

# Audit and Standards Committee

14 September 2020



Time: 10.00am

**PLEASE NOTE:** This will be a 'virtual meeting', held remotely in accordance with section 78 of the Coronavirus Act 2020 and section 13 of the related regulations.

Members of the press and public can view the meeting by clicking on the link provided on the agenda page on the Council's website or calling the number provided.

Instructions for members of the committee, officers and other participants to join the meeting have been circulated separately.

## Membership:

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

**Quorum: 4**

*Published: Friday, 4 September 2020*

# Agenda

**1 Introductions**

**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 Minutes (Pages 5 - 8)**

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

**5 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.

**6 Written questions from councillors**

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

**7 Covert Surveillance Policies (Pages 9 - 30)**

Report of Assistant Director of Legal and Democratic Services

**8 External Audit report 2018/2019**

Verbal update by Deloitte

**9 Annual Treasury Management report 2019/20 and 2020/21 quarterly monitoring (Pages 31 - 66)**

Report of Chief Finance Officer

**10 Internal Audit report for the financial year 2019-2020 (Pages 67 - 78)**

Report of Chief Internal Auditor

**11 Annual Governance statement (Pages 79 - 106)**

Report of Chief Internal Auditor

**12 Draft internal Audit plan for 2020/21 (Pages 107 - 116)**

Report of Chief Internal Auditor

**13 Internal Audit and Counter Fraud report for the first quarter of the financial year 2020-2021 to the end of June 2020 (Pages 117 - 126)**

Report of Chief Internal Auditor

**14 Review of Risk Management (Pages 127 - 152)**

Report of Chief Internal Auditor

**15 Strategic Risk Register quarterly review (Pages 153 - 168)**

Report of Chief Internal Auditor

**16 Date of next meeting**

To note that the next meeting of the Audit and Standards Committee which is scheduled to commence at 10:00am on Monday, 16 November 2020, will take place in a virtual capacity, via Microsoft Teams, and in accordance with section 78 of the Coronavirus Act 2020 and section 13 of the related regulations.

## Information for the public

**Accessibility:** 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.

**Public participation:** Please contact Democratic Services (see end of agenda) for the relevant deadlines for registering to submit a speech on a matter which is listed on the agenda if applicable. Where speeches are normally allowed at a Committee, live public speaking has temporarily been suspended for remote meetings. However, it remains possible to submit speeches which will be read out to the committee by an Officer.

## 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 meeting while the matter is being considered (unless he/she has obtained a dispensation).

**Councillor right of address:** A member of the Council may submit a question to ask the Chair of a committee or sub-committee 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.

**Other 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.

## Democratic Services

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

**Email:** [committees@lewes-eastbourne.gov.uk](mailto:committees@lewes-eastbourne.gov.uk)

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## **Audit and Standards Committee**

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

### **Present:**

Councillor Julian Peterson (Chair)

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

### **Officers in attendance:**

Oliver Dixon (Senior Lawyer and RIPA Monitoring Officer)

Jackie Humphrey (Chief Internal Auditor)

Jennifer Norman (Committee Officer, Democratic Services)

Ola Owolabi (Deputy Chief Finance Officer, Corporate Finance)

### **26 Minutes**

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

### **27 Apologies for absence/declaration of substitute members**

There were none.

### **28 Declarations of interest**

There were none.

### **29 Written questions from councillors**

There were none.

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

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

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

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

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

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

Resolved:

That the report be noted.

**31 Strategic Risk Register quarterly review**

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

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

The CIA highlighted that at its last meeting, the Committee requested that a separate risk for a potential personal data breach be added to the SRR. Whilst it had originally been felt that this risk sat under SR\_028, failure to meet regulatory or legal requirements, it was agreed to add this as a risk in its own right. The risk now appears as SR\_030 in Appendix 1.

Resolved:

That the report be noted.

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

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

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

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

Resolved:

That the report be noted.

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

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

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

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

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

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

Resolved:

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

**34 Treasury Management**

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

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

Resolved:

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

**35 Date of next meeting**

Resolved:

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

The meeting ended at 11.50am.

Councillor Julian Peterson (Chair)

<b>Report to:</b>	<b>Audit and Standards Committee</b>
<b>Date:</b>	<b>14 September 2020</b>
<b>Title:</b>	<b>Covert Surveillance Policies</b>
<b>Report of:</b>	<b>Assistant Director of Legal and Democratic Services</b>
<b>Ward(s):</b>	<b>All</b>
<b>Purpose of report:</b>	<b>To seek approval of proposed covert surveillance policy changes.</b>
<b>Officer recommendation(s):</b>	<b>(1) That the Committee approve–</b> <b>a) Lewes and Eastbourne Councils’ updated policy on the use of covert surveillance and/or covert human intelligence sources, as set out in Appendix 1; and</b> <b>b) The Councils’ policy on the acquisition of communications data, as set out in Appendix 2.</b> <b>(2) That the Committee grant delegated authority to each of the Chief Finance Officer and the Assistant Director of Legal and Democratic Services to implement the above policies.</b>
<b>Reasons for recommendations:</b>	<b>The Committee’s role includes oversight of the Lewes District Council’s surveillance governance arrangements.</b>
<b>Contact Officer(s):</b>	<b>Name: Oliver Dixon</b> <b>Post title: Senior Lawyer and RIPA Monitoring Officer</b> <b>E-mail: <a href="mailto:oliver.dixon@lewes-eastbourne.gov.uk">oliver.dixon@lewes-eastbourne.gov.uk</a></b> <b>Telephone number: (01323) 415881</b>

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## **1 Introduction**

1.1 A report setting out the key recommendations of the Investigatory Powers Commissioner’s Office (IPCO) inspection of Lewes and Eastbourne Councils carried out in December 2019 was prepared for the Audit and Standards Committee meeting of 17 March 2020. A link to the report is provided as a background paper in paragraph 11 below.

The 17 March meeting had to be cancelled due to the coronavirus pandemic, but the report was for noting only and officers have continued to implement IPCO’s recommendations in the meantime.

1.2 The recommendations included the need for (a) certain changes to the Councils' covert surveillance policy; and (b) provision to be made for the lawful acquisition of communications data for investigative purposes.

1.3 Today's report seeks approval of an updated covert surveillance policy and, for the first time, a policy on the acquisition of communications data.

## **2 Proposed amendments to Covert Surveillance Policy**

2.1 IPCO recommended that the Councils' Covert Surveillance Policy provides guidance on the use of a Covert Human Intelligence Source ('CHIS' – see definition in 2.2. below), including arrangements for the appointment of persons fulfilling the role of 'handler' and 'controller' if and when a CHIS is deployed. IPCO further recommended that the policy explains how the role of CHIS differs from a person volunteering information to the Council.

2.2 A CHIS is someone (the source) who establishes a personal relationship with a person (the suspect) for the covert purpose of obtaining intelligence or disclosing information relating to the behaviour of the suspect. The Councils may use a CHIS only for the purpose of preventing or detecting crime or for preventing disorder.

2.3 Accordingly, the amended policy at Appendix 1 of this report sets out the way in which the Councils should manage the deployment of a CHIS (see paragraphs 12-14) and their procedure for reviewing and renewing a CHIS authorisation (see paragraphs 16-18). The distinction between a CHIS and a member of public merely volunteering information to the Council is explained at Appendix 2(b) of the policy.

2.4 In response to a further IPCO recommendation, the amended policy also provides for the processing of confidential information obtained from surveillance (see paragraphs 19-23).

## **3 Proposed Communications Data Acquisition Policy**

3.1 IPCO recommended that Lewes and Eastbourne Councils include in their Covert Surveillance Policy their stance on the use of communications data for investigative purposes, as permitted under the Investigatory Powers Act 2016. Due to the different statutory framework applicable to the two regimes (i.e. the Regulation of Investigatory Powers Act 2000 for directed surveillance and CHIS; and the Investigatory Powers Act 2016 for the acquisition of communications data), officers considered it more appropriate to draw up separate policies.

3.2 Accordingly, the Councils' proposed separate policy on the acquisition of communications data is set out in Appendix 2 of this report. The policy sets out the type of data the Councils may lawfully acquire when seeking to prevent or detect serious crime, and authorisation procedures.



- 3.3 To date, Lewes and Eastbourne Councils have not needed to use its data communications acquisition powers for investigative purposes. However, it is considered good practice to maintain a policy and procedure for doing so, should the need arise.

## **4 Alignment of policies**

- 4.1 In keeping with the Councils' approach to corporate policies, the two policies referred to in this report are aligned across Lewes and Eastbourne Councils. This helps to ensure consistent controls and implementation for both locations.
- 4.2 An equivalent report is to be considered by Eastbourne Borough Council's Audit and Governance Committee on 9 September 2020. Should that Committee approve the two policies but subject to certain amendments, these variations will be put to the Audit and Standards Committee by way of a verbal update. Should the Lewes committee propose any amendments of its own, the report author will consult the Audit and Governance Committee chair as to next steps.

## **5 Policy Review**

- 5.1 Under the proposed Covert Surveillance Policy, there is no change to the requirement that the Councils' Audit committees receive an annual report on its implementation (see Appendix 1, paragraph 27). Officers will ensure that a suitable report is brought to both committees at the appropriate time each year.
- 5.2 The proposed policy on data communications acquisition contains an equivalent requirement (see Appendix 2, paragraphs 8.1 to 8.3)

## **6 Financial appraisal**

- 6.1 The cost of implementing the two policies referred to in this report will be met from existing service budgets.

## **7 Legal implications**

- 7.1 The Councils are strongly advised to adopt IPCO's recommendations, so as to improve compliance with surveillance legislation and supporting codes of practice. Doing so reduces the Councils' exposure to risk of evidence from surveillance being ruled inadmissible, and the risk of civil claims from individuals in connection with their right to respect for their private and family life.

*Lawyer consulted 19.08.20*

*Legal ref: 005383-JOINT-OD*

## **8 Risk management implications**

- 8.1 The Councils' arrangements for the management of covert surveillance, in terms of policies, procedures and designated roles (e.g. RIPA MO and RIPA authorising officers) should ensure that activity is fully compliant with surveillance and human rights legislation. Member oversight is provided in the way mentioned at 5.1 and 5.2 above, enabling a check on officers' use of surveillance powers over the previous year.

## 9 Equality analysis

9.1 There are no equality issues associated with this report.

## 10 Appendices

- Appendix 1 – Proposed Policy on the Use of Covert Surveillance and/or Covert Human Intelligence Sources
- Appendix 2 – Proposed Policy on the Acquisition of Communications Data

## 11 Background papers

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

- Report prepared for Audit and Standards Committee of 17 March 2020 on the inspection of surveillance governance arrangements:  
<https://democracy.lewes-eastbourne.gov.uk/documents/s14060/Inspection%20of%20surveillance%20governance%20arrangements.pdf>
- The Regulation of Investigatory Powers Act 2000:  
<http://www.legislation.gov.uk/ukpga/2000/23/contents>
- Home Office Code of Practice on Covert Surveillance and Property Interference (August 2018):  
[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/742041/201800802\\_CSPI\\_code.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/742041/201800802_CSPI_code.pdf)
- Home Office Code of Practice on Covert Human Intelligence Sources (August 2018):  
[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/742042/20180802\\_CHIS\\_code.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/742042/20180802_CHIS_code.pdf)
- The Investigatory Powers Act 2016:  
<https://www.legislation.gov.uk/ukpga/2016/25/contents>
- Communications Data Code of Practice (November 2018):  
[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/822817/Communications\\_Data\\_Code\\_of\\_Practice.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/822817/Communications_Data_Code_of_Practice.pdf)

# STRONGER together



Lewes District Council



Working in partnership with Eastbourne Homes

<b>Document name:</b>	Policy on use of covert surveillance and/or covert human intelligence sources
<b>Document type:</b>	Policy

<b>Authority(ies) covered:</b>	Aligned
<b>Responsible (Executive Lead):</b>	Councillor Zoe Nicholson, Leader of LDC; Cllr David Tutt, Leader of EBC
<b>Accountable (Operational Lead):</b>	Catherine Knight Assistant Director of legal and Democratic Services
<b>Version (e.g. first draft, final report):</b>	Amended policy
<b>Approved by:</b>	Audit and Governance Committee (EBC) Audit and Standards Committee (LDC) <i>Approval pending</i>
<b>Date of publication:</b>	[TBC]
<b>Revision due:</b>	[TBC]
<b>Final Equality and Fairness Analysis (EaFA) report approved by:</b>	Not applicable
<b>Date final EaFA report approved:</b>	Not applicable

## Contents

1. Introduction
2. Procedure
3. Management of CHIS
4. Review and renewal of a CHIS authorisation
5. Processing of confidential information obtained from surveillance
6. Training and policy review
7. Conclusion
8. Appendices

### Introduction

1. The Human Rights Act 1998 gave effect in UK law to the rights set out in the European Convention on Human Rights (ECHR). Some of these rights are absolute, while others are qualified, meaning that it is permissible for the state to interfere with those rights if certain conditions are satisfied. Amongst the qualified rights is a person's right to respect for their private and family life, home and correspondence, as provided for by Article 8 of the ECHR. It is Article 8 that is most likely to be engaged when public authorities seek to obtain private information about a person by means of covert surveillance. Article 6 of the ECHR, the right to a fair trial, is also relevant where a prosecution follows the use of covert techniques.
2. Part 2 of the Regulation of Investigatory Powers Act 2000 (RIPA) provides a statutory framework under which covert surveillance and/or use of covert human intelligence source (CHIS) can be authorised and conducted compatibly with the ECHR.
3. As part of their investigation activities to prevent and detect certain criminal offences, the Councils may need to undertake covert surveillance of individuals to gather evidence of illegal activity. They may also need to deploy a covert human intelligence source ('CHIS').
4. For the purposes of this policy, covert surveillance is taken to mean 'directed surveillance' which has a specific definition under section 26 of RIPA and is set out in full at Appendix 1.
5. The definition of a CHIS is set out in Appendix 2(a) of this policy. The distinction between a CHIS and a member of public merely volunteering information to the Council is explained at Appendix 2(b).
6. The use of social media as an intelligence gathering and/or investigations tool and, separately, the acquisition of communications data, are subject to their own respective policy statements; these are available as stand-alone documents on the Councils' website.

## Procedure

7. All physical or on-line covert surveillance (irrespective of whether its use falls within the ambit of the Regulation of Investigatory Powers Act 2000) and any use of a CHIS shall be undertaken in accordance with the procedures set out in this policy statement<sup>1</sup>.
8. The Councils shall ensure that covert surveillance and/or the use of CHIS is only undertaken where it complies fully with all applicable laws, in particular the:
  - Human Rights Act 1998 (incorporating the fundamental rights and freedoms contained in articles 2 to 14 of the European Convention on Human Rights)
  - Regulation of Investigatory Powers Act 2000 ('RIPA')
  - Protection of Freedoms Act 2012
  - General Data Protection Regulation
  - Data Protection Act 2018
9. The Councils shall, in addition, have due regard to all official guidance and codes of practice, particularly those issued by the Home Office, the Investigatory Powers Commissioner's Office and the Information Commissioner's Office. Of these, the most significant are:
  - Covert Surveillance and Property Interference – Code of Practice (Home Office, August 2018)
  - Covert Human Intelligence Sources – Revised Code of Practice (Home Office, August 2018)
10. In particular, the following guiding principles shall form the basis of all covert surveillance and CHIS activity undertaken by the Councils:
  - (i) Covert surveillance and/or the use of CHIS shall only be undertaken where it is absolutely necessary and only for the purpose of preventing or detecting a criminal offence.
  - (ii) Covert surveillance and/or the use of CHIS shall only be undertaken where it is proportionate to do so and in a manner that is proportionate.
  - (iii) No monitoring of social network sites for investigation purposes shall take place without considering whether such monitoring constitutes directed surveillance; nor, where it is considered to be so, without obtaining the requisite prior authorisation and approval.
  - (iv) Adequate regard shall be had to the rights and freedoms of those who are not the target of the covert surveillance.

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<sup>1</sup> Except that, as stated in paragraph 9(vi), judicial approval is required only in relation to directed surveillance regulated by RIPA and the use of a CHIS.

- (v) All authorisations to carry out covert surveillance and/or to use CHIS shall be granted by appropriately trained and designated authorising officers.
  - (vi) Directed surveillance and/or the use of CHIS shall only be undertaken after obtaining the approval of a justice of the peace (a magistrate or district judge).
11. With this mind, the Councils have adopted a policy of not normally conducting covert surveillance and/or using CHIS but of doing so only as a last resort, where all other investigative options have been deemed insufficient. Whilst each situation will be considered on its own merits and all relevant factors will be taken into account, covert surveillance and/or the use of CHIS will be considered only where deemed a proportionate response of last resort.

### **Management of CHIS**

12. Where the Councils have obtained the necessary authorisation and approval for the use of a CHIS, it will ensure that arrangements are in place for the proper oversight and management of the source, including appointing individual officers to act as 'controller' and 'handler' for each one. The Senior Responsible Officer for RIPA will determine on a case by case basis which officers will assume these roles for each deployment of a CHIS.
13. The 'controller' will normally be responsible for the management and supervision of the 'handler' and general oversight of the use of the CHIS. In addition, the controller should maintain an audit of case work sufficient to ensure that the use or conduct of the CHIS remains within the parameters of the extant authorisation.
14. The 'handler' will have day to day responsibility for:
  - dealing with the CHIS on behalf of the council
  - directing the day to day activities of the CHIS;
  - recording the information supplied by the CHIS; and
  - monitoring the CHIS's security and welfare.
15. The handler of a CHIS will usually be of a rank or position below that of the authorising officer.

### **Review and Renewal of a CHIS Authorisation**

16. The authorising officer who grants an authorisation should (i) consider subsequent renewals of that authorisation and any related security and welfare issue, and (ii) stipulate the frequency of formal reviews to be undertaken with the controller and handler.
17. Where the nature or extent of intrusion into the private or family life of any person becomes greater than that anticipated in the original authorisation, the authorising officer should immediately review the authorisation and reconsider the proportionality of the operation. This should be highlighted at the next renewal (if applicable).

18. Any proposed changes to the nature of the CHIS operation (i.e. the activities involved) should immediately be brought to the attention of the authorising officer. The authorising officer should consider whether the proposed changes are within the scope of the existing authorisation and whether they are proportionate (bearing in mind any extra interference with private or family life or collateral intrusion), before approving or rejecting them. Any such changes should be highlighted at the next renewal (if applicable).

### **Processing of Confidential Information Obtained from Surveillance**

19. Surveillance activity may result in the collection of evidence which the subject of the investigation or operation would consider confidential. Particular care must be exercised in cases where the subject might reasonably assume a high degree of confidentiality. The four categories of information that demand very careful handling are as follows:
- (i) material containing information that is legally privileged;
  - (ii) confidential journalistic material or where material identifies a journalist's source;
  - (iii) material containing confidential personal information; and
  - (iv) communications between a Member of Parliament and another person on constituency business.
20. The scope of material containing information that would be deemed legally privileged is set out in Appendix 3 of this policy statement.
21. The acquisition of material subject to legal privilege is particularly sensitive and may give rise to issues under Article 6 (right to a fair trial) ECHR as well as engaging Article 8 (right to respect for family and private life). The Councils must therefore apply additional safeguards if it anticipates obtaining information of this type (intentionally or in error) during covert surveillance. The safeguards should provide for three different circumstances where legally privileged items will or may be obtained, namely–
- (i) where privileged material is intentionally sought;
  - (ii) where privileged material is likely to be obtained; and
  - (iii) where the purpose or one of the purposes is to obtain items that, if they were not generated or held with the intention of furthering a criminal purpose, would be subject to privilege.
22. Where a council investigating officer anticipates the occurrence of any of the circumstances at paragraph 19 above, he/she must consult the RIPA Monitoring Officer before submitting an application for authorisation. The RIPA MO will have regard to relevant legislation and codes of practice in advising on the appropriate safeguards that would be required before the covert surveillance may lawfully proceed, assuming the necessary council authorisation and judicial approval required by RIPA were already in place.
23. Directed surveillance likely or intended to result in the acquisition of knowledge of confidential or privileged material may be authorised only by the Councils' Chief Executive or (in their absence) the person acting in that role. This authorisation level is set at a more senior level than that required for other surveillance activity, reflecting the sensitive nature of such information.

