)

16 Minutes

The minutes of the meeting held on 16 July 2019 were submitted and approved, and the Chair was authorised to sign them as a correct record.

17 Apologies for absence/declaration of substitute members

There were none.

18 Declarations of interest

There were none.

19 Urgent items

There were none.

20 Written questions from councillors

There were none.

21 Annual Standards report on the Register of Members' Interests and Code of Conduct complaints

The Committee received the report which confirmed that the Register of Members' Interests was being maintained in accordance with the law and the Council's constitution, and which set out the number of standards complaints about councillor conduct received and considered by the Council's Monitoring Officer during the 2018/2019 municipal year (as shown in appendix 1 of the report).

Resolved:

That the report be noted.

22 Strategic Risk Register quarterly review

The Committee considered the report which provided an update on the Strategic Risk Register (SRR) while taking into account the changes made by the Corporate Management Team (CMT).

The Chief Internal Auditor highlighted that the SRR was reviewed every quarter by CMT and was only presented to the Committee in the event that any changes to the SRR had been made. She further highlighted paragraphs 2.1 to 2.7 of the report which detailed the changes made by CMT.

Discussion included:

- Concern over a no-deal Brexit and how it would impact the Authority. The Chair requested that officers contact East Sussex County Council as to what plans the Authority had in place in case of a no-deal Brexit. The Chair further requested that officers write a letter to ESCC requesting information on how the County Council was planning on mitigating risks. The Chief Internal Auditor agreed that she would contact ESCC;
- How impact and likelihood, as detailed in sections 2.3 to 2.5 of the report, were assessed. The Chief Internal Auditor explained that the impact and likelihood were assessed during discussions by CMT. She further explained that Zurich would be giving its opinion on the risk management of both Authorities, which will include the SRR beginning in October 2019;
- Concerns over the reasoning for the changes to the economic environment residual risk scores of likelihood 4 and impact 3, to likelihood and impact of 5. The Chief Internal Auditor explained that the implications of a no-deal Brexit were unknown so the Council was unable to fully mitigate against the potential risks;
- How the Council defined risks as strategic. The Chief Internal Auditor explained that when it was a risk that would affect the Authority as a whole rather than just a specific area, the risk was defined as strategic; and

- Questions regarding the monitoring of strategic risks surrounding data breaches and GDPR compliance. The Chief Internal Auditor responded that she would take the issue back to CMT for consideration and would report back to the Committee at a future meeting.

Resolved:

That the report be noted.

23 Internal Audit report for the first quarter of the financial year 2019-2020

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

The Chief Internal Auditor presented details of the report and explained that a majority of the work regarding audit and counter fraud had previously been entirely Lewes District Council (LDC) based. Going forward reports presented to the Committee would reflect audit and counter fraud work across both LDC and Eastbourne Borough Council (EBC) as part of the Joint Transformation Program restructure.

Discussion included:

- How errors at the input stage would be measured, as set out in paragraph 4.2 of the report. The Chief Internal Auditor explained that there should be quality checkers to monitor the quality percentage at an earlier stage of the process, and by doing so would avoid further problems down the road;
- Clarification on whether or not the figures presented in Appendix A represented LDC or LDC and EBC combined. The Chief Internal Auditor clarified that the figures presented in the report reflected days spent for both LDC and EBC; and
- Whether or not the reports were expected to be completed during the current quarter. Officers clarified that prior to the JTP, both LDC and EBC worked on different time scales in relation to when annual audits began. EBC started working on reports early in the year, while LDC began after the start of the new financial year. Going forward, both Authorities would begin at the same time, with target end dates included in future reports to the Committee.

The Committee requested that information provided in future reports could be presented more clearly in relation to areas such as annual planned days, days for the quarter and target audit completion days. Officers agreed.

Resolved:

That the report be noted.

24 Treasury Management

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

The Committee queried there were any penalties in relation to the exceptions listed in paragraph 2.10 of the report. Officers responded that there were no penalties.

Resolved:

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

25 Date of next meeting

On behalf of the Committee, and before the close of the meeting, the Chair wished to thank all officers present for all of their hard work on behalf of the Council. The Chair also thanked members of the Committee for their participation in all matters on the agenda.

The Chief Finance Officer thanked the Committee for its input and suggestions in relation to all matters on the agenda, and confirmed that officers were happy to take on board all feedback that had been given.

Resolved:

That the next meeting of the Audit and Standards Committee that is scheduled to be held on Monday, 18 November 2019 in the Telscombe Room, Southover House, Southover Road, Lewes, BN7 1AB, commencing at 10:00am, be noted.

The meeting ended at 11.05am.

Councillor Julian Peterson (Chair)

Report to:	Audit and Standards Committee
Date:	20 January 2020
Title:	Update on Lewes District Council's use of covert surveillance powers
Report of:	Assistant Director of Legal and Democratic Services
Ward(s):	All
Purpose of report:	To provide an overview of the Council's recent use of covert surveillance powers
Officer recommendation(s):	That the Committee notes the report
Reasons for recommendations:	The Committee is responsible for overseeing the operation of the Council's policy on the use of covert surveillance
Contact Officer(s):	Name: Oliver Dixon Post title: Senior Lawyer and RIPA Monitoring Officer E-mail: oliver.dixon@lewes-eastbourne.gov.uk Telephone number: (01323) 415881

1 Introduction

- 1.1 This report summarises the Council's recent use of covert surveillance and online intelligence gathering.
- 1.2 For legal reasons, the report can only provide an overview of surveillance activity. It cannot disclose personal data or details of individual cases that are still the subject of active investigation.

2 Legislative and policy background

- 2.1 Part 2 of the Regulation of Investigatory Powers Act 2000 ('RIPA') provides for the authorisation by certain public bodies, including district councils, of 'directed surveillance'.
- 2.2 'Directed surveillance' is covert surveillance carried out in relation to a specific investigation or operation in such a manner as is likely to result in the obtaining of private information about any person, other than by way of an immediate response to events or circumstances.
- 2.3 In conducting directed surveillance, the Council must comply not just with RIPA but with the relevant Home Office code of practice and the Council's own policy – links to which are provided in paragraph 10 below.