## Training and Policy Review

24. All Council officers undertaking or authorising covert surveillance and/or using CHIS shall be appropriately trained to ensure that they understand their legal and moral obligations.
25. Periodic audits shall be carried out to ensure that officers are complying with this policy.
26. The Senior Responsible Officer for RIPA (currently the Assistant Director of Legal and Democratic Services) shall review this policy at least once a year in the light of the latest legal developments and changes to official guidance and codes of practice.
27. The operation of this policy shall be overseen by the Audit & Standards Committee and Audit & Governance Committee by receiving reports every 12 months on this policy and its implementation, and on any RIPA activity conducted during the preceding 12-month period.

## Conclusion

28. All citizens will reap the benefits of this policy, through effective enforcement of criminal and regulatory legislation and the protection that it provides.
29. Adherence to this policy will minimise intrusion into citizens' lives and guard against any legal challenge to the Councils' covert surveillance and CHIS activities.
30. Any questions relating to this policy should be addressed to:

Catherine Knight, Assistant Director of Legal & Democratic Services and RIPA Senior Responsible Officer

Oliver Dixon, Senior Lawyer and RIPA Monitoring Officer

## Appendices

- |                |   |
|----------------|---|
| Appendix 1:    | Definition of directed surveillance   |
| Appendix 2(a): | Definition of a CHIS  |
| Appendix 2(b): | Distinction between a CHIS and a person volunteering information to the council |
| Appendix 3:    | Description of information to be treated as legally privileged                  |



## **Appendix 1 – Definition of Directed Surveillance**

Surveillance is ‘directed’ if undertaken–

- (i) in a manner that is covert but not ‘intrusive’ – see note 1 below;
- (ii) for the purposes of a specific investigation or a specific operation;
- (iii) in such a manner as is likely to result in the obtaining of private information about a person (whether or not one specifically identified for the purposes of the investigation or operation);
- (iv) otherwise than by way of an immediate response to events or circumstances the nature of which is such that it would not be reasonably practicable for an authorisation under this Part to be sought for the carrying out of the surveillance.

### Note 1

For the purposes of RIPA, ‘intrusive’ surveillance is covert surveillance that–

- (a) is carried out in relation to anything taking place on any residential premises or in any private vehicle; and
- (b) involves the presence of an individual on the premises or in the vehicle or is carried out by means of a surveillance device.

### Note 2

Local authorities are not permitted to carry out ‘intrusive’ surveillance.

### Note 3

For local authorities, directed surveillance is amenable to authorisation under RIPA only where its purpose is the prevention or detection of a criminal offence that is punishable by a maximum term of at least six months’ imprisonment; or is related to the underage sale of alcohol and tobacco or nicotine inhaling products.

## **Appendix 2(a) – Definition of a Covert Human Intelligence Source (CHIS)**

Under the Regulation of Investigatory Powers Act 2000 Act, a person is a CHIS if:

- (1) they establish or maintain a personal or other relationship with a person for the covert purpose of facilitating the doing of anything falling within paragraph (2) or (3) below;
- (2) they covertly use such a relationship to obtain information or to provide access to any information to another person; or
- (3) they covertly disclose information obtained by the use of such a relationship or as a consequence of the existence of such a relationship.

In relation to paragraph (1) above, a relationship is established or maintained for a covert purpose if and only if it is conducted in a manner that is calculated to ensure that one of the parties to the relationship is unaware of the purpose.

In relation to paragraphs (2) and (3) above, a relationship is used covertly, and information obtained is disclosed covertly, if and only if the relationship is used or the information is disclosed in a manner that is calculated to ensure that one of the parties to the relationship is unaware of the use or disclosure in question.

## **Appendix 2(b) – Distinguishing between a CHIS and a member of the public volunteering information to the Council**

The key feature of a CHIS is the establishing and maintaining of a relationship with another person for a covert purpose.

In many cases involving information sourced from individuals, a relationship will **not** have been established or maintained for a covert purpose. A resident or someone who works in or visits the district or borough ('the source') may simply volunteer or provide information that they have observed or acquired other than through a relationship, without being induced, asked, or tasked by the Councils. In these circumstances, the source is not a CHIS for the purposes of RIPA and no authorisation under RIPA is required.

The Councils provide a confidential telephone and online facility to report suspected fraud. Even if the person using this facility is involved in the activities they are reporting, they would not be considered a CHIS as the information is not being disclosed on the basis of a relationship which was established or maintained for that covert purpose. However, should the person be asked to maintain their relationship with others involved and to continue to supply information (or it is otherwise envisaged that they will do so), an authorisation for the use or conduct of a CHIS may be appropriate.

**Appendix 3 – Description of information to be treated as legally privileged**

- (1) Communications between a professional legal adviser and—
  - (a) his client, or
  - (b) any person representing his client,  
which are made in connection with the giving of legal advice to the client.
  
- (2) Communications—
  - (a) between a professional legal adviser and his client or any person representing his client, or
  - (b) between a professional legal adviser or his client or any such representative and any other person,  
which are made in connection with or in contemplation of legal proceedings and for the purposes of such proceedings.
  
- (3) Items enclosed with or referred to in communications of the kind mentioned in (1) or (2) above and made—
  - (a) in connection with the giving of legal advice, or
  - (b) in connection with or in contemplation of legal proceedings and for the purposes of such proceedings.

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# STRONGER together



Lewes District Council



Working in partnership with Eastbourne Homes

<b>Document name:</b>	Policy on the Acquisition of Communications Data under Part 3 of the Investigatory Powers Act 2016
<b>Document type:</b>	Policy

<b>Authority(ies) covered:</b>	Aligned
<b>Responsible (Executive Lead):</b>	Councillor Zoe Nicholson, Leader of LDC; Cllr David Tutt, Leader of EBC
<b>Accountable (Operational Lead):</b>	Catherine Knight Assistant Director of Legal and Democratic Services
<b>Version (e.g. first draft, final report):</b>	Draft for approval
<b>Approved by:</b>	Awaiting approval by: Audit and Standards Committee (LDC); Audit and Governance Committee (EBC).
<b>Date of publication:</b>	[TBC]
<b>Revision due:</b>	[TBC]
<b>Final Equality and Fairness Analysis (EaFA) report approved by:</b>	Not applicable
<b>Date final EaFA report approved:</b>	Not applicable

## Contents

1. Introduction
2. Communications Data
3. Extent of Data Acquisition Powers
4. Roles in Applying for and Granting Authorisation
5. Procedure for Applying for Authorisation
6. Training for Officers in Designated Roles
7. Keeping of Records
8. Policy Review and Member Oversight

### 1. Introduction

- 1.1 Part 3 of the Investigatory Powers Act 2016 ('the Act') permits certain public bodies to acquire specified types of communications data in limited circumstances, subject to prior authorisation granted in accordance with the Act. Part 3 applies principally to the police and central government departments and agencies, including defence, security and intelligence bodies. The power it grants to local authorities is less extensive, limiting the acquisition of data to cases involving the prevention or detection of serious crime (see further at 3.2).
- 1.2 The communications data which, in defined circumstances, local authorities are permitted to obtain under the Act is known as 'entity data' and 'events data'. Their scope is explained in section 2 below but, in brief, data of this nature can identify who a suspected offender has been in communication with via their telephone or e-mail, as well as where that communication was made or received. The data may therefore be of real investigative benefit.
- 1.3 The legal framework for this policy is the Act and statutory guidance contained in the Home Office Code of Practice on Communications Data (November 2018).

### 2. Communications data

- 2.1 In the Act and this policy, the term 'communications data' means 'entity data' and 'events data' and includes the 'who', 'when', 'where', and 'how' of a communication but not the content i.e. what was said or written.
- 2.2 **Entity data** means any data which—
  - (a) is about—
    - (i) an entity (a person or thing such as a phone, tablet or computer),

- (ii) an association between a telecommunications service and an entity, or
  - (iii) an association between any part of a telecommunication system and an entity,
- (b) consists of, or includes, data which identifies or describes the entity (whether or not by reference to the entity's location), and
- (c) is not events data.
- 2.3 Entity data covers information about a person or thing, and about links between a telecommunications system and a person or thing that identifies or describes the person or thing. This means that individual communication devices such as phones, tablets and computers are entities. The links between a person and their phone are therefore entity data but the fact of or information about communications between devices on a network at a specific time and for a specified duration would be events data.
- 2.4 Examples of entity data include:
- Subscriber checks' such as "who is the subscriber of phone number 01234 567 890?", "who is the account holder of e-mail account [example@example.co.uk](mailto:example@example.co.uk)?" or "who is entitled to post to web space [www.example.co.uk](http://www.example.co.uk)?"
  - subscribers' or account holders' account information, including names and addresses for installation, and billing including payment method(s), details of payments;
  - information about the connection, disconnection and reconnection of services to which the subscriber or account holder is allocated or has subscribed (or may have subscribed) including conference calling, call messaging, call waiting and call barring telecommunications services;
  - information about apparatus or devices used by, or made available to, the subscriber or account holder, including the manufacturer, model, serial numbers and apparatus codes; and information about selection of preferential numbers or discount calls.
- 2.5 **Events data** is more intrusive means any data which identifies or describes an event (whether or not by reference to its location) on, in or by means of a telecommunication system where the event consists of one or more entities engaging in a specific activity at a specific time.
- 2.6 Events data includes the way in which, and by what method, a person or thing communicates with another person or thing. It excludes anything within a communication including text, audio and video that reveals the meaning, other than inferred meaning, of the communication.

2.7 Events data can also include the time and duration of a communication, the telephone number or email address of the originator and recipient, and the location of the device from which the communication was made. It covers electronic communications including internet access, internet telephony, instant messaging and the use of applications.

2.8 Examples of events data include, but are not limited to:

- information tracing the origin or destination of a communication that is, or has been, in transmission (including incoming call records);
- information identifying the location of apparatus when a communication is, has been or may be made or received (such as the location of a mobile phone);
- information identifying the sender or recipient (including copy recipients) of a communication from data comprised in or attached to the communication;
- routing information identifying apparatus through which a communication is or has been transmitted (for example, file transfer logs and e-mail headers – to the extent that content of a communication, such as the subject line of an e-mail, is not disclosed)
- itemised telephone call records (numbers called);
- itemised internet connection records;
- itemised timing and duration of service usage (calls and/or connections);
- information about amounts of data downloaded and/or uploaded;
- information about the use made of services which the user is allocated or has subscribed to (or may have subscribed to) including conference calling, call messaging, call waiting and call barring telecommunications services.

### 3. Extent of data acquisition powers

3.1 The Council's acquisition of communications data under Part 3 of the Act will be a justifiable interference with an individual's human rights under Article 8 (the right to respect for privacy and family life) and, in certain circumstances, Article 10 (right to freedom of expression) of the European Convention on



Human Rights **only** if the conduct being authorised or required to take place is:

- (i) **necessary** for the purposes of a specific investigation or operation – see further at 3.2; and
- (ii) **proportionate** – see further at 3.4.

3.2 When applying for authorisation to acquire communications data, the Council must believe the acquisition is necessary for the purpose of the **prevention or detection of serious crime**.

3.3 'Serious crime' means:

- an offence for which an adult is capable of being sentenced to one year or more in prison;
- any offence involving violence, resulting in a substantial financial gain or involving conduct by a large group of persons in pursuit of a common goal;
- any offence committed by a body corporate;
- any offence which involves the sending of a communication or a breach of privacy; or an offence which involves, as an integral part of it, or the sending of a communication or breach of a person's privacy.

3.4 The Council must also believe the acquisition to be proportionate to what is sought to be achieved by obtaining the specified communications data – that the conduct is no more than is required in the circumstances.

3.5 The Council has no power to obtain the **content** of a communication.

#### 4. Roles in applying for and granting authorisation

4.1 Acquisition of communications data under the Act involves four roles:

- the applicant – see 4.2;
- the single point of contact ('SPoC') – see 4.3;
- the Senior Responsible Officer – see 4.4;
- the authorising individual – see 4.5.

4.2 The **applicant** is a Council officer involved in conducting or assisting an investigation or operation who makes an application in writing or electronically for the acquisition of communications data. For this specialised function, the role would normally be reserved to a counter-fraud officer but the Chief Finance Officer may – where he/she considered it appropriate – authorise a named and suitably qualified officer from a different specialism to make an application.

4.3 The **SPoC** is an individual trained to facilitate the lawful acquisition of communications data and effective co-operation between the body applying

for authorisation (the Council) and the body with statutory power to grant the authorisation (the Office for Communications Data Authorisations – ‘OCDA’ – who act on behalf of the Investigatory Powers Commissioner – ‘IPC’). In respect of local authorities, the SPoC role is performed by the National Anti-Fraud Network (‘NAFN’) – see further at 5.2.

- 4.4 The **Senior Responsible Officer** (‘SRO’) must be a member of the corporate management team. The designated SRO for Lewes and Eastbourne Councils is the Assistant Director for Legal and Democratic Services, which is consistent with that role’s SRO functions for RIPA matters.

The SRO is responsible for:

- the integrity of the process in place within the Council to acquire communications data;
- compliance with Part 3 of the Act and with the Home Office code of practice on communications data;
- oversight of the reporting of errors to the (‘IPC’) and the identification of both the cause(s) of errors and the implementation of processes to minimise repetition of errors;
- ensuring the overall quality of applications submitted to the Council’s SPoC;
- engagement with the IPC’s inspectors when they conduct their inspections; and
- where necessary, oversight of the implementation of post-inspection action plans approved by the IPC.

- 4.5 For local authorities, the **authorising individual** is OCDA, acting on behalf of the IPC.

## 5. Procedure for applying for authorisation to acquire communications data

- 5.1 The procedure adopted by the Council in applying for an authorisation and in implementing any authorisation granted must comply with the Act and the Home Office Code of Practice, which include the measures set out in 5.2 to 5.6 below.
- 5.2 The Council must use NAFN’s SPoC services for any application it wishes to submit for authorisation. Following SPoC evaluation, authorisation to proceed may only be provided by OCDA.
- 5.3 Council applicants are required to consult a NAFN SPoC throughout the application process. The accredited SPoCs at NAFN will scrutinise the applications independently and will provide advice to the Council, ensuring it acts in an informed and lawful manner.

- 5.4 In addition to involving the NAFN SPoC, the Council must ensure that someone – “the verifying officer” – of at least the rank of the Council’s SRO is aware the application is being made before it is submitted to an authorising officer in OCDA. For Lewes and Eastbourne Councils, the verifying officer is the Chief Finance Officer, and this nomination will be notified to NAFN.
- 5.5 NAFN is responsible for submitting the application to OCDA on behalf of the Council.
- 5.6 The Council may not make an application that requires the processing or disclosure of internet connection records for any purpose.
- 5.7 The Council must cease any and all authorised acquisition of communications data as soon as the OCDA authorisation is cancelled or at the expiry of one month following the date of authorisation (whichever is sooner).
6. Training for officers with designated roles
- 6.1 The Council must provide an adequate level of initial and refresher training to relevant officers to enable them to perform the role of applicant (see 4.2 above), SRO (see 4.4 above) or verifying officer (see 5.4 above), as applicable.
- 6.2 The Council may enter into formal or informal partnership arrangements with other local authorities for the purpose of procuring region-wide training, in the interests of efficiency and effectiveness.
7. Records to be kept
- 7.1 The Council must keep records of the appropriate matters set out in Chapter 24 of the Home Office Code of Practice, including the number of applications it submits to the SPoC for the acquisition of communications data.
- 7.2 Under Chapter 24, the Council’s SPoC has record keeping responsibilities of its own, for example recording how many applications it forwards to OCDA for authorisation and, of these, the number granted and declined.
8. Policy review and member oversight
- 8.1 The first version and any substantive review of this policy must be approved by the Audit and Governance Committee (in respect of EBC) or the Audit and Standards Committee (in respect of LDC).
- 8.2 Minor or purely technical amendments to the policy may be implemented by the SRO under delegated powers.

- 8.3 A report on any use the Council makes of its data communications acquisition powers will be submitted annually to the A & G Committee or A & S Committee as applicable.
- 8.4 At national level, the Investigatory Powers Commissioner (IPC) provides comprehensive oversight of the use of the powers contained within the Act and adherence to the practices and processes described by the Home Office Code of Practice.
- 8.5 The IPC ensures compliance with the law by inspecting public authorities and investigating any issue which they believe warrants further independent scrutiny. The Council will engage and co-operate in full with any IPC inspection or scrutiny into the Council's proper or improper exercise of powers under the Act. Further, the Council will promptly act on any IPC recommendations for policy and procedural improvement or rectification.

DRAFT

<b>Report To:</b>	<b>Audit and Standards Committee</b>
<b>Date:</b>	<b>14 September 2020</b>
<b>Report Title:</b>	<b>Annual Treasury Management Report 2019/20 and 2020/21 Quarterly Monitoring</b>
<b>Report of:</b>	<b>Chief Finance Officer</b>
<b>Ward(s):</b>	<b>All</b>
<b>Purpose of Report:</b>	<b>To present the Annual Treasury Management Report for 2019/20 and the 2020/21 Quarterly Monitoring Report</b>
<b>Decision type:</b>	<b>Budget and Policy Framework</b>
<b>Officer Recommendations:</b>	<b>To confirm to Cabinet that the Annual Treasury Management Report and Treasury Management activity for the period 1 April to 31 August 2020 has been in accordance with the approved Treasury Strategies.</b>
<b>Reasons for recommendations:</b>	<b>Requirement of CIPFA Treasury Management in the Public Sector Code of Practice (the Code) and this has to be reported to Full Council.</b>
<b>Contact Officer(s)-</b>	<b>Name: Ola Owolabi Post title: Deputy Chief Finance Officer E-mail: <a href="mailto:ola.owolabi@lewes-eastbourne.gov.uk">ola.owolabi@lewes-eastbourne.gov.uk</a> Telephone number: 01273 485083</b>

## **1 Introduction**

- 1.1 The Council is required, under the Local Government Act 2003, to produce an annual review of Treasury Management activities and the actual prudential and treasury indicators for 2019/20. 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).
- 1.2 During 2019/20, the Full Council received the annual Treasury Management Strategy Statement (TMSS), whilst Cabinet were presented with the 2019/20 Outturn Report and a Treasury Management Update Report. The regulatory environment places responsibility on Members for the review and scrutiny of TM policy and activities. This report is therefore important, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by Members. This report will be considered by the Cabinet at the 24 September 2020 meeting.

## **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
20 January 2020	1 November to 31 December 2019
17 March 2020	1 January to 29 February 2020
6 July 2020	1 March to 30 June 2020 ( <i>meeting cancelled</i> )
14 September 2020	1 April to 31 August 2020 ( <i>revised reporting period</i> )
16 November 2020	1 September to 31 October 2020
18 January 2021	1 November to 31 December 2020
8 March 2021	1 January to 28 February 2021

## 2.2 Fixed Term Deposits pending maturity

There are no fixed term deposits pending maturity held at 31 March 2020.

## 2.3 Fixed Term Deposits which have matured in the reporting period

The table below shows the fixed term deposits which have matured since 1 March 2020, in maturity date order. It is important to note that the table includes sums reinvested and that in total the Council's investments have not increased by £9m over this period.

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

\*UK Government body and therefore not subject to credit rating

At no stage did the total amount held by any counterparty exceed the approved limit set out in the Investment Strategy. The average rate of interest earned on deposits held in the period 1 March and 31 March 2020 was 0.89%, above the average bank base rate for the period of 0.35%.

## 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 £3.430m generating interest of approximately £1,000.

	Balance at 31 March '20 £'000	Average balance £'000	Current interest rate %
Santander Business Reserve Account	£2,000	2,000	0.40
Lloyds Bank Corporate Account	£6,627	4,860	0.00

## 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 March '20 £'000	Average balance £'000	Average return %
Goldman Sachs Sterling Liquid Reserves Fund	£1,000	1,000	0.61
Deutsche Managed Sterling Fund	£1,500	1,500	0.63

## 2.6 Treasury Bills (T-Bills)

There were no Treasury Bills held at 31 March 2020, and there was no activity in the period.

## 2.7 Secured Investments

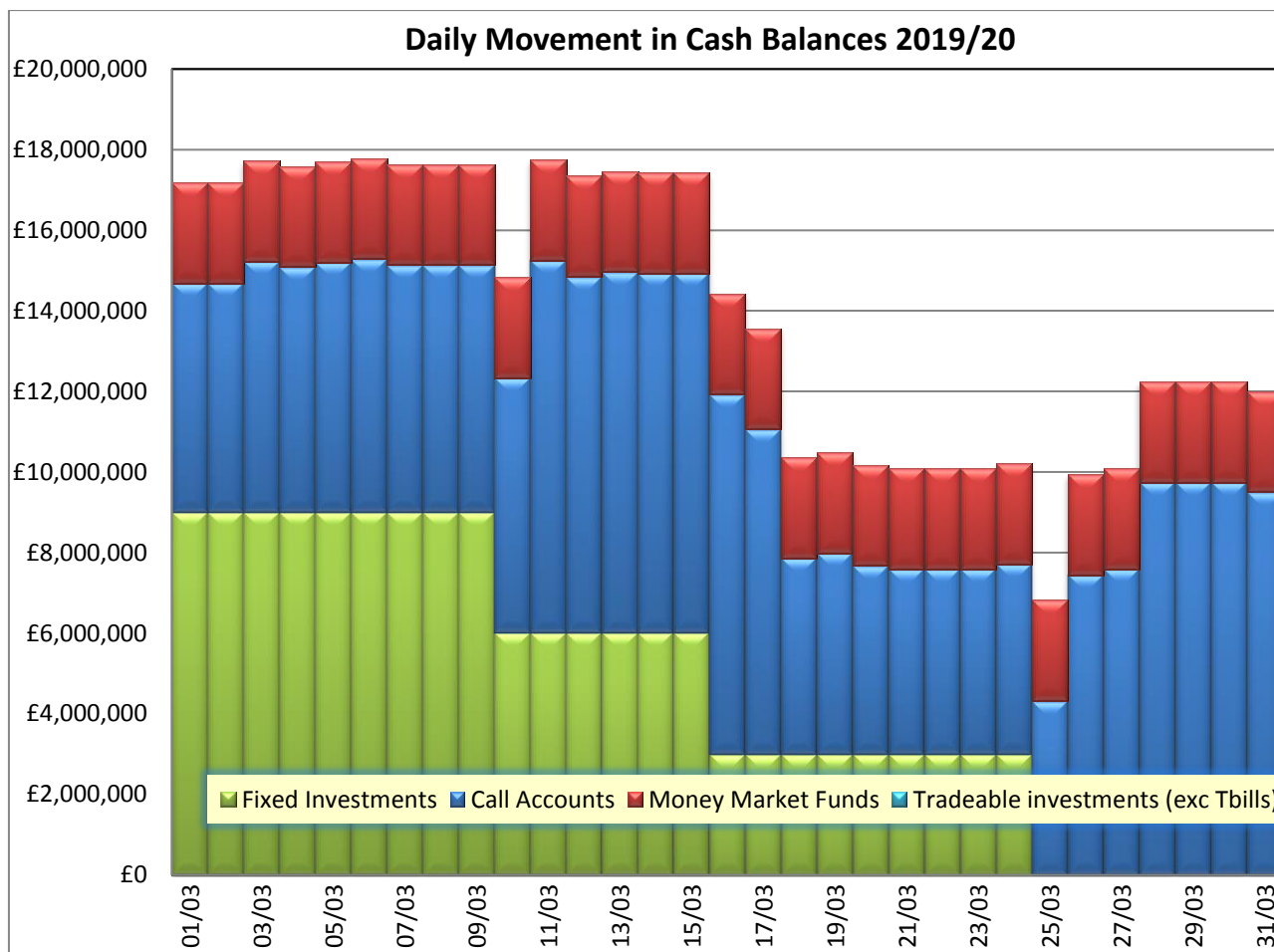
There were no Secured Investments at 31 March 2020.

## 2.8 Tradeable Investments

There were no Tradeable Investments at 31 March 2020, and there was no activity in the period.

## 2.9 Overall investment position

The chart below summarises the Council's investment position over the period 1 March to 31 March 2020. It shows the total sums invested each day as Fixed Term deposits, Treasury Bills, amounts held in Deposit accounts, Money Market Funds and Tradeable Investments.













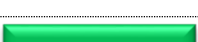
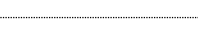


## 2.10 Borrowing

The current account with Lloyds Bank remained in credit throughout the period. No temporary borrowing for cash-flow management purposes took place. There has been no change in the total value of the Council's long term borrowing in the reporting period, which remains at £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 March 2020, the Council has operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices.



Treasury Prudential Indicators	2019/20 Estimate Indicator	31 March 2020 Indicators	RAG Status
Authorised limit for external debt (CS 4.2.2)	£127.8m	£127.8m	
Operational boundary for external debt (CS 4.2.2)	£117.3m	£117.3m	
Gross external debt (CS 4.2.2)	£117.3m	£56.7m	
Capital Financing Requirement (TMS)	£136.9m	£85.4m	
Debt vs CFR under/(over) borrowing	£19.6m	£28.7m	
<u>Investments</u>			
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	£14.2m	
<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%	1.55%	
Proportion of Financing Costs to Net Revenue Stream (HRA)	18.08%	11.51%	

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

4.2.1 Lewes Housing Investment Company (LHIC) is a wholly owned subsidiary of the Council. Incorporated in July 2017, LHIC was

established to acquire, improve and let residential property at market rents. A capital allocation of £2.5m was approved as potential commercial loan funding to facilitate property purchases. At 31 March 2020, a total of £65 has been drawn down. The balance has been rolled forward into 2020/21. There have been no transactions during the period 1 April 2020 to 30 June 2020.

#### 4.3 Aspiration Homes LLP

4.3.1 Aspiration Homes LLP (AH) is a limited liability Partnership owned equally by Lewes District Council and Eastbourne Borough Council. Incorporated in June 2017, AH was established for the purpose of developing housing to be let at affordable rent. A capital allocation of £17.5m was approved as potential commercial loan funding to AH to facilitate property purchases. At 31 March 2020, a total of £912,910 (net of grant) has been drawn down for the purchase of Gray's School, Newhaven. The balance has been rolled forward into 2020/21

4.3.2 A working Capital facility loan of £100,000 has been agreed, at an interest rate of 2% above Base Rate. As at 31 March 2020, £20,000 of the working Capital facility loan had been drawn down. There have been no transactions during the period 1 April 2020 to 30 June 2020.

### 5. Annual Treasury Management Report

5.1 As well as reviewing details of Treasury transactions during the course of the year, the Audit and Standards Committee is required to review a formal summary report after the year end before it is considered by Council in accordance with best practice and guidance issued by the Chartered Institute of Public Finance and Accountancy.

5.2 The Annual Report is attached at Appendix 1. It should be noted that this report has been drafted prior to the final audit of the Council's accounts and, as a result, some minor changes may be necessary. If so, the changes will be reported verbally at the meeting.

### 6. Coronavirus Impact

6.1 The full extent of the impact from Coronavirus will not be known for some time. However the immediate risk to the financial markets coupled with additional burdens on Council spending and uncertainty over funding have increased the need to carry larger cash balances.

6.2 The projection of gradual rises in interest rates that formed the Bank of England Monetary Policy Committee's guidance at the start of the period eased through the year and then evaporated entirely with the onset of the Covid-19 crisis. As the Council's borrowing rates are directly linked to market expectations this gives rise to the potential that our borrowing rates will remain close to all-time lows for some time. With the Council's Capital Programme and re-financing commitments over the next few years, our ability to secure good value in our borrowing has significant implications for the spending plans of Council as a whole.

6.3 This ability will be affected by the outcome of the current consultation by Public Works Loan Board (PWLB) on how it offers debt to the sector. Potentially this may mean some reversal of the PWLB's 1% margin hike imposed in October 2019. At the time of writing any such reversal is by no means certain and so our central borrowing strategy remains one of undertaking regular transactions in order to lock in current rates to fulfil our long-term borrowing requirement. Timing will be managed through a portfolio of short-term debt and we will seek to add new sources of borrowing while PWLB's margin remains competitive.

## **7. Climate change and environmental implications**

7.1 Treasury management is a Council-wide function and its climate change, environmental and sustainability implications are the same as for the Council itself. The Council and its Treasury Management Advisors will have regard to the environmental activities of its Counterparties (where reported) but: -

- Prioritises Security, Liquidity and Yield - an optimum yield commensurate with security and liquidity.
- Recognises that as large, global institutions our high-quality counterparties operate across the full range of marketplaces in which they are legally able to, and as a result climate change considerations are an increasingly important and heavily-scrutinised part of their overall business.
- Excluding any one counterparty will likely mean others will similarly have to be avoided and thus impact the Council's capacity to mitigate risk through diversification.

## **8 Financial Implications**

8.1 All relevant implications are referred to in the above paragraphs

## **9. Risk Management Implications**

9.1 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.

## **10. Equality Screening**

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

## **11 Legal Implications**

11.1 None arising from this report.

## **12. Appendices**

Appendix 1: Annual Treasury Management Report 2019/20

Appendix 2: Treasury Management Monitoring Report 1 April 2020 – 31 August 2020

**13. Background Papers**

Treasury Management Strategy Statements 2019/20 and 2020/21

## **Lewes District Council**

### **Annual Treasury Management Report 2019/20**

#### **Contents**

<b>1. Background.....</b>	<b>2</b>
<b>2. Overall Summary of Activity 2019/20 .....</b>	<b>2</b>
<b>3. Detailed Analysis – Borrowing .....</b>	<b>3</b>
<b>4. Detailed Analysis - Investments .....</b>	<b>6</b>
<b>5. Compliance with Prudential Indicators.....</b>	<b>8</b>
<b>6. Investment Consultants .....</b>	<b>8</b>
<b>7. Reporting and Training .....</b>	<b>9</b>
<b>Appendix A – Prudential Indicators 2019/20.....</b>	<b>10</b>
<b>Appendix B – Economic Background explained by Arlingclose .....</b>	<b>15</b>
<b>Appendix C – List of Investments made and/or maturing in 2019/20.....</b>	<b>17</b>
<b>Glossary of Terms .....</b>	<b>18</b>

## 1. Background

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

1.2 The Council defines its Treasury Management activities as:

*“the management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”*

1.3 The Council agreed its Treasury Management Strategy Statement and Investment Strategy 2019/20 to 2021/22 at its meeting in February 2019. The Council has substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remain central to the Council's treasury management strategy.

1.4 The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Council's Capital Strategy, complying

## 2. Overall Summary of Activity 2019/20

2.1 The table below lists the key elements of the 2019/20 Strategy and records actual performance against each one of them.

Key Element	Target in Strategy	Actual Performance	
<b>Borrowing</b>			
Underlying need to borrow (CFR) at year end	£87.100 million	£85.424 million	-
Internal borrowing at year end	£30.427 million	£28.751 million	-
New external long-term borrowing in year	None anticipated	None undertaken	✓
Debt rescheduling in year	Review options but not anticipated	Options kept under review, none undertaken	✓
Interest payments on external borrowing	£1.7 million	£1.745 million	✓
<b>Investments</b>			
Minimum counterparty credit ratings for unsecured investments	Long-term BBB+- (does not apply to Government and other local authorities which have the highest ratings)	At least Long-term A	✓
Interest receipts from external investments	£0.100m	£0.107 m	✓

Key Element	Target in Strategy	Actual Performance	
<b>Appointment of Investment Consultants</b>			
Independent Treasury Adviser to be retained	Arlingclose to be retained as Treasury Adviser	Arlingclose retained as Treasury Adviser	✓
<b>Reporting and Training</b>			
Reports to be made to Audit and Standards Committee and Cabinet	Every regular meeting	Every regular meeting.	✓
Briefing sessions for Councillors and Staff	Treasury Adviser to provide	Staff training September 2019	✓

2.2 The remainder of this report explores each of the key elements in more depth. Appendix A gives details of the final position on each of the Prudential Indicators, and Appendix B explores the Economic Background to the year's activity. A glossary appears at the end of the document to explain technical terms which could not be avoided when writing this report.

### 3. Detailed Analysis – Borrowing

- 3.1 On 9th October 2019 the PWLB raised the cost of certainty rate borrowing by 1% to 1.8% above UK gilt yields as HM Treasury was concerned about the overall level of local authority debt. PWLB borrowing remains available but the margin of 180bp above gilt yields appears relatively very expensive. Market alternatives are available and new products will be developed; however, the financial strength of individual authorities will be scrutinised by investors and commercial lenders.
- 3.2 The Chancellor's March 2020 Budget statement included significant changes to Public Works Loan Board (PWLB) policy and launched a wide-ranging consultation on the PWLB's future direction. Announcements included a reduction in the margin on new HRA loans to 0.80% above equivalent gilt yields, available from 12 March 2020 and £1.15bn of additional "infrastructure rate" funding at gilt yields plus 0.60% to support specific local authority infrastructure projects for England for which there is a bidding process.
- 3.3 Other than for temporary cash flow purposes, local authorities are only allowed to borrow to finance capital expenditure (e.g. the purchase of property, vehicles or equipment which will last for more than one year, or the improvement of such assets). Prior to 2018/19, the Government limited the amount of borrowing by local authorities for housing purposes by specifying 'debt caps'. The Council's underlying debt cap was fixed at £72.931m. Previously, local authorities were able to bid for an increase in the housing debt cap in order to enable specific projects. A bid from the Council was successful and the debt cap was increased to £75.248m to match expenditure incurred in building new houses on specified former garage sites. The Government removed the 'debt cap' during 2018/19, which enables the Council to further invest in the provision of new social housing.
- 3.4 In accounting terms, the underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR) while usable reserves and working capital are the underlying resources available for investment.

3.5 The CFR is, in simple terms, the amount of capital expenditure which has been incurred by the Council but which has not yet been paid for (by using, for example, grants, capital receipts, reserves or revenue income) and in the meantime is covered by internal or external borrowing. 'External borrowing' is where loans are raised from the Public Works Loans Board (PWLB) or banks. Alternatively it is possible to 'internally borrow' the significant levels of cash which has been set aside in Balances and Reserves and which would otherwise need to be invested with banks or other counterparties.

3.6 As noted above, the level of CFR increases each year by the amount of unfinanced capital expenditure and is reduced by the amount that the Council sets aside for the repayment of borrowing. The original CFR projection for 2019/20, the revised position reported at the time of producing the Treasury Strategy 2020/21 (February 2020) and the final position for the year are shown in the table below. The variation between the revised and final position reflects the changing profile of capital spend across financial years, particularly allocations in the capital programme in respect of facilitating loans to Lewes Housing investment Company, and Aspiration Homes LLP.

3.7

	2019/20 Original	2019/20 Revised	2019/20 Outturn
	£m	£m	£m
Opening CFR	133.079	82.030	82.030
Capital expenditure in year	11.900	15.000	14.197
Less financed	(7.700)	(9.618)	(10.511)
Less amount set aside for debt repayment	(0.292)	(0.312)	(0.292)
<b>Closing CFR</b>	<b>136.987</b>	<b>87.100</b>	<b>85.424</b>

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

	2019/20 Revised	2019/20 Outturn
CFR Component	£m	£m
General Fund	21.100	18.077
Housing Revenue Account	66.000	67.347
<b>Total</b>	<b>87.100</b>	<b>85,424</b>

3.9 The following table compares the CFR with the amount that the Council holds in balances and reserves as well as working capital (day to day cash movements as well as grants, developer contributions and capital receipts held, pending their use).

	31/3/20 Revised	31/3/20 Outturn
	£m	£m
(a) Capital Financing Requirement	87.100	85.424
(b) Actual external long-term borrowing	(56.673)	(56.673)
(c) Borrowing required in year	-	-
(d) Use of Balances and Reserves and working capital as alternative to borrowing (a)-(b)-(c)	30.427	28,751



## 3.10 The Council's long-term loan portfolio at 31 March 2020 was:

Lender	Interest	Amount £m	Rate %	Maturity
PWLB	Fixed	4.000	2.70	01-03-2024
PWLB	Fixed	5.000	3.30	01-03-2032
PWLB	Fixed	2.000	3.05	01-09-2027
PWLB	Fixed	2.000	2.76	01-09-2024
PWLB	Fixed	4.000	2.97	01-09-2026
PWLB	Fixed	5.000	3.28	01-09-2031
PWLB	Fixed	4.000	2.63	01-09-2023
PWLB	Fixed	5.000	3.44	01-03-2037
PWLB	Fixed	6.673	3.50	01-03-2042
PWLB	Fixed	5.000	3.43	01-09-2036
PWLB	Variable	5.000	0.88	28-03-2022
PWLB	Fixed	4.000	3.01	01-03-2027
	<b>Sub-total</b>	<b>51,673</b>		
Barclays	Fixed	5.000	4.50	06-04-2054
	<b>Sub-total</b>	<b>5.000</b>		
	<b>Total</b>	<b>56.673</b>		

- 3.11 The Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective.
- 3.12 In the table above the Barclays loan was taken out in April 2004 with a term of 50 years. In June 2016 the bank decided to permanently waive its contractual right to vary the interest rate on this loan, which was effectively fixed at the rate of interest applicable at that time, 4.5%.
- 3.13 Total interest paid on external long-term borrowing in the year was £1.745m, which was consistent with the revised budget for the year. No new long-term borrowing was undertaken. The Council remained eligible to access the Government's 'Certainty Rate' allowing the Council to borrow, had it been appropriate to do so, at a reduction of 0.2% on the Standard Rate.
- 3.14 Through the year, officers, supported by Arlingclose, monitored opportunities for the rescheduling of external loans and the possibility of repayment utilising cash balances that would otherwise be invested. No beneficial rescheduling opportunities were identified and the loan portfolio remained unchanged through the year.
- 3.15 As determined by the Council, two separate Loans Pools operated in 2019/20, for the General Fund and HRA respectively. At 31 March 2020 the balance on internal loans from the General Fund to the Housing Revenue Account (HRA) was £8.795m, an increase of £0.264m compared with the previous year, which comprised new lending as funding for the construction of new homes. Interest was charged on internal borrowing at 1.66% (equivalent to a one-year maturity loan from the PWLB at the start of the financial year).
- 3.16 No temporary borrowing was undertaken during the course of the financial year and consequently, there were no temporary loans outstanding at 31 March 2020.

#### 4. Detailed Analysis - Investments

4.1 In a relatively short period since the onset of the COVID-19 pandemic, the global economic fallout was sharp and large. Market reaction was extreme with large falls in equities, corporate bond markets and, to some extent, real estate echoing lockdown-induced paralysis and the uncharted challenges for governments, businesses and individuals. Volatility measured by the VIX index was almost as high as during the global financial crisis of 2008/9 and evidenced in plummeting equity prices and the widening of corporate bond spreads, very close to rivalling those twelve years ago. Gilt yields fell but credit spreads widened markedly reflecting the sharp deterioration in economic and credit conditions associated with a sudden stagnation in economies, so corporate bonds yields (comprised of the gilt yield plus the credit spread) rose and prices therefore fell.

4.2 The Council held an average of £17m as cash during the year. This comprised working cash balances, capital receipts, earmarked reserves and developer contributions held pending their use.