- 2.4 In procedural terms, the most important steps under RIPA are for the directed surveillance to be authorised internally by a trained and designated senior manager, and for that authorisation to be approved by a justice of the peace (JP) – either a magistrate or district judge.
- 2.5 At both stages, the authorising officer and JP must be satisfied that the proposed surveillance is necessary for the prevention or detection of a crime attracting, on conviction, a custodial sentence of at least six months; and is proportionate to what is sought to be achieved by carrying it out. This involves balancing the seriousness of the intrusion into the privacy of the subject (or any other person who may be affected) against the need for the activity in investigative and operational terms.

3 Recent incidence of covert surveillance authorised under RIPA

- 3.1 In April 2017 the Council's counter-fraud officers began investigating a suspected fraudulent Right to Buy (RTB) application relating to a property in the Lewes district. The RTB scheme is available, subject to certain qualification criteria, to secure tenants of local authorities, enabling them to buy their home at a price lower than the full market value. For homes outside London, the discount is up to £82,800.
- 3.2 Officers had reason to believe that the property named in the application was not the applicant's only or principal home, meaning she did not meet a significant RTB qualification requirement. This amounted to a suspected offence under sections 1 and 2 of the Fraud Act 2006 – fraud by false representation. On conviction, a person guilty of fraud is liable to imprisonment for a term of up to 12 months if sentenced in the magistrates court; or up to 10 years if sentenced in the crown court.
- 3.3 Despite extensive counter-fraud investigations pointing to the applicant not using the property as her only or principal home, the evidence was thought unlikely to meet the standard of proof required for a criminal conviction, i.e. proof beyond reasonable doubt.
- 3.4 To secure the required level of proof, the investigating officer sought RIPA authorisation to conduct a three-month directed surveillance operation on the exterior of the property in question, by way of covertly mounted vision-only cameras, to ascertain the level of usage by the applicant. The internal authorising officer, the Director of Service Delivery, was satisfied the proposed surveillance was necessary for the detection of a suspected crime, and was proportionate in terms of:
- (i) all other reasonable non-surveillance lines of enquiry having been pursued already;
 - (ii) the minimisation of 'collateral' intrusion, i.e. surveillance of persons not under investigation;
 - (iii) the collection of visual images only, not sound; and
 - (iv) the potential saving to the council of £80,900, if the RTB application were proven to be fraudulent.

Accordingly, the Director authorised the operation.

- 3.5 In August 2018, officers applied for and were granted judicial authority by a district judge to commence the surveillance activity.
- 3.6 Once a local authority has obtained all necessary permissions for directed surveillance, it may lawfully conduct the activity for up to three months, if the circumstances justifying the activity remain. With this particular case, the authorising officer reviewed the activity after one and two months from commencement, and concluded it was necessary to continue the surveillance for the full duration in order to be certain that the applicant was not using the property as her only or principal home.
- 3.7 The surveillance operation ceased three months after it was approved by the district judge.

4 Key findings and outcome of the surveillance

- 4.1 During the three-month surveillance period, the applicant was captured on camera visiting the property only twice, and for a total duration of less than one and half hours. On the first occasion she was seen to carry two full bags away from the property.
- 4.2 In December 2018, counter-fraud officers interviewed the applicant under caution and charged her with fraud by misrepresentation under sections 1 and 2 of the Fraud Act 2006. She initially pleaded not-guilty but subsequently changed her plea to guilty. Sentencing is due at crown court on 10 January 2020.
- 4.3 An incidental benefit of establishing the tenant's non-use of the property was the Council's ability to recover possession, on the basis of breach of tenancy. The Council applied for and was granted a warrant of eviction by the county court, and by the time the bailiff and Council officers entered the property, the previous occupiers had removed all their belongings. The house was let to a new tenant in December 2019.

5 Online covert activity

- 5.1 The growth of the internet, and the extent of the information that is now available online, presents opportunities for Council officers to view or gather online information which may assist them in preventing or detecting crime or carrying out other statutory functions.
- 5.2 Officers engaged in debt recovery relating to housing rent, council tax, business rates or overpaid housing benefit may need to carry out online research to identify the whereabouts of the debtor; or the existence of that person's employer, for a possible attachment of earnings order.
- 5.3 In addition to its policy on internet and social media research (see link at paragraph 10), the Council has issued its debt recovery officers with guidance on the procedure to follow when their research is likely to obtain private information, if the study of an individual's online presence becomes persistent, or where material obtained from any check is to be extracted and recorded. Whilst debt recovery is a civil matter and therefore outside the RIPA regime,

privacy issues must still be considered and, where necessary, the research must be authorised on the basis of necessity and proportionality. There is a process in place to ensure the Account Management team follows this protocol.

6 Financial appraisal

- 6.1 The cost of conducting and managing covert surveillance and online research is met from existing service budgets.

7 Legal implications

- 7.1 As detailed above, the statutory framework for the authorisation of directed surveillance is part 2 of RIPA, supplemented by the relevant Home Office code of practice. Directed surveillance authorised and conducted in accordance with RIPA provides for lawful interference with a person's right to a private and family life. Failure to comply with statutory requirements may render any directed surveillance unlawful and therefore inadmissible in evidence. As a further consequence, any person subjected to unlawful privacy interference could bring a civil claim against the Council.

Lawyer consulted: 31.12.19

Legal ref: 005383-JOINT-OD

8 Risk management implications

- 8.1 The Council's arrangements for the management of surveillance, in terms of policies, procedures and designated roles (e.g. RIPA Monitoring officer and RIPA authorising officers) should ensure that activity is fully compliant with RIPA and human rights legislation. Further, the Council will have regard to the recommendations of RIPA inspections conducted by the Investigatory Powers Commissioner's Office, and any internal audits.

9 Equality analysis

- 9.1 There are no equality implications associated with this report.