4.3 The Council's general policy objective is to invest its surplus funds prudently. Throughout 2019/20, the Council's investment priorities continued to be:

**Highest priority** - Security of the invested capital;

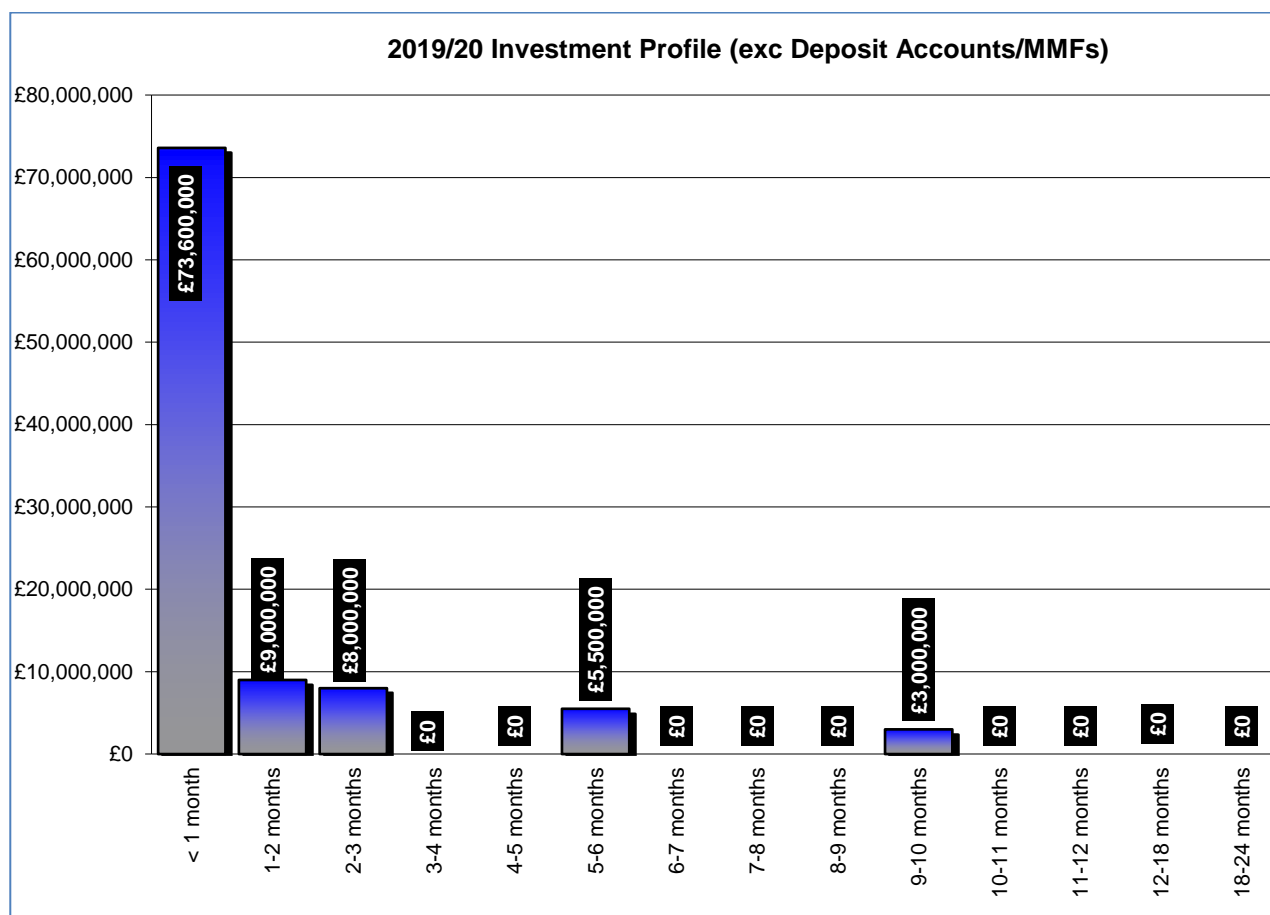
**Followed by** - Liquidity of the invested capital;

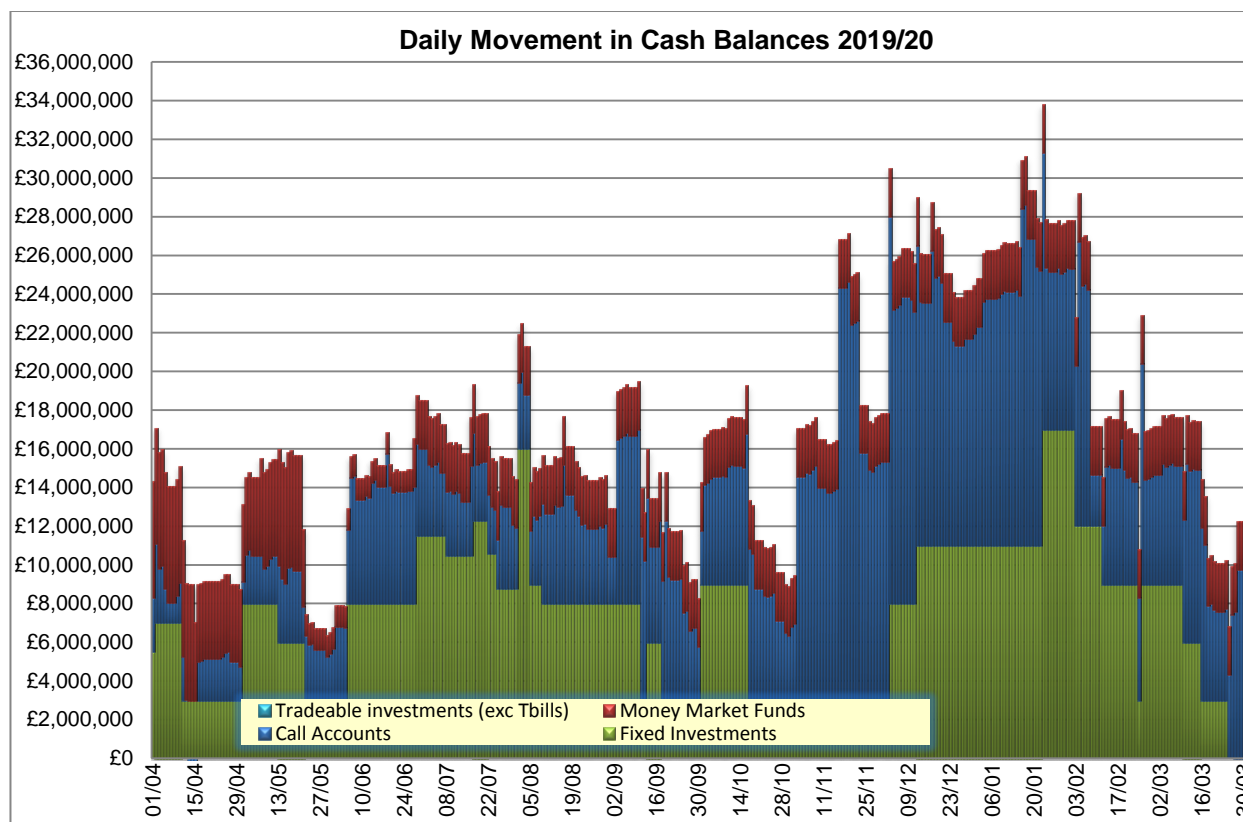
**Finally** - An optimum yield commensurate with security and liquidity.

4.4 All of the Council's investments were managed in-house. Security of capital was maintained by following the counterparty policy set out in the Investment Strategy for 2019/20. Investments made during the year included:

- Fixed Term Deposits with the Debt Management Office (DMO) (a total of £67.6 million – 14 occasions);
- Fixed Term Deposits with other Local Authorities (a total of £26 million – 7 occasions);
- Fixed Term Deposits with UK Banks and Building Societies (none);
- Investments in Money Market Funds (MMFs) (average daily balance held in year £1.35 million);
- United Kingdom Treasury Bills (none);
- Tradable Investments - Floating Rate Notes, Certificates of Deposit, Bonds (none);
- Deposit accounts with UK Banks (average daily balance held in year £2.23 million);
- Deposit accounts with UK Building Societies (none);
- Overnight deposits with the Council's banker, Lloyds Bank (average daily balance held in year £4.6 million).

- 4.5 Counterparty credit quality was assessed and monitored with reference to credit ratings (a minimum long-term counterparty rating of BBB+ across all three rating agencies Fitch, Standard and Poor's, and Moody's applied); credit default swaps; GDP of the country in which the institution operates; the country's net debt as a percentage of GDP; any potential support mechanisms and share price.
- 4.6 In keeping with Government guidance on investments, the Council maintained a sufficient level of liquidity through the use of Money Market Funds (MMF), overnight deposits and deposit accounts, the average daily balance held being £9.53million.
- 4.7 A full list of investments (excluding deposit account or MMF transactions) made or maturing in the year is given at Appendix C. All investments were made with UK institutions, and no new deposits were made for periods in excess of one year. The first chart below gives an analysis of aggregate fixed term deposits by duration. The second chart shows how the total amount invested varied from day to day over the course of the year, from a low of £6.4m to a high of £31.1m. The movement largely reflects the cycle of grant, council tax and business rate receipts and precept payments made.





- 4.8 The income return generated from investments in the year was £0.107 million, above the total budget for investment income of £0.100 million. This position arose as a result of the requirement to re-profile major projects within the approved capital programme, ensuring an increase in the short-term availability of additional cash for investment.
- 4.9 The average rate of return from investments at the end of each quarter in 2019/20 is shown in the table below, along with comparative benchmark information, the 7-day LIBID rate.

Average rate of investments in:	Lewes District Council	7 day LIBID
Quarter 1 ending 30 June 2019	0.77%	0.57%
Quarter 2 ending 30 September 2019	0.66%	0.56%
Quarter 3 ending 31 December 2019	0.51%	0.57%
Quarter 4 ending 31 March 2020	0.48%	0.43%
Whole year 2019/20	0.61%	0.53%

## 5. Compliance with Prudential Indicators

- 5.1 The Council can confirm that it has complied with its Prudential Indicators for 2019/20. A detailed review of each of the Prudential Indicators is at Appendix A.

## 6. Investment Consultants

- 6.1 The Council appointed Arlingclose as its Treasury Adviser in 2012 following an open procurement. The agreement with Arlingclose was for an initial four-year term expiring on 30 June 2016, with the Council having the option to extend for a further year.

6.2 The Council exercised the option to extend the agreement to the end of June 2017 and following discussion with Arlingclose opted to maintain the appointment for a further year. A further treasury management adviser services for both Councils have been reviewed and the Link Market Services has been appointed to support both the Lewes District Council and Eastbourne Borough Council, given that a shared finance team (with treasury management responsibility) has been established.

## **7. Reporting and Training**

7.1 The Chief Finance Officer reported the details of treasury management activity to each regular meeting of the Audit and Standards Committee and Cabinet held in 2019/20. A mid-term summary report was issued in November 2019.

7.2 The training needs of the Council's treasury management staff were reviewed as part of the annual corporate staff appraisal/training needs assessment process for all Council employees. Members of staff attended, where appropriate, Arlingclose workshops alongside colleagues from other local authorities during 2019/20.

7.3 In 2019/20, Arlingclose met with Council officers with a role in treasury management both to explain developments within the sector, as well as review the Council's own investment and debt portfolios.

7.4 The Treasury Strategy had anticipated that Arlingclose would hold a local briefing session for all councillors tasked with treasury management responsibility, including scrutiny of the treasury management function. The TM briefing session took place in September 2019.

## Appendix A – Prudential Indicators 2019/20

### 1. Background:

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

### 2. Net Borrowing and the Capital Financing Requirement

- 2.1 This is a key indicator of prudence. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that the net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.
- 2.2 The Chief Finance Officer reports that the Council has had no difficulty meeting this requirement in 2019/20, nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the budget for 2020/21.

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

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

No.	Capital Expenditure	2019/20 Original £m	2019/20 Revised £m	2019/20 Actual £m
1a	Non-HRA	6.900	8.000	7.486
1b	HRA	5.000	7.000	6.711
	<b>Total</b>	<b>11.900</b>	<b>15.000</b>	<b>14.197</b>

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

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

No.	Ratio of Financing Costs to Net Revenue Stream	2019/20 Original %	2019/20 Revised %	2019/20 Actual %
2a	Non-HRA	1.68	2.00	1.55
2b	HRA	18.08	13.20	11.51

## 5. Capital Financing Requirement

- 5.1 The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and its financing. The amounts shown are as at 31 March.

No	Capital Financing Requirement	2019/20 Original £m	2019/20 Revised £m	2019/20 Actual £m
3a	Non-HRA	69.268	21.100	18.077
3b	HRA	67.719	66.000	67.347
	<b>Total CFR</b>	<b>136.987</b>	<b>87.100</b>	<b>85.424</b>

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

Capital Financing Requirement	2019/20 Original £m	2019/20 Revised £m	2019/20 Actual £m
<b>Balance B/F</b>	133.079	82.030	82.030
Capital expenditure financed from borrowing	4.200	5.382	3.686
Revenue provision for Debt Redemption.	(0.292)	(0.312)	(0.292)
<b>Balance C/F</b>	<b>136.987</b>	<b>87.100</b>	<b>85.424</b>

## 6. Actual External Debt

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

No.	Actual External Debt as at 31/03/20	Revised £m	Actual £m
4a	Borrowing	127.305	56.673
4b	Other Long-term Liabilities	0.392	0.144
<b>4c</b>	<b>Total</b>	<b>127.797</b>	<b>56.817</b>

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

This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and Housing Rent levels. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved Capital Programme with an equivalent calculation of the revenue budget requirement arising from the proposed Capital Programme.

No.	Incremental Impact of Capital Investment Decisions	2019/20 Original £	2019/20 Revised £	2019/20 Actual £
5a	Increase in Band D Council Tax	64.74	50.33	34.52
5b	Increase in Average Weekly Housing Rents	0.78	0.75	0.84

The increase in Band D council tax/average weekly rents reflects the funding of the capital programme: for example, new borrowing increases interest payable, and funding from reserves utilises resources which could have otherwise been used to fund revenue expenditure. The actual indicators are less than the revised as a result of significant capital projects being deferred from 2019/20 into 2020/21.

## 8. Authorised Limit and Operational Boundary for External Debt

- 8.1 The Council has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Council and not just those arising from capital spending reflected in the CFR.
- 8.2 The Authorised Limit sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities). This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases.
- 8.3 The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.
- 8.4 The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit). The 2019/20 Actual values shown below are the maximum levels of borrowing, including temporary borrowing, experienced at any time during the year.

No.	Authorised Limit for External Debt	2019/20 Original £m	2019/20 Revised £m	2019/20 Actual £m
6a	Borrowing	127.308	127.305	56.673
6b	Other Long-term Liabilities	0.392	0.392	0.144
<b>6c</b>	<b>Total</b>	<b>127.700</b>	<b>127.797</b>	<b>56.817</b>

- 8.5 The Operational Boundary links directly to the Council's estimates of the CFR and estimates of other cash flow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.



- 8.6 The Chief Finance Officer has delegated authority, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Any movement between these separate limits will be reported to the next meeting of the Cabinet. The 2019/20 Actual values shown below are the maximum levels of borrowing, including temporary borrowing, experienced at any time during the year.

No.	Operational Boundary for External Debt	2019/20 Original £m	2019/20 Revised £m	2019/20 Actual £m
7a	Borrowing	111.300	116.908	56.673
7b	Other Long-term Liabilities	0.392	0.392	0.144
7c	<b>Total</b>	<b>111.692</b>	<b>117.300</b>	<b>56.817</b>

## 9. Adoption of the CIPFA Treasury Management Code

This indicator demonstrates that the Council has adopted best practice.

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

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

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

No.		2019/20 Original £m	2019/20 Revised £m	2019/20 Actual £m
9	<b>Upper Limit for Fixed Interest Rate Exposure</b>	100.0	100.0	100.0
10	<b>Upper Limit for Variable Interest Rate Exposure</b>	(25)	(25.0)	(25.0)

- 10.3 The limits above provide the necessary flexibility within which decisions will be made for drawing down new loans on a fixed or variable rate basis; the decisions will ultimately be determined by expectations of anticipated interest rate movements as set out in the Council's Treasury Management Strategy.
- 10.4 Because the Council's investments are substantially in excess of its variable rate borrowing, the Upper Limit for Variable Interest Rate exposure is shown as a negative figure.

## 11. Maturity Structure of Fixed Rate borrowing

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

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

No.	Maturity structure of fixed rate borrowing	Lower Limit %	Upper Limit %	Actual %
11a	under 12 months	0	75	0
11b	12 months and within 24 months	0	75	0
11c	24 months and within 5 years	0	75	18
11d	5 years and within 10 years	0	100	18
11e	10 years and above	0	100	56

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

The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested. No investments of more than 364 days were made during 2019/20.

No.	Upper Limit for total principal sums invested over 364 days	2019/20 Original £m	2019/20 Revised £m	2019/20 Actual £m
12	Upper limit	2	2	2

## 13. HRA Limit on Indebtedness

The indicator is associated with self-financing for housing. It indicates the residual capacity to borrow for housing purposes, while remaining within the overall HRA 'Debt Cap' specified by the Government. The Government removed the 'debt cap' during 2019/20. The Council has retained the indicator 2019/20 for reporting to show the position if the 'debt cap' had remained in place.

No	Capital Financing Requirement	2019/20 Original £m	2019/20 Revised £m	2019/20 Actual £m
13a	HRA CFR	67.719	66.000	67.347
13b	HRA Debt Cap	75.248	75.248	75.248
	<b>Difference</b>	<b>7.529</b>	<b>9.248</b>	<b>7.901</b>

## Appendix B – Economic Background explained by Arlingclose

*Economic background:* The UK's exit from the European Union and future trading arrangements, had remained one of major influences on the UK economy and sentiment during 2019/20. The 29th March 2019 Brexit deadline was extended to 12th April, then to 31st October and finally to 31st January 2020. Politics played a major role in financial markets over the period as the UK's tenuous progress negotiating its exit from the European Union together with its future trading arrangements drove volatility, particularly in foreign exchange markets. The outcome of December's General Election removed a lot of the uncertainty and looked set to provide a 'bounce' to confidence and activity.

The headline rate of UK Consumer Price Inflation UK Consumer Price Inflation fell to 1.7% y/y in February, below the Bank of England's target of 2%. Labour market data remained positive. The ILO unemployment rate was 3.9% in the three months to January 2020 while the employment rate hit a record high of 76.5%. The average annual growth rate for pay excluding bonuses was 3.1% in January 2020 and the same when bonuses were included, providing some evidence that a shortage of labour had been supporting wages.

GDP growth in Q4 2019 was reported as flat by the Office for National Statistics and service sector growth slowed and production and construction activity contracted on the back of what at the time were concerns over the impact of global trade tensions on economic activity. The annual rate of GDP growth remained below-trend at 1.1%. Then coronavirus swiftly changed everything. COVID-19, which had first appeared in China in December 2019, started spreading across the globe causing plummeting sentiment and falls in financial markets not seen since the Global Financial Crisis as part of a flight to quality into sovereign debt and other perceived 'safe' assets.

In response to the spread of the virus and sharp increase in those infected, the government enforced lockdowns, central banks and governments around the world cut interest rates and introduced massive stimulus packages in an attempt to reduce some of the negative economic impact to domestic and global growth.

The Bank of England, which had held policy rates steady at 0.75% through most of 2019/20, moved in March to cut rates to 0.25% from 0.75% and then swiftly thereafter brought them down further to the record low of 0.1%. In conjunction with these cuts, the UK government introduced a number of measures to help businesses and households impacted by a series of ever-tightening social restrictions, culminating in pretty much the entire lockdown of the UK.

The US economy grew at an annualised rate of 2.1% in Q4 2019. After escalating trade wars and a protracted standoff, the signing of Phase 1 of the trade agreement between the US and China in January was initially positive for both economies, but COVID-19 severely impacted sentiment and production in both countries. Against a slowing economic outlook, the US Federal Reserve began cutting rates in August. Following a series of five cuts, the largest of which were in March 2020, the Fed Funds rate fell from of 2.5% to range of 0% - 0.25%. The US government also unleashed a raft of COVID-19 related measures and support for its economy including a \$2 trillion fiscal stimulus package. With interest rates already on (or below) the floor, the European Central Bank held its base rate at 0% and deposit rate at -0.5%.

Financial markets: Financial markets sold off sharply as the impact from the coronavirus worsened. After starting positively in 2020, the FTSE 100 fell over 30% at its worst point with stock markets in other countries seeing similar huge falls. In March sterling touch its lowest level against the dollar since 1985. The measures implemented by central banks and governments helped restore some confidence and financial markets have rebounded in recent weeks but remain extremely volatile. The flight to quality caused gilts yields to fall substantially. The 5-year benchmark fell from 0.75% in April 2019, to 0.26% on 31st March. The 10-year benchmark yield fell from 1% to 0.4%, the 20-year benchmark yield from 1.47% to 0.76% over the same period. 1-month, 3-month and 12-month bid rates averaged 0.61%, 0.72% and 0.88% respectively over the period.

Since the start of the calendar 2020, the yield on 2-year US treasuries had fallen from 1.573% to 0.20% and from 1.877% to 0.61% for 10-year treasuries. German bund yields remain negative.

Credit review: In Q4 2019 Fitch affirmed the UK's AA sovereign rating, removed it from Rating Watch Negative (RWN) and assigned a negative outlook. Fitch then affirmed UK banks' long-term ratings, removed the RWN and assigned a stable outlook. Standard & Poor's also affirmed the UK sovereign AA rating and revised the outlook to stable from negative. The Bank of England announced its latest stress tests results for the main seven UK banking groups. All seven passed on both a common equity Tier 1 (CET1) ratio and a leverage ratio basis. Under the test scenario the banks' aggregate level of CET1 capital would remain twice their level before the 2008 financial crisis.

After remaining flat in January and February and between a range of 30-55bps, Credit Default Swap spreads rose sharply in March as the potential impact of the coronavirus on bank balance sheets gave cause for concern. Spreads declined in late March and through to mid-April but remain above their initial 2020 levels. NatWest Markets Plc (non-ring-fenced) remains the highest at 128bps and National Westminster Bank Plc (ring-fenced) still the lowest at 56bps. The other main UK banks are between 65bps and 123bps, with the latter being the thinly traded and volatile Santander UK CDS.

While the UK and Non-UK banks on the Arlingclose counterparty list remain in a strong and well-capitalised position, the duration advice on all these banks was cut to 35 days in mid-March.

Fitch downgraded the UK sovereign rating to AA- in March which was followed by a number of actions on UK and Non-UK banks. This included revising the outlook on all banks on the counterparty list to negative, with the exception of Barclays Bank, Rabobank, Handelsbanken and Nordea Bank which were placed on Rating Watch Negative, as well as cutting Close Brothers long-term rating to A-. Having revised their outlooks to negative, Fitch upgraded the long-term ratings on Canadian and German banks but downgraded the long-term ratings for Australian banks. HSBC Bank and HSBC UK Bank, however, had their long-term ratings increased by Fitch to AA-.

### Appendix C – List of Investments made and/or maturing in 2019/20

Counterparty	Principal £	From / To		Interest/Return £
<b>Term Deposits</b>				
Thurrock Borough Council	2,500,000	2 Oct 18	2 Apr 19	11,219.18
Thurrock Borough Council	3,000,000	14 Nov 18	14 May 19	13,389.04
Debt Management Office	4,000,000	2 Apr 19	11 Apr 19	493.15
Debt Management Office	5,000,000	1 May 19	13 May 19	821.92
Debt Management Office	3,000,000	13 May 19	22 May 19	369.86
Thurrock Borough Council	3,000,000	14 Jun 19	16 Mar 20	19,962.74
Derbyshire County Council	3,000,000	14 May 19	14 Jun 19	1,452.33
Debt Management Office	8,500,000	1 Jul 19	8 Jul 19	815.07
Debt Management Office	7,500,000	8 Jul 19	22 Jul 19	1,438.36
Debt Management Office	1,800,000	17 Jul 19	25 Jul 19	197.26
Debt Management Office	5,800,000	22 Jul 19	1 Aug 19	794.52
Debt Management Office	7,000,000	1 Aug 19	5 Aug 19	383.56
Debt Management Office	1,000,000	1 Aug 19	9 Aug 19	109.59
Debt Management Office	5,000,000	1 Aug 19	19 Aug 19	1,232.88
Debt Management Office	5,000,000	19 Aug 19	11 Sep 19	1,575.34
Debt Management Office	3,000,000	13 Sep 19	18 Sep 19	205.48
Debt Management Office	5,000,000	5 Jun 19	28 Jun 19	1,606.85
Debt Management Office	6,000,000	1 Oct 19	17 Oct 19	1,328.22
Stockport Metropolitan Borough Council	5,000,000	3 Dec 19	3 Feb 20	5,775.34
Cheltenham Borough Council	3,000,000	12 Dec 19	12 Feb 20	3,567.12
Thurrock Borough Council	6,000,000	23 Jan 20	24 Feb 20	3,945.21
Thurrock Borough Council	3,000,000	25 Feb 20	25 Mar 20	2,264.38
West Berkshire Council	3,000,000	25 Feb 20	10 Mar 20	1,150.68

## Glossary of Terms

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

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

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## The 2020/21 Treasury Management Activity for the period - 1 April 2020 to 31 August 2020

### 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 2020/21 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
6 July 2020	1 March to 30 June 2020 ( <i>meeting cancelled</i> )
14 September 2020	1 April to 31 August 2020 ( <i>revised reporting period</i> )
16 November 2020	1 September to 31 October 2020
18 January 2021	1 November to 31 December 2020
8 March 2021	1 January to 28 February 2021

### 2.2 Fixed Term Deposits pending maturity

The following table shows the fixed term deposits held between **1 April to 31 August 2020** and identifies the long-term credit rating of counterparties at the date of investment. It is important to note that credit ratings are only one of the criteria that are taken into account when determining whether a potential counterparty is suitable. All of the deposits met the necessary criteria 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
248620	Merthyr Tidfil	25 Aug 20	25 Sep 20	31	5,000,000	0.08	*

\*UK Government body and therefore not subject to credit rating

## 2.3 Fixed Term Deposits which have matured in the reporting period

The table below shows the fixed term deposits which have matured since **1 April 2020**, in maturity date order. It is important to note that the table includes sums reinvested and that in total the Council's investments have not increased by £489m over this period.

Ref	Counterparty	Date From	Date To	Days	Principal £	Int. Rate %	Long-term rating
245220	Debt Management Office	01 Apr 20	02 Apr 20	1	25,884,000	0.06	*
245320	Debt Management Office	02 Apr 20	09 Apr 20	7	25,884,000	0.10	*
245420	Debt Management Office	09 Apr 20	14 Apr 20	5	25,884,000	0.06	*
245520	Debt Management Office	14 Apr 20	15 Apr 20	1	25,884,000	0.06	*
245620	Debt Management Office	16 Apr 20	17 Apr 20	1	25,000,000	0.04	*
245720	Debt Management Office	17 Apr 20	20 Apr 20	3	20,000,000	0.04	*
245820	Debt Management Office	20 Apr 20	21 Apr 20	1	17,000,000	0.04	*
245920	Debt Management Office	21 Apr 20	22 Apr 20	1	16,000,000	0.04	*
246020	Debt Management Office	22 Apr 20	23 Apr 20	1	15,000,000	0.04	*
246120	Debt Management Office	23 Apr 20	24 Apr 20	1	14,000,000	0.04	*
246220	Debt Management Office	24 Apr 20	27 Apr 20	3	12,000,000	0.04	*
246320	Debt Management Office	27 Apr 20	28 Apr 20	1	12,000,000	0.04	*
246420	Debt Management Office	28 Apr 20	29 Apr 20	1	11,500,000	0.04	*
246520	Debt Management Office	29 Apr 20	30 Apr 20	1	10,500,000	0.04	*
246620	Debt Management Office	30 Apr 20	01 May 20	1	11,500,000	0.04	*
246720	Debt Management Office	01 May 20	04 May 20	3	17,000,000	0.04	*
246820	Debt Management Office	04 May 20	05 May 20	1	16,700,000	0.04	*
246920	Debt Management Office	05 May 20	12 May 20	7	14,000,000	0.04	*
247020	Debt Management Office	12 May 20	19 May 20	7	15,000,000	0.04	*
247120	Debt Management Office	19 May 20	20 May 20	1	16,000,000	0.04	*
247220	Debt Management Office	20 May 20	21 May 20	1	15,000,000	0.04	*
247320	Debt Management Office	21 May 20	28 May 20	7	10,000,000	0.04	*
247420	Debt Management Office	28 May 20	02 Jun 20	5	10,000,000	0.02	*
247520	Debt Management Office	02 Jun 20	02 Jun 20	1	8,000,000	0.04	*
247620	Debt Management Office	02 Jun 20	16 Jun 20	14	14,000,000	0.02	*
247720	Debt Management Office	15 Jun 20	16 Jun 20	1	5,000,000	0.02	*
247820	Debt Management Office	16 Jun 20	17 Jun 20	1	18,000,000	0.01	*
247920	Debt Management Office	17 Jun 20	18 Jun 20	1	18,000,000	0.01	*
248020	Debt Management Office	18 Jun 20	25 Jun 20	7	15,000,000	0.01	*
248120	Merthyr Tidfil	25 Jun 20	25 Aug 20	61	5,000,000	0.17	*
248220	Debt Management Office	25 Jun 20	29 Jun 20	4	9,500,000	0.01	*
248320	Debt Management Office	02 Jul 20	09 Jul 20	7	5,000,000	0.01	*
248420	Debt Management Office	09 Jul 20	16 Jul 20	7	5,500,000	0.01	*
248520	Debt Management Office	15 Jul 20	29 Jul 20	14	4,000,000	0.01	*
<b>Total</b>					<u>488,736,000</u>		

\*UK Government body and therefore not subject to credit rating

At no stage did the total amount held by any counterparty exceed the approved limit set out in the Investment Strategy. The average rate of interest earned on deposits held in the period 1 April to 31 August 2020 was 0.08%, below the average bank base rate for the period of 0.10%.

## 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 £3.692m generating interest of approximately £3k.

	Balance at 31 Aug '20 £'000	Average balance £'000	Current interest rate %
Santander Business Reserve Account	£5,000	£3,780	0.12
Lloyds Bank Corporate Account	£2,422	£5,692	0.00
Lloyds Bank Call Account	£3,500	£1,603	0.05

## 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 £10m in each fund, and at no time was this limit exceeded.

	Balance at 31 Aug '20 £'000	Average balance £'000	Average return %
Goldman Sachs Sterling Liquid Reserves Fund	£1,000	1,000	0.25
Deutsche Managed Sterling Fund	£6,000	2,864	0.34

## 2.6 Treasury Bills (T-Bills)

There were no Treasury Bills held at 31 August 2020, and there was no activity in the period.

## 2.7 Secured Investments

There were no Secured Investments at 31 August 2020.

## 2.8 Tradeable Investments

There were no Tradeable Investments at 31 August 2020, and there was no activity in the period.

## 3. Overall investment position

The chart below summarises the Council's investment position over the period 1 April to 31 August 2020. It shows the total sums invested each day as Fixed Term deposits, Treasury Bills, amounts held in Deposit accounts, Money Market Funds and Tradeable Investments.

#### **4. Borrowing**
















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

Exceptions: 1 April 2020 to 31 August 2020 – excess funds of between £1m and £28m. The Council's long term borrowing in the reporting period is £56.673m.

## 5. Compliance with Treasury and Prudential Limits

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.

As at 31 August 2020, the Council has operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices.

Treasury Prudential Indicators	2020/21 Estimate Indicator	31 August Actual Indicator	RAG Status/Reason
Authorised limit for external debt (CS 4.2.3)	£132.0	£132.0	
Operational boundary for external debt (CS 4.2.3)	£122.0	£122.0	
Gross external debt (CS 4.2.2)	£88.9	£88.9	
Capital Financing Requirement (CS 2.3.4)	£113.9	£113.9	
Debt vs CFR under/(over) borrowing	£25.0	£25.0	
Investments			
Investment returns expectations	0.7	0.8	
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)	£44.6	TBC	
<i>Ratio of financing costs to net revenue stream (CS 8.1.1):</i>			
Proportion of Financing Costs to Net Revenue Stream (General Fund)	17.2%	17.2%	
Proportion of Financing Costs to Net Revenue Stream (HRA)	10.3%	10.3%	

Key: CS – 2020/21 Capital Strategy Appendix 1

## 6. Economic Background

**Economic growth** 2020 started with optimistic business surveys pointing to an upswing in growth after the ending of political uncertainty as a result of the decisive result of the general election in December settled the Brexit issue. However, the three monthly GDP statistics in January were disappointing, being stuck at 0.0% growth. Since then, the whole world has changed as a result of the coronavirus outbreak. The overall growth rate in quarter 1 was -2.2%, -1.7% y/y. However, the main fall in growth did not occur until April when it came in at -24.5% y/y after the closedown of whole sections of the economy. What is uncertain, however, is the extent of the damage that will have been done to businesses by the end of the lockdown period, how consumer confidence and behaviour may be impacted afterwards, whether there could be a second wave of the outbreak, how soon a vaccine will be created and then how quickly it can be administered to the population. This leaves huge uncertainties as to how quickly the economy will recover to what was formerly regarded as normality. However, some changes during lockdown are likely to be long lasting e.g. a shift to online purchasing, working from home, etc. The lockdown has also had a sharp effect in depressing expenditure by consumers which means their level of savings have increased and debt has fallen. This could provide fuel for a potential surge in consumer expenditure once some degree of normality returns.

Although the UK left the EU on 31 January 2020, we still have much uncertainty as to whether there will be a reasonable trade deal achieved by the end of 2020. At the end of June, the UK government rejected extending the transition period beyond 31 December 2020. This has increased the chances of a no-deal **Brexit**. However, the most likely outcome is expected to be a slim deal on trade in order to minimise as much disruption as possible. However, uncertainty is likely to prevail until the deadline date which will act as a drag on recovery.

After the Monetary Policy Committee left **Bank Rate** unchanged at 0.75% in January 2020, the onset of the coronavirus epidemic in March forced it into making two emergency cuts in Bank Rate first to 0.25% and then to 0.10%. These cuts were accompanied by an increase in **quantitative easing (QE)**, essentially the purchases of gilts (mainly) by the Bank of England of £200bn. In June, the MPC decided to add a further £100bn of QE purchases of gilts, but to be implemented over an extended period to the end of the year. The total stock of QE purchases will then amount to £745bn. It is not currently thought likely that the MPC would go as far as to cut Bank Rate into negative territory, although the Governor of the Bank of England has said all policy measures will be considered. The Governor also recently commented about an eventual tightening in monetary policy – namely that he favours unwinding QE before raising interest rates. Some forecasters think this could be as far away as five years.

The Government and the Bank were also very concerned to **stop people losing their jobs** during this lockdown period. Accordingly, the Government introduced various schemes to subsidise both employed and self-employed jobs for three months to the end of June while the country is locked down. It also put in place a raft of other measures to help businesses access loans from their banks, (with the

Government providing guarantees to the banks against losses), to tide them over the lockdown period when some firms may have little or no income. However, at the time of writing, this leaves open a question as to whether some firms will be solvent, even if they take out such loans, and some may also choose to close as there is, and will be, insufficient demand for their services. The furlough scheme was subsequently extended for another three months to October, but with employers having to take on graduated increases in paying for employees during that period. The Bank of England expects the unemployment rate to double to 8%.

The Government measures to support jobs and businesses will result in a huge increase in the annual budget deficit for the current year, from about 2% to nearly 17%. **The ratio of debt to GDP is also likely to increase from 80% to around 105%.** In the Budget in March, the Government also announced a large increase in spending on infrastructure; this will also help the economy to recover once the lockdown is ended. Economic statistics during June were giving a preliminary indication that the economy was recovering faster than previously expected. However, it may be a considerable time before economic activity recovers fully to its previous level.

**Inflation.** The annual inflation rate dropped to 0.5% in May from 0.8% in April and could reach zero by the end of the year. Inflation rising over 2% is unlikely to be an issue for the MPC over the next two years as the world economy will be heading into a recession; this has caused a glut in the supply of oil which initially fell sharply in price, although the price has recovered somewhat more recently. Other UK domestic prices will also be under downward pressure; wage inflation was already on a downward path over the last half year and is likely to continue that trend in the current environment where unemployment will be rising significantly. In May's Monetary Policy Report, the Bank of England predicted that inflation would hit their 2% target by 2022. This was in the context of its forecast that GDP would rise by 3% in 2022 after a recovery during 2021. While inflation could even turn negative in the Eurozone, this is currently not likely in the UK.

**EUROZONE.** The Eurozone economy shrank by 3.6% on quarter in the first three months of 2020. So far, the ECB has been by far the most important institution in helping to contain the impact of coronavirus and the crisis on financial markets. Since 12<sup>th</sup> March, it has implemented a range of new policies including providing additional cheap loans for commercial banks and easing capital requirements for the banking sector. But most importantly, the ECB has stepped up and reformed its asset purchase programmes. So far, it has increased its planned asset purchases for this year by €1,470bn on top of the €20bn per month which it was already committed to. The new purchases consist of an additional €120bn within the existing Public Sector Purchase Programme (PSPP), and €1,350bn in the Pandemic Emergency Purchase Programme (PEPP). At its 4 June monetary policy meeting, the ECB Governing Council also committed to continue net asset purchases under the PEPP until at least the end of June 2021 and to continue to reinvest maturing principal payments under the PEPP until at least end-2022. It has also made clear that it would not hesitate to top up PEPP as much as needed to contain the risk of a crisis.

**WORLD GROWTH.** The trade war between the US and China on tariffs was a major concern to financial markets and was depressing worldwide growth during 2019. This year, coronavirus is the inevitable big issue which is going to sweep around most countries in the world and have a major impact in causing a world recession in growth in 2020.

**7. Financial Implications**

All relevant implications are referred to in the above paragraphs.

**8. Risk Management Implications**

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

**9. Equality Screening**

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

**10. Legal Implications**

**Background Papers**

LDC Treasury Management and Prudential Indicators 2020/21, Capital Strategy & Investment Strategy.



<b>Report to</b>	<b>Audit and Standards Committee</b>
<b>Date:</b>	<b>14th September 2020</b>
<b>Title:</b>	<b>Internal Audit Report for the financial year 2019-2020</b>
<b>Report Of:</b>	<b>Chief Internal Auditor</b>
<b>Ward(s):</b>	<b>All</b>
<b>Purpose of report:</b>	<b>To provide a summary of the activities of Internal Audit and Counter Fraud for the year 1<sup>st</sup> April 2019 to 31<sup>st</sup> March 2020.</b>
<b>Officer recommendation(s):</b>	<b>That the information in this report be noted and members identify any further information requirements.</b>
<b>Reasons for recommendations:</b>	<b>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.</b>
<b>Contact:</b>	<b>Jackie Humphrey, Chief Internal Auditor, Telephone 01323 415925 or internally on extension 5925. E-mail address <a href="mailto:jackie.humphrey@lewes-eastbourne.gov.uk">jackie.humphrey@lewes-eastbourne.gov.uk</a></b>

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## **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. The annual audit plan for 2018/19 was agreed by the Audit and Standards Committee in March 2019.
- 1.2 The quarterly reports also summarise the work of the Counter Fraud team and the savings identified in the quarter.
- 1.3 This report summarises the work carried out by Internal Audit and Counter Fraud across the financial year 2019-20 and includes the Chief Internal Auditor's opinion on the control environment which is based on the outcomes of this work.