10 Background papers

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

- Home Office Code of Practice on Covert Surveillance and Property Interference (August 2018) – https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/742041/201800802_CSPI_code.pdf
- Lewes District Council policy on covert surveillance – https://www.lewes-eastbourne.gov.uk/_resources/assets/inline/full/0/261044.pdf
- Lewes District Council policy on conducting internet and social media research – https://www.lewes-eastbourne.gov.uk/_resources/assets/inline/full/0/277395.pdf

Report to:	Audit and Standards Committee
Date:	20 January 2020
Title:	Strategic Risk Register quarterly review
Report of:	Chief Internal Auditor
Ward(s):	All
Purpose of report:	To report to Committee the outcomes of the quarterly review of the register by 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 October 2019 Review

- 2.1 The Strategic Risk Register was taken to Corporate Management Team on the 29th October 2019 for the latest quarterly review.
- 2.2 At the last quarterly review two risks (SR_022 and SR_027) were increased due to the risk of a No Deal Brexit. These scores were to be reviewed this quarter.

With the date of the deal being deferred it was agreed to leave the risk scores at the higher level until more is known on the possible outcome.

2.3 As the Joint Transformation Programme is now complete most references to this have now been removed from the risk register.

2.4 It has been requested that a separate risk for a potential personal data breach be added to the risk register. Whilst it had originally been felt that this risk sat under SR_028, failure to meet regulatory or legal requirements, it has been agreed to add this as a risk in its own right. This now appears as SR_030 in the risk register attached.

3 Financial appraisal

3.1 There are no financial implications arising from this report.

4 Legal implications

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

Lawyer consulted 31.10.19

Legal ref: 008706-LDC-OD

5 Risk management implications

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

6 Equality analysis

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

7 Appendix

- Appendix 1 - Strategic Risk Register

8 Background papers

None

Strategic Risk Register (Lewes)



Report Type: Risks Report
Generated on: 30 October 2019

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
SR_021	No political and partnership continuity/consensus with regard to organisational objectives	Sudden changes of political objectives at either national or local level renders the organisation, its current corporate plan and Medium Term Financial Strategy unfit for purpose.	4	4	16	<u>Reduces Likelihood</u> 1. Create inclusive governance structures which rely on sound evidence for decision making. <u>Reduces Impact</u> 2. Annual review of corporate plan and Medium Term Financial Strategy 3. Creating an organisational architecture that can respond to changes in the environment.	Chief Executive	3	3	9	Amber	Feb-2020
SR_022	Changes to the economic environment makes the Council economically less sustainable	1. Economic development of the town suffers. 2. Council objectives cannot be met.	5	5	25	<u>Reduces Impact</u> 1. Robust Medium Term Financial Strategy reviewed annually and monitored quarterly. Refreshed in line with macro economic environment triennially. 2. Creating an organisational architecture that can respond to changes in the	Chief Finance Officer	5	5	25	Red	Feb-2020

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

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
		standards and an increase in service costs.				<u>Reduces Likelihood and Impact</u> 3. Review of organisation delivery models to better manage the blend of direct labour provision. Pursuit of mutually beneficial shared service arrangements.						
SR_025	Not being able to sustain a culture that supports organisational objectives and future development.	1. Decline in performance. 2. Higher turnover of staff. 3. Decline in morale. 4. Increase in absenteeism. 5. Service failure 6. Increased possibility of fraud.	4	4	16	<u>Reduces Likelihood</u> 1. Deliver a fit for purpose organisational culture. 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	Feb-2020
SR_026	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. Denial of access to	3	5	15	<u>Reduces Likelihood</u> 1. Adoption of best practice IT and Asset Management policies and procedures. <u>Reduces Likelihood and Impact</u> 2. Joint Transformation programme has created a	Chief Executive	2	4	8	Amber	Feb-2020

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

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
						negotiations are known.						
SR_028	Failure to meet regulatory or legal requirements	<p>1. Trust and confidence in the Council is negatively impacted.</p> <p>2. Deterioration of financial position as a result of regulatory intervention/penalties</p> <p>3. Deterioration of service performance as a result of regulatory intervention/penalties</p> <p>4. Increased probability of prosecutions and compensation claims as a result of inadequate management of Health and Safety duties.</p> <p>5. Possibility of fraud and bribery.</p> <p>6. Ensure compliance with legislation such</p>	3	4	12	<p><u>Reduces Likelihood</u></p> <p>1. Developing, maintaining and monitoring robust governance framework for the Council.</p> <p>2. Building relationships with regulatory bodies.</p> <p>3. Develop our Performance Management capability to ensure early intervention where service and/or cultural issues arise.</p> <p>4. Take forward the recommendations of the CIPFA Asset Management report to ensure we meet regulatory/legal requirements regarding the management of property.</p> <p>5. Ensure there is full understanding the impact of new legislation.</p> <p>6. All managers are required to abide by the Council's procurement rules.</p>	Asst Dir Legal and Democratic Services	2	4	8	Amber	Feb-2020

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
		as Data Protection and Safeguarding. 7. Entering into contracts etc. without having adequate finance in place.				7. Ensure that fire risk regulations are adhered to and that Fire Risk Assessments are regularly reviewed.						
SR_029	Commercial enterprises that are fully controlled by the authority do not deliver financial expectations or do not meet governance requirements.	1. Unfamiliar activity with staff inexperienced in this area 2. Council finances affected if projects do not meet financial expectations. 3. Reputational damage if governance procedures are inadequate. 4. Failure to abide by company law.	3	4	12	<u>Reduces Likelihood</u> 1. Hire suitably qualified/experienced staff to give legal and specialist support. 2. Appoint Head of Commercial Activities. 3. Ensure that projects meet core principles. 4. Up or re-skill staff to maximise commercial opportunities. 5. Ensure governance processes are set up and adhered to.	Director of Regeneration and Planning And Director of Tourism and Enterprise	3	3	9	Amber	Feb-2020
SR_030	The Council suffers a personal data breach by inadequate	1. Trust and confidence in the Council is negatively impacted.	3	4	12	<u>Reduces Likelihood</u> 1. Ongoing corporate training for data protection. 2. Ensure all staff complete	Asst Dir Legal and Democratic	2	4	8	Amber	Feb-2020

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

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Report to:	Audit and Standards Committee
Date:	20 January 2020
Title:	Internal Audit report for the first two quarters of the financial year 2019-2020
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 first quarter of the financial year - 1st April 2019 to 30th September 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 Standards Committee includes the duties to agree an Annual Audit Plan and keep it under review, and to keep under review the probity and effectiveness of internal controls, both financial and operational, including the Council's arrangements for identifying and managing risk
Contact Officer(s):	Name: Jackie Humphrey Post title: Chief Internal Auditor E-mail: Jackie.humphrey@lewes-eastbourne.gov.uk Telephone number: 01323 415925