## **2.0 Review of work carried out by Internal Audit in the financial year 2019-2020.**

- 2.1 A list of all the audit reports issued in final from 1<sup>st</sup> April 2019 to 31<sup>st</sup> March 2020 is as follows:

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

#### Levels of Assurance - Key

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.

- 2.2 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.
- 2.3 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.
- 2.4 The work of carrying out the 18/19 annual audits was hindered by training two new members of staff. However, all reviews had been completed by November. From

January 2020 work began on the annual audits for 19/20 and these should be completed in a more timely manner.

- 2.5 The scope of the annual audits for 19/20 has also been reviewed as they have not changed for some years. It is important that the working programmes for each audit are up to date and relevant to the work being audited as well as ensuring that controls are in place and working correctly.
- 2.6 Work is still ongoing on the project to review the work that feeds into the Housing Subsidy claim. The aim is to improve the work at the point of input so that fewer errors are made which will enable the subsidy claim to be completed in a more timely manner.
- 2.7 During the financial year one member of staff had an absence of 10 weeks and another member of staff transferred to the Finance section at the beginning of December. This vacancy was not filled at the time as it coincided with the absence of another member of staff and when work was being carried out on the annual reviews for 19/20 so it was not possible to provide training. The recruitment process began in March but was put on hold before interviewing took place as the Covid-19 lockdown was put in place.
- 2.8 The Covid-19 lockdown came into effect at the end of March 2020 and so had little effect on the work carried out in 19/20. Further information on how this has affected the work of the section will be given when the work carried out in 20/21 is reported to the next meeting of the committee.
- 2.8 The table below shows the work carried out by the Internal Audit team by percentage across the main areas services. The style of reporting of our work has changed so that it now reflects that the team is flexible and the work changeable and more responsive to requests for work which are made throughout the year.

Area	% of days on audits	% of days on advice/consultancy etc	% of total audit time
<b>Annual audits</b>	49.70	0	47.62
<b>Claims</b>	28.48	0	27.29
<b>Corporate Services</b>	11.22	65.3	13.05
<b>Regeneration and Planning</b>	6.05	1.05	6.33
<b>Service Delivery</b>	4.02	18.28	4.79
<b>Tourism and Enterprise</b>	0.53	9.65	0.92
<b>TOTAL</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>% of total audit time</b>	<b>95.86</b>	<b>4.14</b>	<b>100</b>

### 3.0 Counter Fraud

- 3.1. The team continue to target the high value and risk areas of tenancy housing while also undertaking other exercises as detailed further below, the team generated a net saving of £1.2 million to the authority for the year and net income generation of £61k.

- 3.2 Following an investigation carried out by the team, and legal proceedings which took around 18 months, the first Right to Buy prosecution, which was taken to Crown Court, resulted in a 20 month sentence (suspended for 18 months) for fraud by false representation. This case has generated widespread publicity across local press and within the housing industry and is testament to expertise, hard work and dedication of the team. Articles were published in the Sussex Express, the Argus and on the website [insidehousing.co.uk](http://insidehousing.co.uk).
- 3.3 Right To Buy applications have remained relatively consistent within the year, but of a lower number than previous years. 15 cases have been verified with 12 applications withdrawn, providing a net saving of £998,100.00 to the authority. A total of 28 other former and current Right To Buy cases are being monitored for potential social housing fraud. One other case is currently with legal for consideration of criminal prosecution, however Covid-19 restrictions have put legal activity back an uncertain period of time.
- 3.4 Due to the significant work involved in bringing the Right To Buy case to Crown Court, 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, two separate civil cases have resulted in the award of possession of the properties which has provided a net saving to the authority to the value of £186,000.00. Two other cases are currently pending possession action through legal proceedings and 15 are ongoing sublet/abandonment investigations.
- 3.5 A joint working campaign was started with Homes First and Business Planning and Performance develop a series of publicity articles via community posters, social media and local press to raise the awareness of social fraud with the public. A fraud awareness poster has been designed and circulated throughout council noticeboards across Lewes and Eastbourne in early January 2020. Further awareness events including tenant forums and circulating publicity within quarterly rent statements to all tenants was planned but has since been put back due to Covid-19.
- 3.6 Another joint working project has begun to include the Counter Fraud team within the tenancy successions process to verify any applications received. As part of the team's involvement, Homes First will now arrange for an application form to be completed to help prevent a false or fraudulent claim. Two cases have so far been passed to the team to check.
- 3.7 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.
- 3.8 Lewes District Council has been included in a test trial of Datatank smart referrals as part of the authorities Single Person Discount review. Depending on the success of this trial, East Sussex County Council may consider funding a wider exercise across the rest of the county. So far the sample base of eight cases has resulted in a small increase in revenue. A total of 15 cases have been reviewed with a net income increase of £2685 and a preventative

saving of £185.16 until the end of the financial year. It is planned undertake a review of the existing Council Tax Exemptions and Disregards where reviews have not been completed for some time.

- 3.9 Due to other commitments the team have not been able to undertake a great deal of work in respect of Business Rates with only two cases investigated. However, with the Government funding to support businesses through Covid-19 it is expected the team will support colleagues within the Business Rates team to verify and investigate high risk applications.
- 3.10 The team have worked closely with the Department for Work and Pensions (DWP) and our colleagues in the benefit section, unfortunately due to resource restrictions and training needs the DWP have been unable to complete the same volume of cases as in previous years. However, the Counter Fraud team have still closed of 78 cases with a net income of £44k generated and a weekly incorrect benefit (WIB) preventative saving of £20k. Joint working with the Case Management team has also increased the volume of referrals; there are around 100 outstanding cases with the DWP to consider.
- 3.11 Work on the National Fraud Initiative has largely been completed for the 2018/19 extract using a test sample of 10% of cases. This approach is in response to the limited results found in previous activities. 834 cases have been cleared so far with 10 awaiting further investigation, no additional financial savings beyond the £14k found in the first quarter have been found so far.
- 3.12 The team take an active role in supporting colleagues in other organisations to prevent fraud and tackle criminal activity. In this period the team has dealt with 22 Data Protection Act requests from the Police and other authorities. There have also been 16 gas safety checks completed for Homes First during the final quarter.
- 3.13 Appendix B shows the savings identified by the Counter Fraud team during the financial year.

#### **4.0 Managing the Risk of Fraud and Corruption**

- 4.1. 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
- 4.2. 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.

## **5.0 Annual Governance Statement and Opinion of the Chief Internal Auditor**

- 5.1 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.
- 5.2 Owing to training new auditors to carry out annual audits and with one auditor leaving the team in December, the breadth of audit coverage was limited and the full audit plan was not completed.
- 5.3 During the year it was noted over several audits that documents/data are not being deleted/stored in accordance with the Retention and Disposal Schedule. In carrying out the Housing Rents annual review it was noted that there were issues in obtaining reports from the Housing software. Both of these issues are addressed in the Annual Governance Statement and the covering report.
- 5.4 Considering the findings, and caveated by 5.2 and 5.3 above, it is the opinion of the Internal Chief Internal Auditor that internal controls in processes and IT systems, which were audited, across the authority were found to be generally sound.
- 5.5 This opinion feeds into the Annual Governance Statement which will be reported to the next meeting of this committee.

## **6.0 Conforming with the Public Sector Internal Audit Standards**

- 6.1 The Public Sector Internal Audit Standards came into effect from 1<sup>st</sup> April 2013 and the work of the Internal Audit section is assessed for compliance against these standards annually.
- 6.2 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.
- 6.3 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.
- 6.4 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.
- 6.5 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 2018. The results of this review were

fully reported to the Audit and Standards Committee at the September 18 meeting. The report from the reviewers stated that the audit function at Lewes generally conforms to the standards set out in the PSIAS.

- 6.6. The Internal Audit team has maintained its independence throughout 2019/20 in accordance with the Audit Charter.

## **7.0 Financial appraisal**

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

## **8.0 Legal implications**

- 8.1 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 06.08.20*

*Legal ref: 009414-LDC-OD*

## **9.0 Risk management implications**

- 9.1 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.

## **10.0 Equality analysis**

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

## **11.0 Appendices**

Appendix A – Reports issued with assurance levels below “Substantial”  
Appendix B – Counter Fraud work and savings

## **12.0 Background papers**

Audit reports issued throughout the year.  
Self-assessment against Public Sector Internal Audit Standards

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**APPENDIX A**

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

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

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

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

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

<b>AUDIT REVIEW</b>	<b>ASSURANCE LEVEL</b>	<b>ISSUES NOTED</b>	<b>Level at follow up</b>
Main Accounting (18/19)	Partial	<ul style="list-style-type: none"> <li>• Journals over £100k had not been checked and authorised by a second officer.</li> <li>• Monthly trial balances were not carried out.</li> <li>• Evidence for investigating variances is not sufficiently documented.</li> </ul>	19-20 review will act as the follow up
Internet/Telephone Payments	Partial	<ul style="list-style-type: none"> <li>• Lewes District Council is not PCIDSS compliant.</li> <li>• Some staff taking phone payments had their mobile phones on the desk.</li> <li>• The web pages for making payments is not clear enough about which authority the payment is being made to.</li> <li>• Documents are being retained beyond the timescale laid down in the Retention and Disposal Schedule.</li> </ul>	Was due in April – delayed owing to Covid-19

## LEWES COUNTER FRAUD SAVINGS

	QUARTER ONE		QUARTER TWO		QUARTER THREE		QUARTER FOUR		YEAR TOTAL	
	Income	Savings	Income	Savings	Income	Savings	Income	Savings	Income	Savings
<b>Tenancy Housing</b>										
Recovery of council properties		£93,000.00				£93,000.00			£0.00	£186,000.00
RTB value saved through intervention		£248,400.00		£82,800.00		£82,800.00		£584,100.00	£0.00	£998,100.00
Housing intervention/fraud									£0.00	£0.00
<b>Revenues</b>										
NNDR									£0.00	£0.00
Council Tax			£720.84		£564.49		£1,399.70		£2,685.03	£0.00
Value of ongoing CT increase per week					£136.71		£48.35		£185.06	£0.00
Council Tax Penalties									£0.00	£0.00
<b>CTR &amp; Housing Benefit</b>										
SPOC Cases									£0.00	£0.00
Council Tax Reduction									£0.00	£0.00
CTR weekly incorrect benefit (WIB)									£0.00	£0.00
Housing Benefit	£11,674.77				£1,932.67		£30,040.71		£43,648.15	£0.00
HB weekly incorrect benefit (WIB)						£4,802.24		£15,668.48	£0.00	£20,470.72
Income from Adpen collection									£0.00	£0.00
<b>NFI</b>										
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
<b>OTHER INVESTIGATIONS</b>										
Procurement									£0.00	£0.00
Internal									£0.00	£0.00
DPA									£0.00	£0.00
Income from court costs									£0.00	£0.00
<b>TOTALS</b>	<b>£26,135.46</b>	<b>£341,400.00</b>	<b>£720.84</b>	<b>£82,800.00</b>	<b>2,633.87</b>	<b>180,602.24</b>	<b>31,488.76</b>	<b>599,768.48</b>	<b>£60,978.93</b>	<b>£1,204,570.72</b>

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<b>Report to:</b>	<b>Audit and Standards Committee</b>
<b>Date:</b>	<b>14<sup>th</sup> September 2020</b>
<b>Title:</b>	<b>Annual Governance Statement</b>
<b>Report of:</b>	<b>Chief Internal Auditor</b>
<b>Ward(s):</b>	<b>All</b>
<b>Purpose of report:</b>	<b>To seek Councillors' approval of the Annual Governance Statement.</b>
<b>Officer recommendation(s):</b>	<b>To comment on and approve the draft Annual Governance Statement</b>
<b>Reasons for recommendations:</b>	<b>To meet the Council's legal requirement to produce an Annual Governance Statement.</b>
<b>Contact Officer(s):</b>	<b>Name: Jackie Humphrey Post title: Chief Internal Auditor E-mail: Jackie.humphrey@lewes-eastbourne.gov.uk Telephone number: 01323 415925</b>

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## **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 areas covered by 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.

## **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 2019-2020 review**

4.1 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, Assistant Directors and Heads of Service. Once completed their contents are used to inform the governance statement.

4.2 Document retention was also raised in several statements. The work of Internal Audit throughout the year also noted issues with retention of documents. Corporate Management Team considered this and acknowledged that there is an issue both in the culture of the authority and a more technical issue of how to destroy old records. However a project group has been set up to look at document retention and disposal and through this project the council is addressing the issue of document retention in the following areas:

- Documents saved in personal/team folders.
- Documents saved in IT systems (eg. Cx housing management system).
- Documents saved in emails.
- Physical, paper documents stored in council buildings.

The project is one that has been able to progress during the Covid-19 pandemic and the project team will be presenting an update to the project board in August 2020. The cultural/ways of working aspect to document retention is being considered by the project and proposals for how this can be managed will also be considered by the project board. It was therefore agreed that this does not currently constitute a significant issue and should just be noted in the body of the Annual Governance Statement.

4.3 Concerns over the demand on Finance outweighing the capacity of the team were also raised, with some Heads of Service feeling that there was no clear, direct access to an Accountant. This was discussed by the Corporate Management Team and it was agreed that this was an issue but that it was not considered to be a significant governance issue and therefore should just be mentioned in the body of the Annual Governance Statement.

4.4 Last year issues around the new housing software were raised by several respondents and it was agreed that this did constitute a significant governance issue and was reported as such. During the financial year much work has been undertaken to improve the system and the relationship with the provider. A new contract has been agreed and with this an improvement plan put in place that

runs until September. However the Corporate Management Team agreed that until all the issues have been addressed this should remain as a significant governance issue and it is shown in the Annual Governance Statement as such.

- 4.5 Finally, both CIPFA and Deloitte are expecting mention of the impact of the response to the Covid-19 pandemic to be mentioned in the Annual Governance Statement. As lockdown only came into effect in the last week of March the impacts were not felt in that financial year. However, a section has been added to note the councils' response to the pandemic and to flag up the main financial risk due to the depleted income and acknowledgement that government is unlikely to reimburse the councils for the full cost of the response. This will be developed in more detail in the Annual Governance Statement for 2020-21.

## **5. Managing the Risk of Fraud and Corruption**

- 5.1 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.

## **6 Financial appraisal**

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

## **7 Legal implications**

- 7.1 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 20.08.20*

*Legal ref: 009419-EBC-OD*



## **8 Risk management implications**

- 8.1 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.

## **9 Equality analysis**

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

## **10 Appendices**

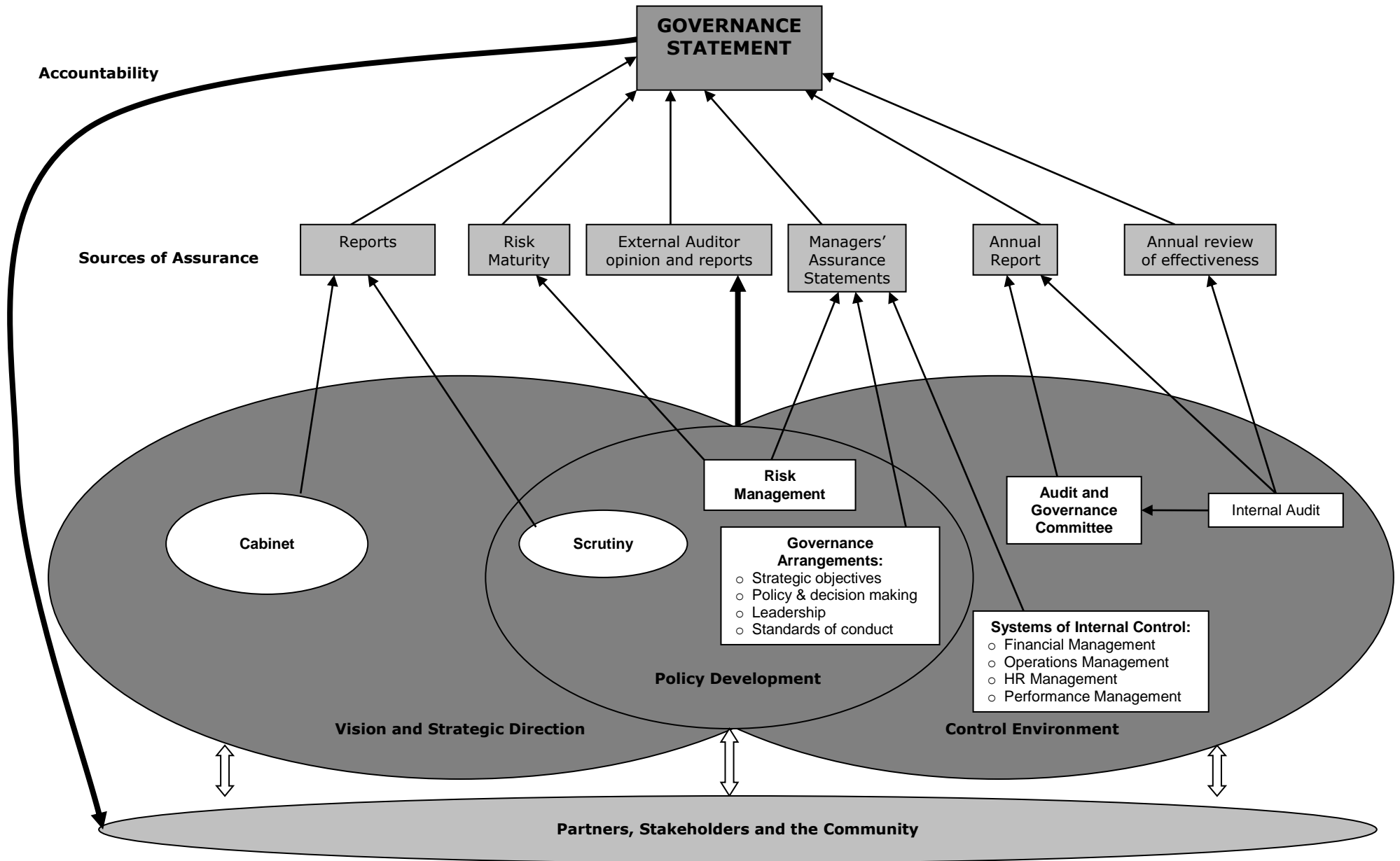
- Appendix 1 – Governance Framework
- Appendix 2 – Annual Governance Statement Timetable
- Appendix 3 – Managers' Assurance Statement
- Appendix 4 – Annual Governance Statement

## **11 Background papers**

- 11.1 Internal Audit Report for the financial year 2019-2020.

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# APPENDIX 1



**APPENDIX 1**

## Appendix 2

### ANNUAL GOVERNANCE STATEMENT TIMETABLE

<b>Deadline</b>	<b>Responsibility</b>	<b>Action</b>
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.**

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

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

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



## **Annual Governance Statement**

### **Scope of responsibility**

Lewes District 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.

Lewes District 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](http://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 2020 and up to the date of approval of the Annual Accounts.



## **THE GOVERNANCE FRAMEWORK**

The diagram of the governance framework at Lewes District 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.

A meeting of the Full Council approved the new Corporate Plan for 2016-20 in February 2016. A new plan for 2020-24 was approved by Full Council on 24<sup>th</sup> February 2020. The Corporate Plan is considered to be a dynamic document and therefore subject to annual review and refresh. The plan sets out the goals and ambitions for the next four years.

The Constitution is the fundamental basis of the council's governance arrangements. 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. 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.