1.0 Introduction

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

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

2.1 A list of all the audit reports issued in final from 1st April 2019 to 30th September 2019 is as follows:

Benefits and CTR (18/19)	Substantial Assurance
Cash and Bank (18/19)	Substantial Assurance
Council Tax (18/19)	Full Assurance
NNDR (18/19)	Substantial Assurance
Treasury Management (18/19)	Substantial Assurance
Creditors (18/19)	Partial Assurance
Housing Rents (18/19)	Full Assurance
Payroll (18/19)	Substantial Assurance
IT (18/19)	Partial Assurance

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

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

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

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

2.4 At the end of September two annual audit reports had not been fully completed. These were the reviews of Debtors and Main Accounting, both of which had been issued in draft and were awaiting responses to the recommendations made. This work on annual audits has been hindered this year by time being taken to train new staff in the audit section and there being changes in staff in the Finance department.

- 2.5 Work is now ongoing on other audits in the audit plan with work underway on Human Resources, Internet and Telephone Payments, Project Management and RIPA.
- 2.6 Work is also commencing on the project to review the work that feeds into the Housing Subsidy Claim. Fact finding and scoping have taken place and testing is about to commence. It is intended that this work will help to improve the work at the point of input so that fewer errors are made which will enable the auditing of the subsidy claim to be completed sooner each year.
- 2.7 A further piece of work is being carried out on the annual reviews for next year. In the past these have been focussed on carrying out work that the external auditors required the team to carry out. As this is no longer a requirement the scope of each is being reviewed to ensure that they cover the areas necessary to give assurance to the council's S.151 Officer. The timing of carrying out these reviews will also be considered.
- 2.8 The table below shows the work carried out by the Internal Audit team in the first half of the year by percentage across the main areas services.

	Percentage of days worked
Annual Audits	36%
Subsidy Claim and Project	50%
Central Systems	10%
Computer Systems	0%
Housing Services	1%
Consultancy and advice	3%
Totals	100%

- 2.9 As was reported briefly in the last report to this committee, a piece of work has been carried out on an issue with the Payroll system and transferring data to HMRC. This cannot be reported in full as the details of the work include information relating to individuals. However, a precis of the report is attached at Appendix B.
- 3.0 Counter Fraud**
- 3.1 The Fraud and Audit Liaison Officer has commenced studies for the Accredited Counter Fraud Specialist qualification which will further enable the team to expand joint corporate projects in new and emerging areas.
- 3.2 The team continue to target the high value and risk areas of tenancy housing while also undertaking other exercises as detailed below.
- 3.3 Housing Tenancy – The Counter Fraud team continue to work closely with colleagues in Homes First and Legal. There are currently 21 ongoing sublet/abandonment tenancy cases at various stages. Due to the significant work involved in preparing for a Right to Buy related fraud trial in December, the team's focus and efforts have been devoted to the preparation and requirements of our Legal team and barrister to bring this case to a successful outcome. However, a

separate civil case was brought against the same tenant which has resulted in the court awarding possession of the property – this will be included within the next quarter's figures.

- 3.4 Right To Buy (RTB) applications have decreased within this quarter which is unsurprising with the current financial uncertainty. Eight cases have been verified to prevent the council being a victim to money laundering with 1 case withdrawn providing a net saving of £82,800 to the authority. A total of 22 other former and current RTB cases are being monitored for potential social housing fraud. One of these cases is due to be heard at Crown Court in December (as mentioned in 3.3) and another is currently in the process of being investigated under RIPA authorisation.
- 3.5 Tenancy Fraud Awareness – a joint working campaign has begun with Homes First and the Planning and Performance team to develop a series of publicity articles via community posters, social media and local press to raise the awareness of social fraud with the public. It is expected this campaign will commence in November and run into the new-year with the Counter Fraud Team hotline monitoring and taking all allegations.
- 3.6 Housing Tenancy Successions – a joint working project has begun with the Counter Fraud team verifying any applications received for tenancy succession. In order for the Counter Fraud team to work on these cases, Homes First will now arrange for an application form to be completed which will also help prevent a false or fraudulent claim. Two cases have so far been passed to the Counter Fraud team to check.
- 3.7 Housing Options – Work has also been undertaken with Homes First looking at a number of potentially fraudulent homeless presentations. Use is also being made of the National Anti-Fraud Network facilities to conduct credit checks for all new applications as a preventative measure.
- 3.8 Council Tax – An extract of Council Tax exemptions and disregards has been produced which will be used to consider areas of weakness and risk where reviews have not been completed for some time. It is anticipated this item of work will commence within the next quarter. The Counter Fraud team have also been included in a test trial of Datatank smart referrals as part of the authority's Single Person Discount review. Depending on the success of this trial, East Sussex County Council may consider funding a wider exercise across the rest of the county.
- 3.9 NNDR – Due to other commitments the team have not been able to undertake further work in this area. However, the Fraud and Audit Liaison Officer has started a project and will begin reviewing Small Business Relief applications across both authorities in the next two quarters.
- 3.10 Housing Benefit – The team have worked closely with the Department for Work and Pensions (DWP) and our colleagues in the benefit section, unfortunately due to resources restrictions and training needs, the DWP have been unable to complete the same volume of cases as in previous quarters. This has resulted in

the closure of just six cases. Joint working with the Case Management team has also increased the volume of referrals; there are around 73 outstanding cases with the DWP to consider.

- 3.11 National Fraud Initiative – Work continues on the 2018/19 extract using a test sample of 10% of cases, this has been brought about due to the limited results found in previous activities – 475 cases have been cleared so far with 41 awaiting further investigation. No additional financial savings have been found at this time.
- 3.12 Data Protection Requests (DPA) – the team take an active role in supporting colleagues in other organisations to prevent fraud and tackle criminal activity. In this period the Fraud and Audit Liaison Officer has dealt with four DPA requests from the Police and 10 from other authorities.
- 3.13 A table showing the savings made by the Counter Fraud team in the first half of the year 2019-2020 can be found at Appendix C.

4.0 Financial appraisal

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

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

5.0 Legal implications

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

Lawyer consulted 23.10.19

Legal ref: 008672-EBC-OD

6.0 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.

7.0 Equality analysis

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

8.0 Appendices

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

Appendix B - Precis of the report on Payroll - HMRC Data Transfer

Appendix C - Counter Fraud work and savings

9.0 Background papers

9.1 Audit reports issued throughout the year.

Reasons for original assurance levels given (below Substantial)

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

AUDIT REVIEW	ASSURANCE LEVEL	ISSUES NOTED	Level at follow up
Creditors (18/19)	Partial	<ul style="list-style-type: none"> • Knowledge transfer issues – audit carried out at time of change in the Finance section • Authorisation levels – list and Cafi require updating • Purchase orders not being raised at time goods and services are ordered • Too many staff with access to set up new creditors • Evidence of checks made on requests to change bank account details not being retained. 	
Housing Rents (18/19)	Partial	<ul style="list-style-type: none"> • Evidence of checks and authorisation of write offs of debts not systematically retained 	
IT (18/19)	Partial	<ul style="list-style-type: none"> • Some staff set up as Systems Administrators are also staff using Finance Systems • Some password parameters do not require a mix of alpha and numeric characters • PSN Code of Connection Certificate had not been obtained • Joint Disaster Recovery Strategy and Plan needs to be adopted and tested • IT need to address issues highlighted in an IT Health Check carried out by an external company 	

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Lewes District Council



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INTERNAL AUDIT REPORT

LEWES – PAYROLL – HMRC DATA TRANSFER

11th SEPTEMBER 2019

Jackie Humphrey
Chief Internal Auditor

INTRODUCTION

- 1.1 An investigation was carried out into an issue with the Lewes Payroll system during November 2018 to March 2019, whereby the details relating to individual pay was not successfully uploaded to the HMRC automated system.
- 1.2 This resulted in the HMRC receiving the correct total payments but not some of the corresponding details.
- 1.3 These payments would have covered tax, national insurance, payment of student loans etc.

CAVEAT

- 2.1. This investigation has been impartial and detailed. However, it is worth noting that there have been some limitations too. These were primarily due to a number of staff having already departed the organisation and not available to be interviewed.

METHODOLOGY

- 3.1 In order to undertake this investigation the Chief Internal Auditor engaged with staff who were either involved or who could provide some relevant information to aid the investigation. The following people were contacted:

Chief Finance Officer	to discuss the timeline of events and the actions taken.
Systems and Transactional Manager	to discuss what actions had been taken to identify and rectify the situation.
Payroll Officer (Eastbourne)	to discuss the process of uploading data to HMRC and to consider possible issues caused to those affected.
Director of Regeneration and Planning	about his actions when informed of the Councillor's concerns.
Assistant Director Legal and Democratic Services	to liaise with her staff about their issues with their HMRC accounts.

EXECUTIVE SUMMARY

- 4.1 In November 2018 a software “patch” was applied to the payroll software at Lewes District Council (LDC). This resulted in a regular monthly report to HMRC not being produced. This report provided details to HMRC about tax payments made by LDC. Without this report HMRC are not able to identify which individuals those tax payments relate to.
- 4.2 In December 2018 the problem was noticed and a different process was put in place to upload the data to HMRC. However, this data was not received by the HMRC. The HMRC system produces an automated confirmation email upon receiving the complete data transfer. The lack of this confirmation email was not noticed by LDC staff, and therefore the same process continued until March 2019. Since HMRC were receiving the full payments, staff understood that the data transfer was successful.
- 4.3 However, lack of the accompanying details meant that HMRC were not able to attribute the payments to particular individuals. As a result, it appeared that individual tax payments were not being made.
- 4.4 A Councillor was alerted to the issue by HMRC in February 2019 and contacted the council. Our investigation shows that the concern raised was understood to be relating to a P45 being issued. This however, appears to be a misunderstanding / or a confusion. Whilst this matter was reviewed at the time, it was concluded that no P45 was issued and the matter was not investigated further.
- 4.5 All those on the Lewes payroll at this time (54 in total) were transferred to the Eastbourne payroll software in April 2019 and from that point the data was correctly uploaded monthly to HMRC.
- 4.6 The Systems and Transactional Manager, who took up the post in April 2019, was first informed about an issue in May 2019. At this point, he began his own investigation into the matter. He worked with HMRC and the payroll software company to ensure that the missing data for the period November 2018 to March 2019 was uploaded. Following some further complications the data was successfully uploaded on 24th July 2019.
- 4.7 In June the council was fined £1,500 by HMRC for the delay in uploading data.
- 4.8 This audit has identified a number of communication errors, along with misunderstandings when the original concern was raised, and thereafter. Key messages and information were not passed on when staff left the council’s employment. Those affected have not been given regular updates on the progress and were not informed of how the issue may affect them.

- 4.9 Some, or all, of the 54 staff and councillors may have been affected by this error, despite it now having been corrected. Because of Data Protection regulations, HMRC was not able to advise the council on individual's accounts. However, at the time preparing this report, only one person has reported that they had received a tax rebate, which they have now been asked to repay.
- 4.10 The Council has written formally to all affected staff apologising for the event and offering advice and assistance.