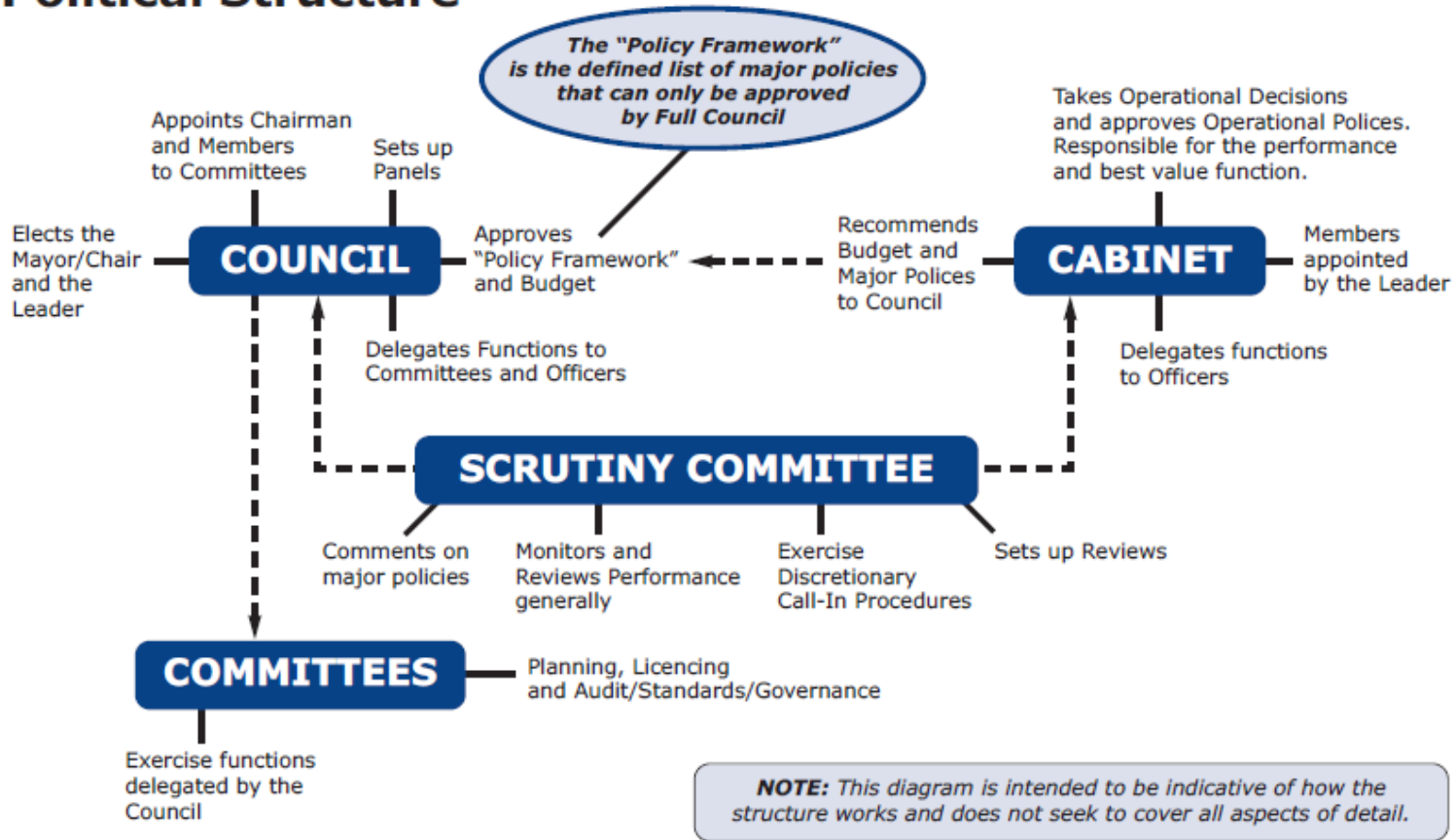
All aspects of the decision making framework, including schemes of delegation, are contained in detail in the council's constitution and summarised in the articles of the constitution. The content of this document is specifically ratified each year by the annual meeting of the Council. Any proposed changes 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. The Strategic Risk Register is reviewed by the Corporate Management team quarterly.

The terms of reference for the Audit and Standards 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. 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 Standards Committee.

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.

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 Standards 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 Standards Committee.

The role of Monitoring Officer sits with the post of Assistant Director of Legal and Democratic Service. 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 Standards Committee.

The council has established an Audit and Standards 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.

## **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 Standards 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 Standards 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. This must be caveated by noting that it has not been possible to carry out a full annual review of IT as the team has been too busy carrying out Covid related work. However a light touch review, which did not include testing, was undertaken. Full testing will be carried out at the next annual review. During the year Internal Audit also noted that it appears that data/documents are being retained beyond the time limits as set down in the Retention and Disposal Schedule.

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 Standards 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 Standards 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 Standards Committee**

The Audit and Standards 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 Standards 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 appoints the Leader who appoints members of the Cabinet. The Cabinet meets seven times in the municipal year. Each member of the Cabinet has a portfolio for which they are responsible.

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

## **External Reviews**

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

In December 2019 the Investigatory Powers Commissioner's Office carried out an inspection of the governance arrangements for covert surveillance activity. No major areas of non-compliance were identified but it was recommended that covert surveillance policies be expanded to encompass powers to use a Covert Human Intelligence Source (CHIS) and to acquire communications data.

In October 2019 a consultant from Zurich (Insurance Group) conducted a review of the council's risk management framework. The priority areas in need of improvement included:

- align risk strategy framework across both councils and relaunch
- run CMT and Member risk awareness sessions
- raise profile of risk management generally across the authorities
- more proactive risk identification and horizon scanning through all levels
- clearer understanding of acceptable risk appetite.

Work to address these areas began but was postponed owing to the Covid-19 lockdown. These actions will be addressed in the financial year 2020-21.

### **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.

A review of the returned Managers' Assurance Statements revealed three main topics which were repeated across several statements. These were document retention; the demand on, and capacity of the Finance team; issues around the Scheme of Delegation, and the effects of the response to Covid-19. As the lockdown response to Covid-19 only came into effect on 23<sup>rd</sup> March 2020 this did not have much effect on the financial year 2019-20. However, the implications were recognised at the time and have been evaluated further since. This is discussed further below.

Taking into account the responses from the Managers' Assurance Statements and the awareness of issues across the authority that the Internal Audit Team are aware of, the following items were discussed by CMT to consider whether they should be noted as significant governance issues or just noted in the body of the Annual Governance Statement.

Document retention	this issue was raised in several statements. The work of Internal Audit throughout the year also noted issues with retention of documents. Corporate Management Team considered this and acknowledged that there is an issue
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both in the culture of the authority and a more technical issue of how to destroy old records. However a project group has been set up to look at document retention and disposal and through this project the council is addressing the issue of document retention in the following areas:

- Documents saved in personal/team folders.
- Documents saved in IT systems (eg. Cx housing management system).
- Documents saved in emails.
- Physical, paper documents stored in council buildings.

The project is one that has been able to progress during the Covid-19 pandemic and the project team will be presenting an update to the project board in August 2020. The cultural/ways of working aspect to document retention is being considered by the project and proposals for how this can be managed will also be considered by the project board.

#### Finance team

concerns over the demand on Finance outweighing the capacity of the team were also raised, with some Heads of Service feeling that there was no clear, direct access to an Accountant. This was discussed by the Corporate Management Team and it was agreed that this was an issue but that it was not considered to be a significant governance issue and therefore should just be mentioned in the body of the Annual Governance Statement.

#### Housing software

Last year issues around the new housing software were raised by several respondents and it was agreed that this did constitute a significant governance issue and was reported as such. During the financial year much work has been undertaken to improve the system and the relationship with the provider. A new contract has been agreed and, with this, an improvement plan put in place that runs until September. However the Corporate Management Team agreed that until all the issue have been addressed this should remain as a significant governance issue and it is shown in the Annual Governance Statement as such.

### **Covid-19 Pandemic**

When lockdown began at the end of March 2020 the council had to act swiftly to be able to continue to provide the statutory services to the public whilst closing

the contact centre and having the majority of staff change to working from home. Significant pieces of work were undertaken to ensure staff were set up to work from home as soon as possible, to ensure that as many services as possible were available on-line and to set up staff and members to be able to have virtual meetings through software. The response has given assurance that the council can cope with rapid and substantial changes within a short period of time.

Initially priorities changed to dealing with the immediate responses. These included dealing with increased benefit claims, handling and distributing government grants, welfare calls to tenants and provision of food parcels. Key functions and systems have been maintained partially aided by redeployment of staff.

Currently it appears that central government will not cover the full cost of the pandemic to the council. Loss of income from Tourism and Events is unlikely to be considered at all by government. The council is in discussion with government to arrange for reasonable costs to be covered.

The loss of income from Business Rates and Tourism and Events in particular, but also from other areas of income, e.g. commercial rents and land charges, will clearly have a significant impact on the finances of the council and its ability to complete projects in the medium and longer term.

The Coronavirus Act (2020) allows authorities to conduct meetings and take decisions in ways other than face to face. The council reviewed committee meetings and initially held those where decisions needed to be made and postponing others. Virtual meeting were gradually implemented to enable committee meetings to be held.

The council has been hugely impacted by the response to the Covid-19 pandemic. The risks around this will affect the council in 2020-21 and these will be reviewed in more details in the Annual Governance Statement for that year.

## SIGNIFICANT GOVERNANCE ISSUES 2019/2020

NB – the following issue was noted in the Annual Governance Statement last year. It is still considered outstanding so it is shown again as a significant governance issue for 2019/20. The issue and the action have been updated to reflect progress changes within the financial year.

Area	Issue	Action
Housing software	<p>A new housing system was implemented in December 2018 which has not met the outcomes expected. These outcomes were critical in delivering greater efficiencies and improved financial reporting.</p> <p>There have been ongoing issues with Transformation and ICT staff resources being diverted to identify and rectify/mitigate issues.</p> <p>There have been ongoing issues requiring additional Finance officers to be allocated to support housing system in order to resolve reporting problems.</p> <p>Knock on effects mean that the statutory deadline for completion of the annual accounts was missed.</p>	<p>The issues have been monitored and mitigating actions which were put in place previously had to be reassessed and additional steps were taken.</p> <p>A conversation is ongoing with the supplier to rectify the issues. A new contract has been negotiated and an action plan agreed which will be monitored.</p> <p>A post implementation review which was expected to be carried out in 2019/20 will now be carried out by Internal Audit later in 2020/2021.</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 Standards Committee and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework.

Signed on behalf of Lewes District Council:

.....  
Leading Member

.....  
Chief Executive

Date:

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<b>Report to:</b>	Audit and Standards Committee
<b>Date:</b>	14 <sup>th</sup> September 2020
<b>Title:</b>	Draft internal audit plan for 2020/21
<b>Report of:</b>	Chief Internal Auditor
<b>Ward(s):</b>	All
<b>Purpose of report:</b>	To propose an internal audit plan for 2020/21
<b>Officer recommendation(s):</b>	<b>(1)</b> To consider and agree the proposed plan.
<b>Reasons for recommendations:</b>	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.
<b>Contact Officer(s):</b>	<b>Name:</b> Jackie Humphrey <b>Post title:</b> Chief Internal Auditor <b>E-mail:</b> jackie.humphrey@lewes-eastbourne.gov.uk <b>Telephone number:</b> 01323 415925 or internally on extension 5925.

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## 1.0 Introduction

- 1.1 The internal audit function contributes to the council's overall governance arrangements through the audits carried out in the annual internal audit plan.
- 1.2 The annual audit plan includes a number of managed audits which are required to be carried out annually.
- 1.3 This report was originally scheduled to be presented at the March meeting of the committee but this was cancelled due to Covid-19.

## 2.0 New Approach

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

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

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

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

### **3.0 The Audit Universe**

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

### **4.0 Production of the draft audit plan for 2020/21.**

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

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

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

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

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

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

## **6.0 Financial Appraisal**

- 6.1 There are no financial implications.

## **7.0 Legal Implications**

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

*NB: This legal statement was provided by the lawyer in readiness for the March committee meeting. However, both the March and subsequent July meeting were cancelled owing to the response to the coronavirus pandemic. It has been confirmed with the lawyer that the statement does not require alteration as the report has not been amended in any way.*

## **8.0 Risk Management Implications**

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

## **9.0 Equality Analysis**

- 9.1 An equalities impact assessment is not considered necessary.

## **10.0 Appendices**

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

## **11. Background Papers**

- 11.1 Audit universe risk assessment.

**Jackie Humphrey**  
**Chief Internal Auditor**

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## Calculation of Audit Time Available

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

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

### INTERNAL AUDIT DRAFT PLAN 2020/21

#### Regeneration and Planning

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

#### Tourism and Enterprise

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

#### Service Delivery

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

#### Corporate Services

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

**382**

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<b>Report to:</b>	<b>Audit and Standards Committee</b>
<b>Date:</b>	<b>14<sup>th</sup> September 2020</b>
<b>Title:</b>	<b>Internal Audit and Counter Fraud Report for the first quarter of the financial year 2020-2021 to the end of June 2020</b>
<b>Report Of:</b>	<b>Chief Internal Auditor</b>
<b>Ward(s):</b>	<b>All</b>
<b>Purpose of report:</b>	<b>To provide a summary of the activities of Internal Audit and Counter Fraud for the first quarter of the financial year - 1<sup>st</sup> April 2020 to 30<sup>th</sup> June 2020.</b>
<b>Officer recommendation(s):</b>	<b>That the information in this report be noted and members identify any further information requirements.</b>
<b>Reasons for recommendations:</b>	<b>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.</b>
<b>Contact:</b>	<b>Jackie Humphrey, Chief Internal Auditor, Telephone 01323 415925 or internally on extension 5925. E-mail address <a href="mailto:jackie.humphrey@lewes-eastbourne.gov.uk">jackie.humphrey@lewes-eastbourne.gov.uk</a></b>

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## **1.0 Introduction**

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

## **2.0 The effect of the response to the Covid-19 pandemic on the work of the Audit and Counter Fraud teams.**

- 2.1 Both teams have continued to work throughout the lockdown. As an initial response to some areas with increased demand or with new areas of work, there was a request to redeploy staff to these areas if their usual work was deemed non-essential. As, in the short term, we could deem the work of both teams as non-essential, some staff were redeployed either full time or part time. Work undertaken by members of the teams have included providing cover at the crematorium, processing benefit claims, acting as a Customer Adviser and undertaking welfare telephone calls. However, it was flagged early on that, whilst willing to help other departments, this was something that the teams could not continue longer term as our own work would begin to take priority. Currently no members of the team are carrying out work for other departments.
- 2.2 One member of staff from the Counter Fraud team caught the virus and was hospitalised for a short time. They have now recovered and on a phased return to work.
- 2.3 Whilst the work of the teams has clearly been affected by the loss of resources, it does not seem to have had a material impact. Internal Audit have been able to continue, and almost complete, the work on the annual audit reviews and now no staff are redeployed work is underway in carrying out audit reviews on the audit plan. Counter Fraud have started to pick up on potentially fraudulent claims made for Hardship Grants and some of the work the team have carried out for other sections is actually helping to highlight areas that they can look at during the financial year.
- 2.4 At the beginning of the response to Covid-19 the Chief Internal Auditor emailed all managers across the authorities to remind them that Audit and Counter Fraud were still working and that they were available to offer advice and assistance to anyone who was facing putting new controls in place or having to relax or change controls because of the changed ways of working. A handful of responses were received and advice given.
- 2.5 The Chief Finance Officer also tasked the Chief Internal Auditor to look at the controls being put in place for Hardship Grants, Business Rate Grants and the provision of food parcels. Relevant managers were contacted and information obtained and it appeared as though controls were put in place as much as possible. However, there was a push nationally to ensure that grants were paid as speedily as possible and this meant that checks were not as thorough as would normally be the case. There is clearly a larger piece of work that needs to be carried out by Audit and Counter Fraud to review the grants that were issued and to try to identify any fraudulent claims.
- 2.6 When the Internal Audit plan was proposed for 2020-21 it was based on a percentage split of the audit days in line with the departments. Whilst individual audits were proposed it was stated that the new plan gave more flexibility to carry out any work that arose during the year rather than be tied strictly to a set list of audit reviews. This change of approach has proved to be very timely and means that the team can now focus on the areas of work that have been most affected by increased workloads during this time, with Audit checking that the controls

remained in place and working. The only negative effect on the plan is that time was set aside for Tourism and Enterprise, however as it appears that there will be little or no business in this department for some time, then some of that time allocation will be used in other areas.

- 2.7 Clearly the council is affected by loss of income during the lockdown and it is important to ensure that all income that is actually due is received. The audit plan for 2020-21 included a review of how arrears collection is handled across all departments and this is the first audit from the plan that is being carried out, in the hope that this will help to increase income into the council.

### 3.0 Review of the work of Internal Audit carried out in the first quarter of 2020-2021.

- 3.1 A list of all the audit reports issued in final from 1<sup>st</sup> April 2020 to 30<sup>th</sup> June 2020 is as follows:

Benefits and CTR – Lewes (19/20)	Substantial Assurance
Main Accounting (19/20)	Partial Assurance
Treasury Management (19/20)	Substantial Assurance

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

- 3.2 Below are the descriptions of the levels of assurance referred to above.

<b>Assurance Level</b>	<b>Description</b>
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.

- 3.3 During this period the following draft reports have been issued and will be reported in future reports once agreed by the relevant manager.

Debtors (19/20)  
Payroll (19/20)  
Cash and Bank (19/20)

Council Tax (19/20)  
NNDR (Business Rates) (19/20)

- 3.4 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.
- 3.5 In the audit plan for 2020/21 it was proposed to have a list of audits to be carried out which reflected the size of the departments as a percentage of the councils. In this way, when the teams are tasked with pieces of work, these can be carried out within the allocation for the area. A planned audit may have to be dropped but the breadth of coverage would be maintained. It would be ensured that a lower risk audit was dropped if this were to be the case.
- 3.6 The table below shows the work carried out by the Internal Audit team in the first quarter of the year by percentage across the main areas services compared to that planned for the whole. It should be noted that the figures will be skewed as few audits (other than the annual audits) have been undertaken at this point in the year

Area	Planned	Actual
Regeneration	12%	0%
Tourism and Enterprise	9%	0%
Service Delivery	37%	64%
Corporate Services	42%	36%

#### 4.0 Counter Fraud

- 4.1 This is the first quarterly report since the global Covid-19 pandemic. The Counter Fraud Team work has been directly affected like many other areas during this period, with the team responding to the councils’ key priorities by undertaking additional work with welfare contact calls, crematorium, housing needs, housing benefits and customer contact queries.
- 4.2 Despite periods of redeployment, the team have taken a flexible and creative approach in dealing with the existing and new fraud investigations under government guidelines and restrictions. Cases have continued to be built and monitored during the lockdown period, with the team responding to new and emerging fraud risks following the release of Covid-19 support packages to businesses and individuals.
- 4.3 The team continues to target the high risk and value areas of tenancy housing while also undertaking other exercises as detailed below. However the response to Covid-19 has had an impact and this is explained in more detail under each sub section.
- 4.4 Housing Tenancy – The team continue to work closely with colleagues in Homes First and Legal, with 20 ongoing sublet/abandonment tenancy cases at various stages. Three cases have been closed with no further action and two cases, which were already with legal pending recovery action prior to Covid-19, are currently on hold due to restrictions on court hearings until August.