	QUARTER ONE		QUARTER TWO		QUARTER THREE		QUARTER FOUR		YEAR TOTAL	
	Income	Savings	Income	Savings	Income	Savings	Income	Savings	Income	Savings
Tenancy Housing										
Recovery of council properties		£93,000.00							£0.00	£93,000.00
RTB value saved through intervention		£248,400.00		£82,800.00					£0.00	£331,200.00
Housing intervention/fraud									£0.00	£0.00
Revenues										
NNDR									£0.00	£0.00
Council Tax			£720.84						£720.84	£0.00
Value of ongoing CT increase per week									£0.00	£0.00
Council Tax Penalties									£0.00	£0.00
CTR & Housing Benefit										
SPOC Cases									£0.00	£0.00
Council Tax Reduction									£0.00	£0.00
CTR weekly incorrect benefit (WIB)									£0.00	£0.00
Housing Benefit	£11,674.77								£11,674.77	£0.00
HB weekly incorrect benefit (WIB)									£0.00	£0.00
Income from Adpen collection									£0.00	£0.00
NFI										
Number of open matches									£0.00	£0.00
Number of closed matches									£0.00	£0.00
Awaiting Processing									£0.00	£0.00
Overpayments identified	£14,460.69								£14,460.69	£0.00
Weekly incorrect benefit identified									£0.00	£0.00
OTHER INVESTIGATIONS										
Procurement									£0.00	£0.00
Internal									£0.00	£0.00
DPA									£0.00	£0.00
Income from court costs									£0.00	£0.00
TOTALS	£26,135.46	£341,400.00	£720.84	£82,800.00	0.00	0.00	£0.00	£0.00	£26,856.30	£424,200.00

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Report to:	Audit and Standards Committee
Date:	20 January 2020
Title:	Delay to the External Audit of the 2018/19 Statement of Accounts
Report of:	Homira Javadi, Chief Finance Officer
Ward(s):	All
Purpose of report:	To update members in respect of the delay in issuing the final and audited Statement of Accounts for the 2018/19 year
Officer recommendation:	That members note and comment on the report
Reasons for recommendations:	To ensure members of the Committee are aware of the technical issues as to why the final and audited Statement of Accounts has not be published
Contact Officer(s):	Name: Ola Owolabi Post title: Deputy Chief Finance Officer E-mail: Ola.Owolabi@lewes-eastbourne.gov.uk Telephone number: 01323 415083

1 Introduction

- 1.1 The Accounts and Audit Regulations 2015 state that authorities must publish unaudited statements by 31 May of the financial year immediately following the end of the financial year to which the statement of accounts relates.
- 1.2 Authorities must then publish their annual audited statement of accounts along with the auditor's opinion and report no later than 31 July of the financial year immediately following the end of the financial year to which the statement of accounts relates.
- 1.3 At the Audit and Standards Committee meeting held on 16 July 2019, the Chief Finance Officer provided an update and circulated copies of a letter sent to the Chair of the Audit and Standards Committee. The letter provided Members with an update on the current position of the Council's financial accounts. Members were advised that a number of elements had prevented the statutory date from being met. Following discussion with the Council's auditors, a decision was made to delay the completion of the accounts ensuring they were thorough and supported by sound working papers. Members were advised that the Council's new Auditors, Deloitte, welcomed the Council's offer of an Audit that already included an internal review.

2 Current position

- 2.1 Following discussions with the Council External Auditors (Deloitte), a statement regarding delay to the External Audit of the 2018/19 Statement of Accounts has been published on the Council website in compliance with Regulation 10, paragraph (2a) of the Accounts and Audit Regulations 2015.
- 2.2 The statement reiterates that the external audit of the draft statement of accounts for the year ended 31 March 2019 for the Lewes District Council has not yet commenced, and that the delay was due to timing and impact of a system implementation. A copy of the statement is attached as **Appendix 1** to this report.
- 2.3 The draft completed LDC statement of accounts and other documents were sent to the External Auditor (Deloitte) on Friday, 8 November 2019. Following further discussions with Deloitte in January 2020, the Council was advised that January and February are the peak times for Deloitte business as a whole. That they have looked for team availability to perform the LDC accounts audit, and have been unable to reallocate resources given Deloitte existing commitments to other clients.
- 2.4 The rescheduling of the final audit will have implications for the Council's finance team and might present other challenges for 2019/20 closure of accounts process. This knock-on impact is currently being worked through by officers with Deloitte to ensure minimum disruption to other work commitments and internal resourcing constraints between January and March 2020.

3 Conclusion

- 3.1 The delay in the audit timetable is not unique to Lewes District Council, as number of other Councils in the Country are also expecting delays due to either auditors resourcing or technical accounting constraints.
- 3.2 A meeting of the Audit and Standards Committee is scheduled for 17 March 2020, and the Committee will be provided with an update re the audit of the Council Statement of Accounts.

4 Financial appraisal

- 4.1 There are no specific financial implications associated with this report.

5 Legal implications

- 5.1 As stated in section 1.2 above, the delay in final external audit means that Lewes District Council has not been able to meet its statutory duty of publishing a set of audited financial accounts for 2018/19 by 31st July 2019.

6 Risk management implications

- 6.1 This report is for information only. There are no risk management implications arising from the recommendations in this report.

7 Equality analysis

- 7.1 This report is purely for information and requires no decision from the committee. There are no equality and diversity implications arising from the recommendations in this report.

8 Appendix

- 8.1 Appendix 1 – Lewes District Council published (web) statements on the delay to the External Audit of the 2018/19 Statement of Accounts

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Lewes District Council

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

The external audit of the draft statement of accounts for the year ended 31 March 2019 for the Lewes District Council has not yet commenced. The delay was due to timing and impact of a system implementation, which delayed the preparation of the statement of account. This also meant that the Council was unable to publish the unaudited statement of account for inspection during June 2019 as required by Regulation 15 of the Accounts and Audit Regulations 2015. The draft financial statements have now been prepared for audit by the external auditor, Deloitte LLP. The Council and Deloitte LLP are agreeing a timetable for the audit.

This situation is covered by Regulation 10, paragraph (2a) of the Accounts and Audit Regulations 2015. See attached link:

<http://www.legislation.gov.uk/ukxi/2015/234/regulation/10/made>

Therefore, this notification explains, as per paragraph (2a), that the Lewes District Council is not yet able to publish the audited 2018/19 final statement of accounts for the Council in line with deadline of 31st July 2019, as per paragraph (1). The Lewes District Council Audit and Standards Committee has been advised of this matter and the final audited accounts will be published as soon as the audit is concluded.

Homira Javadi CPFA, FCCA, ACCA
Chief Finance Officer (Section 151 Officer)

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Report To:	Audit and Standards Committee
Date:	20 January 2020
Report Title:	Treasury Management
Report of:	Chief Finance Officer
Ward(s):	All
Purpose of report:	To present details of recent Treasury Management activity.
Decision type:	To note that Cabinet accepts that Treasury Management Activity for the period 1 November to 31 December 2019 has been in accordance with the approved Treasury Strategies for that period with the exception of items at paragraph 2.10 below.
Officer Recommendations:	To recommend that Council accepts that Treasury Management Activity for the period 1 November to 31 December 2019 has been in accordance with the approved Treasury Strategies for that period with the exception of items at paragraph 2.10 below.
Reasons for recommendations:	Requirement of CIPFA Treasury Management in the Public Sector Code of Practice (the Code) and this has to be reported to Full Council.
Contact Officer(s)-	Name: Ola Owolabi Post title: Deputy Chief Finance Officer E-mail: Ola.Owolabi@lewes-eastbourne.gov.uk Telephone number: 01273 415083

1. Introduction

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

2. Treasury Management Activity

- 2.1 The timetable for reporting Treasury Management activity in 2019/2020 is shown in the table below. This takes into account the timescale for the publication of each

Committee agenda and is on the basis that it is preferable to report on activity for complete months. Any extraordinary activity taking place between the close of the reporting period and the date of the Audit and Standards Committee meeting will be reported verbally at that meeting.

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

2.2 Fixed Term Deposits pending maturity

The following table shows the fixed term deposits held at 31 December 2019 and identifies the long-term credit rating of counterparties at the date of investment. It is important to note that credit ratings are only one of the criteria that are taken into account when determining whether a potential counterparty is suitable. All of the deposits met the necessary criteria the minimum rating required for deposits made after 1 April 2018 is long term A- (Fitch).

Ref	Counterparty	Date From	Date To	Days	Principal £	Int Rate %	Long-term Rating
243419	Thurrock Borough Council	14 Jun 19	16 Mar 20	276	3,000,000	0.88	*
244719	Stockport Metropolitan BC	03 Dec 19	03 Feb 20	62	5,000,000	0.68	*
244819	Cheltenham BC	12 Dec 19	12 Feb 20	62	3,000,000	0.70	*
					11,000,000		

*UK Government body and therefore not subject to credit rating

2.3 Fixed Term Deposits which have matured in the reporting period

No fixed term deposits have matured during the reporting period.

At no stage did the total amount held by any counterparty exceed the approved limit set out in the Investment Strategy. The average rate of interest earned on deposits held in the period 1 November to 31 December 2019 was 0.75%. The bank rate was 0.75% for the period.

2.4 Use of Deposit accounts

In addition to the fixed term deposits, the Council has made use of the following interest bearing accounts in the period covered by this report, with the average amount held being £13.383m generating interest of approximately £0.014m.

	Balance at 31Dec '19 £'000	Average balance £'000	Current interest rate %
Santander Business Reserve Account	£2,500	2,500	0.40
Lloyds Bank Corporate Account	£8,816	10,883	0.65

2.5 Use of Money Market Funds

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

	Balance at 31 Dec '19 £'000	Average balance £'000	Average return %
Goldman Sachs Sterling Liquid Reserves Fund	£1,000	1,000	0.85
Deutsche Managed Sterling Fund	£1,500	1,500	0.78

2.6 Treasury Bills (T-Bills)

There were no Treasury Bills held at 31 December 2019, and there was no activity in the period.

2.7 Secured Investments

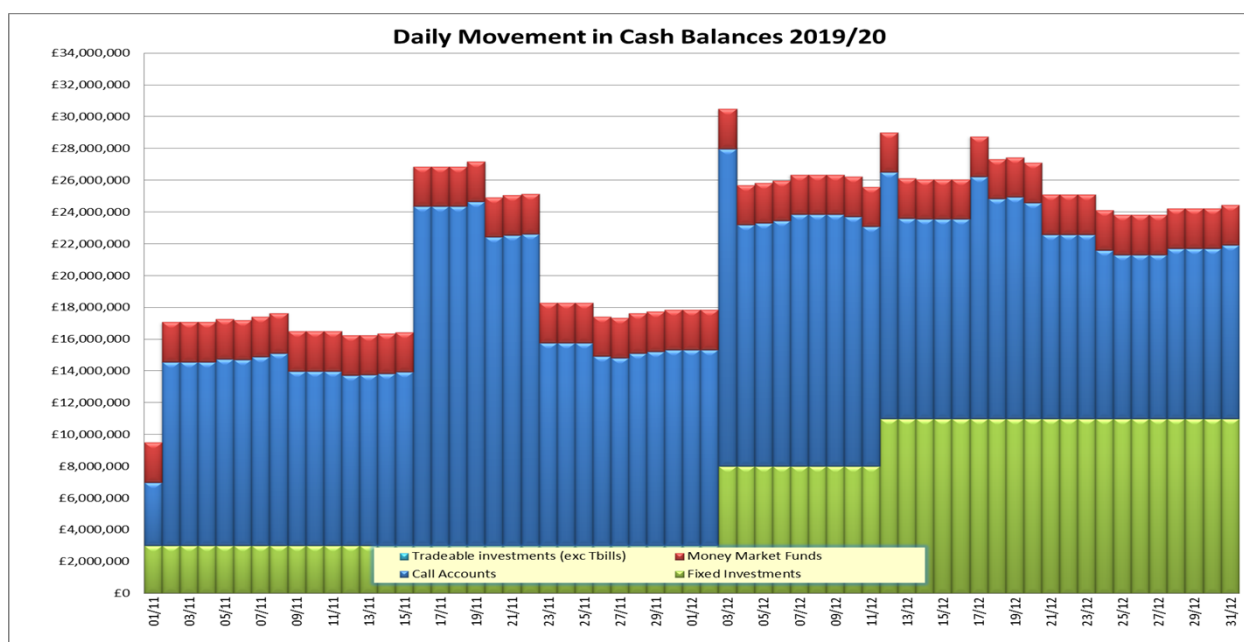
There were no Secured Investments at 31 December 2019.

2.8 Tradeable Investments

There were no Tradeable Investments at 31 December 2019, and there was no activity in the period.

2.9 Overall investment position

The chart below summarises the Council's investment position over the period 1 November to 31 December 2019. It shows the total sums invested each day as Fixed Term deposits, Treasury Bills, amounts held in Deposit accounts, Money Market Funds and Tradeable Investments.



2.10 Borrowing







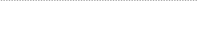



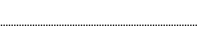




The current account with Lloyds Bank generally remained with credit limits throughout most of the period with the following exceptions:

Exceptions:

Friday 1 November to Tuesday 31 December – excess funds of between £4m and £17m. The Council's long term borrowing in the reporting period is £56.673m.

3. Compliance with Treasury and Prudential Limits

- 3.1 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators (affordability limits) are included in the approved TMSS.
- 3.2 As at 31 December 2019, the Council has operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices.

Treasury Prudential Indicators	2019/20 Estimate Indicator	31 December Indicator	RAG Status
Authorised limit for external debt (CS 4.2.2)	£117.7m	£117.7m	
Operational boundary for external debt (CS 4.2.2)	£127.7m	£127.7m	
Gross external debt (CS 4.2.2)	£117.3m	£86.0m	
Capital Financing Requirement (TMS)	£136.9m	£136.9m	
Debt vs CFR under/(over) borrowing	£19.6m	£50.9m	
<i>Investments</i>			
Investment returns expectations	0.65	0.75	
Upper limit for principal sums invested for longer than 365 days			
<i>Maturity structure of fixed rate borrowing - upper limits:</i>			
Under 12 months	75%	75%	
12 months to 2 years	75%	75%	
2 years to 5 years	75%	75%	
5 years to 10 years	100%	100%	
10 years and above	100%	100%	
Capital expenditure (CS 2.1.4)	£11.9m	£11.4m	
<i>Ratio of financing costs to net revenue stream (CS 8.1.1):</i>			
Proportion of Financing Costs to Net Revenue Stream (General Fund)	1.68%	1.68%	
Proportion of Financing Costs to Net Revenue Stream (HRA)	18.08%	18.08%	

Key: CS – 2019/20 Capital Strategy Appendix 1

4. Non-treasury investments

4.1 At its previous meeting, the Committee requested that information should be included in this report about the Council's 'non-treasury' investment activity e.g. loans to Council-owned companies or the purchase of property assets for the purpose of income generation.

4.2 Lewes Housing Investment Company

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

4.3 Aspiration Homes LLP

Aspiration Homes LLP (AH) is a limited liability Partnership owned equally by Lewes District Council and Eastbourne Borough Council. Incorporated in June 2017, AH has been set up for the purpose of developing housing to be let at affordable rent. Although the 2018/19 Capital programme included £17.5m as potential commercial loan funding to AH to facilitate property purchases, this facility was not drawn down and has rolled forward into 2019/20. During the period 1 March 2019 to 30 June 2019, £121,300 was drawn down for the purchase of Grays School, Newhaven. There have been no transactions during the period 1 July 2019 to 31 August 2019. A further £1,140,000 was drawn down in September for the purchase of property in Western Road, Newhaven.

A working Capital facility loan of £100,000 has been agreed, at an interest rate of 2% above Base Rate. As at 31 March 2019 £10,000 of the working Capital facility loan had been drawn down. During the period 1 March 2019 to 30 June 2019, a further £35,000 has been drawn down against the loan facility.

5. Update on ESG and Responsible Investment (Arlingclose)

5.1 Local authorities recognise that they can further enhance their efforts through their investment decisions and activity. There are, however, no universally agreed and accepted definitions or metrics for environmental, social and governance issues. The Council treasury management advisor Arlingclose Limited has provided an update on ESG and Responsible Investment attached as **Appendix A**.

6. Financial Implications

6.1 All relevant implications are referred to in the above paragraphs.

7. Risk Management Implications

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

8. Equality Screening

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

9. Legal Implications

9.1 None arising from this report.

Background Papers

Treasury Strategy Statements 2019/2020 and 2021/2022

INVESTMENT UPDATE

ESG and Responsible Investment

There is a burgeoning movement to pursue environmental, social and governance (ESG) issues, including climate emergency agendas, in the deployment of human and capital resources and in financial decision making and risk assessment. The ratification of the Paris Agreement in 2016 turned a significant spotlight on climate-related risks, energy transition and clean technology.

The UK banking system and the Bank of England's response to climate risks and resilience

In its July 2019 Financial Stability Review the Bank of England outlined its intention to test the UK financial system's resilience to the physical and transition risks of climate change. It will be the first regulator to stress test its financial system against different climate pathways, including the catastrophic business as usual scenario and the ideal but nonetheless challenging transition to net zero carbon emissions by 2050 consistent with the UK's legislated objective. Banks will be required to establish how their borrowers are managing current and future climate-related risks and opportunities.

The Bank will be developing its stress testing approach in consultation with industry, credit rating agencies and the Network for Greening the Financial System. It will gather views on the design of the exercise and, as a first step, will publish a discussion paper in autumn 2019.

UN Principles of Responsible Investment (UN PRI)

There is no single set of ESG definitions or metrics which are universally agreed and accepted. Environmental and social issues are diverse and emotive. ESG priorities vary widely and are, unsurprisingly, defined subjectively based on personal values, conviction and perception.

The UN has sought to bring some commonality with its Principles for Responsible Investment. These outline the approach for investors in their role as owners and creditors in the management of their assets. However, whilst the UN gives ESG examples, it doesn't provide a prescriptive or exhaustive list.

Several fund management firms are UN PRI signatories. They file reports annually on their responsible investment policies, governance, implementation and activity for each asset class managed. The UN PRI then produces Assessment Reports with scores from A+ to E (A+ and A being the highest) for each module of reporting.

Clients' externally managed funds

None of the Money Market Funds or funds in Arlingclose's Short-dated and Strategic Funds Suites are managed with the explicit or implicit aim of being an ESG/'ethical' product. The managers have varying approaches to ESG incorporation, many prefer active engagement, using their shareholding and voting rights to influence and improve corporate behaviour and responsibility.

Arlingclose's **ESG and Responsible Investment Service**, described in the attachment, is designed to advise and assist local authorities incorporate and monitor ESG factors in their treasury investment decisions.

If you have queries or would like to discuss, please call the Arlingclose Team on 08448 808 200.

Arlingclose Limited
January 2020

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