- 4.5 Right to Buy – There was reduction in RTB applications in the beginning of the quarter which is unsurprising with the current financial uncertainty and Covid-19. 12 cases are currently being checked to prevent and detect fraud and protect the authority against money laundering. Residency checks are still outstanding for 19 cases which have either been approved or previously withdrawn, the checks have not been possible due to Covid restrictions. One case remains with Legal for consideration of criminal prosecution.
- 4.6 Tenancy fraud awareness – a joint working campaign with Homes First 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 has been put on hold.
- 4.7 Housing Options – Access for Homes First caseworkers and specialists to use HM Land Registry and the National Anti-Fraud Network facilities for credit checks has been rolled out to help verify applications and prevent fraud. Planned work on Housing Allocations and Applications has been put on hold due to other work commitments.
- 4.8 NNDR – Following on from the government’s announcement to support businesses with large scale grants, the team are working closely with the revenues specialists to prevent and investigate fraudulent applications. The Counter Fraud Team are already working on a number of cases and will now look more closely at 60 applications verified by the council’s Ascendant system. Upon completion of this review, additional checks may be made where fraud or error has been highlighted.
- 4.9 Council Tax – Four cases have been closed during this period with one case resulting in a change in liability with a £819.55 recoverable saving. The planned work on Council Tax Exemptions and Disregards has been put on hold due to other work commitments.
- 4.10 Council Tax Reduction – three cases have been closed down in this period with no further action. One case is currently under investigation. Due to other work commitments, the team have limited capacity to undertake investigations in this area and will therefore undertake further fraud awareness training to the caseworkers to help prevent and detect fraud.
- 4.11 Housing Benefit – The team continue to work closely with the Department for Work and Pensions (DWP) and our colleagues in the benefit section. Due to resources restrictions and pressing need to assess Universal Credit applications, the DWP have limited their capacity to investigate possible Housing Benefit fraud. However, 22 cases have been closed in this period with an increase in recoverable Housing Benefit of £41,980.06 and a preventative saving of £19k.
- 4.12 National Fraud Initiative – No further work has been taken on the 2018/19 exercise following limited results from 10% of test checking. The next data set exercise for 2019/20 is due to be extracted at the end of this year.
- 4.13 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 we have dealt with 13 DPA requests from the Police and other authorities.

4.14 A table showing the savings made by the Counter Fraud team in the first three quarters of the year 2020-2021 can be found at Appendix B.

## **5.0 Financial appraisal**

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

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

## **6.0 Legal implications**

6.1 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 06.08.20*

*Legal ref: 009414-LDC-OD*

## **7.0 Risk management implications**

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

## **8.0 Equality analysis**

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

## **9.0 Appendices**

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

Appendix B – Counter Fraud work and savings

## **10.0 Background papers**

10.1 Audit reports issued throughout the year.



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

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

<b>AUDIT REVIEW</b>	<b>ASSURANCE LEVEL</b>	<b>ISSUES NOTED</b>	<b>Level at follow up</b>
Main Accounting (19/20)	Partial	<ul style="list-style-type: none"><li>• Budget holders indicated they would like more training.</li><li>• Written procedures have not been updated to reflect shared service.</li><li>• Cafi does not reflect the current organisation structure.</li><li>• Recharges between councils are not carried out on a regular monthly basis.</li><li>• Regular reconciliations between the general ledger and feeder files (e.g. rents, council tax etc) are not being carried out.</li></ul>	

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	QUARTER ONE		QUARTER TWO		QUARTER THREE		QUARTER FOUR		YEAR TOTAL	
	Income	Savings	Income	Savings	Income	Savings	Income	Savings	Income	Savings
<b>Tenancy Housing</b>										
Recovery of council properties									£0.00	£0.00
RTB value saved through intervention									£0.00	£0.00
Housing intervention/fraud									£0.00	£0.00
<b>Revenues</b>										
NNDR									£0.00	£0.00
Council Tax	£781.38								£781.38	£0.00
Value of ongoing CT increase per week	£38.17								£38.17	£0.00
Council Tax Penalties									£0.00	£0.00
<b>CTR &amp; Housing Benefit</b>										
SPOC Cases									£0.00	£0.00
Council Tax Reduction									£0.00	£0.00
CTR weekly incorrect benefit (WIB)									£0.00	£0.00
Housing Benefit	£41,980.06								£41,980.06	£0.00
HB weekly incorrect benefit (WIB)		£19,301.76							£0.00	£19,301.76
Income from Adpen collection									£0.00	£0.00
<b>NFI</b>										
Number of open matches									£0.00	£0.00
Number of closed matches									£0.00	£0.00
Awaiting Processing									£0.00	£0.00
Overpayments identified									£0.00	£0.00
Weekly incorrect benefit identified									£0.00	£0.00
<b>OTHER INVESTIGATIONS</b>										
Procurement									£0.00	£0.00
Internal									£0.00	£0.00
DPA									£0.00	£0.00
Income from court costs									£0.00	£0.00
<b>TOTALS</b>	<b>£42,799.61</b>	<b>£19,301.76</b>	<b>£0.00</b>	<b>£0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>£0.00</b>	<b>£0.00</b>	<b>£42,799.61</b>	<b>£19,301.76</b>

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<b>Report to:</b>	<b>Audit and Standards Committee</b>
<b>Date:</b>	<b>14<sup>th</sup> September 2020</b>
<b>Title:</b>	<b>Review of Risk Management</b>
<b>Report of:</b>	<b>Chief Internal Auditor</b>
<b>Ward(s):</b>	<b>All</b>
<b>Purpose of report:</b>	<b>To report to committee on the plan to address risk management practices.</b> <b>To present the updated Risk Management Policy for approval.</b>
<b>Officer recommendation(s):</b>	<b>To consider and comment on the proposed actions in Appendix A</b> <b>To consider and adopt the updated Risk Management Policy</b>
<b>Reasons for recommendations:</b>	<b>The council is committed to having appropriate risk management processes in place and ensuring these are embedded across the authority.</b>
<b>Contact Officer(s):</b>	<b>Name: Jackie Humphrey</b> <b>Post title: Chief Internal Auditor</b> <b>E-mail: <a href="mailto:Jackie.humphrey@lewes-eastbourne.gov.uk">Jackie.humphrey@lewes-eastbourne.gov.uk</a></b> <b>Telephone number: 01323 415925</b>

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## **1 Introduction**

- 1.1 A new contract with Zurich, to provide insurance for the council, began in April 2019. As part of this contract the council was offered a free review of the effectiveness of the risk management arrangements. This was considered a timely offer as the risk management policies for both Lewes and Eastbourne needed to be aligned and the process as a whole was in need of review. Zurich were therefore requested to undertake the review.

## **2 Situation at the time of the Zurich review**

- 2.1 The council has a strategic risk register which is reviewed quarterly by the Corporate Management Team (CMT) with any changes made being reported to this committee.
- 2.2 Projects are managed on a piece of software, called Pentana Performance, within a framework which includes maintaining a risk register.

2.3 In the past, service level risk registers were included as part of the Service and Financial Planning forms and so were completed annually. A few years ago these were taken out of the Service and Financial Planning documents and were put onto Pentana Performance (then called Covalent). Managers were asked to keep these up to date, preferably quarterly but at least annually. However, although there were pockets of good practice, the majority of risk registers were not kept up to date and eventually they were removed from Pentana altogether. It is therefore probable that service areas no longer maintain risk registers other than for projects or the Health and Safety risk registers. This does not mean that risks are not being managed but they are not being recorded.

### **3 The risks of not having an embedded risk management framework.**

3.1 An embedded risk management framework is important as it aids safeguarding the council financially, legally, politically and reputationally.

3.2 If risk registers are not held at a service level then these risks may not be identified or managed to reduce likelihood or impact. The identification of risk allows planning and preparation. Recording risks in one place can also help to identify how risks impact on one another.

3.3 There should also be a link between service level and strategic risk registers as each should inform the other. If they do not then it is possible that risks at the strategic level will not be managed at the service level and emerging risks may be missed from the strategic risk level.

### **4 The review by Zurich**

4.1 Documents relevant to risk management were sent to Zurich, these included the risk management policy and the strategic risk register. A representative of Zurich came to the offices in October 2019 and undertook face to face interviews and some by phone. Those interviewed were: Corporate Performance Specialist, Head of Business Planning and Performance, Chief Finance Officer, Performance and Programmes Lead and the Chief Internal Auditor.

4.2 The review looked at six categories:

- leadership and management
- strategy and policy
- people and training
- processes and tools
- risk handling and assurance
- partnership, shared risk and projects.

The results of the review were used to create a score for these categories from 1 – 5 and showed these on a diagram.



**KEY**

- Level 1 – Engaging
- Level 2 – Happening
- Level 3 – Working
- Level 4 – Embedded
- Level 5 – Driving

4.3 The report from Zurich highlighted six areas for improvement:

- appoint acknowledged risk management “owner” to lead the process
- align risk strategy framework across both councils and relaunch
- run CMT and Member risk awareness sessions
- raise profile of risk management generally across the authorities
- more proactive risk identification and horizon scanning through all levels
- clearer understanding of acceptable risk appetite.

4.4 From these main points, 13 recommendations were made. A summary of the findings is shown below:

4.5 Leadership and management      The importance of risk management is understood at senior level. Changes, both political and internal, indicate it would be beneficial to facilitate training and awareness. Due to time constraints and other priorities it was felt that CMT did not always drive risk management downwards. The risk appetites of the two councils differ.

4.6 Strategy and policy      Documentation is fragmented and does not reflect the current joint working arrangements. There are currently two separate strategies with plans in place to rewrite into one strategy across both

		authorities. The revised framework should emphasise the importance of escalation and wider communication.
4.7	Processes and tools	The Pentana system is used to record risks and produce reports. It is possible that the reporting function could be used more effectively (perhaps to wider stakeholders). The cessation of the service level risk registers on the system has left a gap where it seems Heads of Service are not recording risks outside of projects.
4.8	Risk handling and assurance	The strategic risk registers (SRRs) are high level and there is a possibility that risks are not identified or escalated where necessary. Managers lower than CMT level do not have sight of the SSRs so may be unaware of the high level risks that impact their area. Risk consideration in Theme Plans may have become a box ticking exercise and it is possible that risk based decisions are not offered enough objective challenge.
4.9	People and training	Staff have reasonably good levels of knowledge. There is no formal training programme in place and it is not felt that one would be beneficial. The culture across the authorities is more open and honest than previously and people would not be deterred from talking about risk.
4.10	Partnerships, shared risks and projects	Whilst interviewees provided some level of assurance that risks were well understood and managed, particularly within projects, it was clear that a structured framework and methodology for managing and reporting risks in contracts and partnerships was not consistently in place.

## **5 Actions**

- 5.1 A report on the recommendations made by Zurich was taken to the CMT for discussion and to agree responses to the recommendations.
- 5.2 Appendix A shows the recommendations made by Zurich, the comments from CMT and the proposed actions, owners and timescales for implementing these.
- 5.3 The committee is asked to consider and comment on the proposed actions.



## **6 Risk Management Policy**

- 6.1 Before the majority of the actions listed on the appendix can be undertaken it is important to ensure that there is an adequate and up to date policy in place. Therefore the existing policies of Lewes District and Eastbourne Borough councils have been aligned and updated and one new policy covering both authorities has been produced. The Risk Management Policy, appended to this report, covers the aims and objectives for carrying out.
- 6.2 Councils are required to have a sound system of internal control and this includes risk management. Adopting proportionate risk management procedures will enable the authority to demonstrate that full consideration has been given to risks which could affect service delivery and achievement of strategic aims and objectives.
- 6.3 The Risk Management Policy lays down the framework for the identifying, recording and monitoring of risks. It also sets out roles and responsibilities and the arrangements for identifying, evaluating, controlling and monitoring of those risks.
- 6.4 The risks will be recorded at service area level and the risk assessments will be held on performance software. At this level the risks should be regularly reviewed at departmental team meetings.
- 6.5 Any risks with a high risk score remaining after mitigating actions have been taken (residual risk score) will be reported on to Corporate Management Team to be considered quarterly as part of the review of the strategic risk register.
- 6.6 Once the updated policy is agreed and adopted it will be published on the intranet and all staff will be made aware that it has been updated and published. Following this the actions listed in the action plan will be undertaken which will mainly involve ensuring that adequate training is given to staff and members.
- 6.7 Once adequate training has taken place the Internal Audit team will ensure that they request the risk register for every area audited and ensure that it is set up and adequate. The Chief Internal Auditor will also ensure that consideration is given to service area risks when the strategic risk register is discussed by the Corporate Management Team.
- 6.8 The committee are asked to consider and adopt the attached Risk Management Policy.

## **7 Financial appraisal**

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

## **8 Legal implications**

- 8.1 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.

**9 Risk management implications**

9.1 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.

**10 Equality analysis**

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

**11 Appendices**

- Appendix A - Action Plan
- Appendix B - Risk Management Policy

**12 Background papers**

None

ZURICH RECOMMENDATION	CMT DECISION	Action/Owner/Timescale
<p>Allocate resource to risk ownership who will own and champion the process.</p>	<p>Chief Internal Auditor to co-ordinate and Corporate Management Team to manage.</p>	<p>This information to be included in the risk management policy CIA July <b>COMPLETED</b></p>
<p>Develop a clearer understanding of the councils' risk appetites (which may differ). Comparison of the two would affect risk identification and treatment.</p>	<p>The risk appetite will be different from issue to issue. It was therefore agreed not to have one overall risk appetite.</p>	<p>No Action required</p>
<p>Hold facilitated workshops for CMT and Members to refresh understanding of roles and responsibilities.</p>	<p>Agreed. Once the new risk management policy is written and adopted, training will be arranged.</p>	<p>Zurich to be contacted to arrange training once the policy is agreed CIA September</p>
<p>Update the current strategies into one document aligned across both authorities, with any necessary supporting framework and processes.</p>	<p>Agreed. To be reviewed, updated and aligned.</p>	<p>Policy to be updated and taken to committee CIA July <b>COMPLETED</b></p>
<p>Consider whether current systems could be integrated further, or if processes could be more automated. <i>(In the body of the report this is phrased as "consider the reporting opportunities of the Pentana system".</i>  <i>The Corporate Performance Specialist also explained that Pentana's reporting capacity has the capacity to be used by the wider stakeholder groups (for example external consultants) who work closely with the councils to deliver the projects / priorities / etc.)</i></p>	<p>All risk assessments to be put back onto Pentana Performance.</p>	<p>Liaise with Business Planning and Performance to reinstate risk registers – to be arranged once training has been given. CIA December</p>

ZURICH RECOMMENDATION	CMT DECISION	Action/Owner/Timescale
Ensure key service risks are being captured, documented and escalated.	Operational and service level risks to be recorded on one risk assessment for each service area. Service level risk registers to be reviewed six monthly at CMT with Directors/Asst Directors responsible for the service level risk registers.	To be put in place once policy is adopted and training has been given CIA to co-ordinate and CMT to manage December
Implement a forum for risk discussion at service level.	Service level risk registers to be discussed at Departmental Management Team meetings.	To be put in place once policy is adopted and training has been given Directors/Asst Directors/Heads of Service December
Interactive training workshops across all levels.	Agreed. Once the new risk management policy is written and adopted, training will be arranged.	Zurich to be contacted to arrange training CIA September
Risk management refresher training for Members (especially newer ones).	Agreed. Once the new risk management policy is written and adopted, training will be arranged.	Zurich to be contacted to arrange training CIA September
Contract risk management training and awareness, with a view to identifying strategically important contracts and associated risks.	Agreed. Once the new risk management policy is written and adopted, training will be arranged.	Zurich to be contacted to arrange training CIA September
Robust and consistent governance framework including entrance and exit strategies.	Agreed – To be mentioned in the risk management policy.	To be included in the risk management policy CIA July <b>COMPLETED</b>

<b>In discussion with the CFO the following is also recommended.</b>		
Audit to view service level risk registers for every audit review undertaken.	Agreed – as part of every audit the auditors will request a copy of the service areas risk register.	The Internal Audit team have been informed to pick this up again once service areas have been told that they need to produce risk registers. <b>This has already commenced.</b>
CMT to allocate a reasonable sized slot on one agenda to fully consider risk and governance.	Agreed	Slot on CMT to be organised once the policy has been adopted CIA September
CIA to carry out a follow up of progress against agreed actions.	Agreed –To be reviewed monthly	To be carried out on a monthly basis and reported to CMT quarterly.

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# STRONGER together



Lewes District Council



Working in partnership with Eastbourne Homes

# RISK MANAGEMENT POLICY

Title	Risk Management Policy
Version	5
Date	September 2020
Approved By	
Next Review	
Author	Chief Internal Auditor

## CONTENTS

1.	Purpose	<a href="#">3</a>
2.	Introduction	<a href="#">3</a>
3.	Risk Management Aims and Objectives	<a href="#">3</a>
4.	Risk Appetite and Financing	<a href="#">4</a>
5.	Roles and Responsibilities	<a href="#">5</a>
6.	Risk Management Arrangements	<a href="#">7</a>
	6.1 Risk Identification	<a href="#">7</a>
	6.2 Risk Categories	<a href="#">8</a>
	6.3 Risk Evaluation and Scoring	<a href="#">9</a>
	6.4 Risk Control	<a href="#">12</a>
	6.5 Risk Monitoring and Reporting	<a href="#">13</a>
7.	Embedding Risk Management within the Organisation	<a href="#">14</a>
8.	Updating the Strategy	<a href="#">15</a>



## **1. PURPOSE**

Lewes District and Eastbourne Borough councils are committed to adopting best practice in the management of risk to ensure that identified risks are managed to acceptable levels.

Adopting proportionate risk management procedures will enable the authorities to demonstrate that full consideration has been given to risks which could affect service delivery and the achievement of strategic aims and objectives.

The responsibility for managing risks lies with all officers and members of the councils and this policy explains these responsibilities.

This policy lays down the framework for identifying, recording and monitoring risks across the authorities.

## **2. INTRODUCTION**

Risk management is the identification, evaluation and cost effective control of risks to ensure that they are either eliminated or reduced to an acceptable level. Systems are then put in place to track and report upon existing and emerging risks that could cause damage to the councils or their stakeholders.

Managing risk effectively will help the authorities achieve their corporate objectives and protect their assets and resources against risk in the most efficient way.

The identification of risks also allows informed business decisions to be made by members and officers and it is therefore important that risks are noted in all reports to committees.

Risk management has a strong link with corporate governance as it is a vital element in the internal control environment. As well as following the procedures laid down in this document, Directors, Assistant Directors and Heads of Service are required annually to complete a Manager's Assurance Statement. These statements are intended to cover the operational, project and partnership responsibilities. They can also be used to highlight concerns and actions required to improve governance across both authorities.

## **3. RISK MANAGEMENT AIMS AND OBJECTIVES**

The purpose of this policy is to formally set out how the councils' managers and elected members are to manage risk.

The objectives of this risk management policy are to:

- integrate risk management into the culture of the councils
- manage risk in accordance with best practice
- anticipate and respond to changing social, political, environmental and legislative requirements

- assist in achieving the councils' corporate aims and objectives
- maximise opportunities and encourage innovation through reassurance on the management of potential risks
- prevent or minimise potential loss, disruption, damage and injury and reduce the cost of risk, thereby maximising resources
- raise awareness of the need for risk management by all those connected with the councils' delivery of services and objectives

These objectives will be achieved by:

- considering risk appetite and financing
- establishing clear roles, responsibilities and reporting lines for risk management within the councils
- establishing a regular agenda item on the Corporate Management Team agenda to discuss and update the Strategic Risk Registers
- incorporating risk management arrangements for the identification, mitigation, monitoring and reporting of risks into the councils' management and decision making processes
- providing risk management training and awareness sessions for council officers and members
- effective communication with, and the active involvement of, council officers and members
- annual review of this risk management policy

#### **4. RISK APPETITE AND FINANCING**

##### Risk Appetite

An organisation's risk appetite is the level of risk that it is prepared to tolerate without putting in place further risk mitigation. Mitigation relates to the actions taken to control the risk by reducing the impact or the likelihood. Risk management at operational levels should not be overwhelmed by relatively minor operational risks. However it is also acknowledged that some high risks will remain high no matter what mitigating actions are taken, or that there are no mitigating actions that can be taken.

The councils have agreed not to set one prescriptive risk appetite. Lewes District and Eastbourne Borough councils are two separate and distinctive organisations and one risk appetite would not be appropriate. It is also considered that the risk appetite will vary depending on the circumstances of each individual risk. Therefore a more flexible approach will be followed, allowing risks to be judged on their own merits and allowing informed decisions to be made in respect of each risk.

### Risk Financing

The total cost of risk includes the costs of putting a risk management framework in place and keeping it under review, the cost of officers carrying out the risk management processes, the cost of control actions that are put in place, and finally the cost of risks occurring.

The cost of the councils' risk management framework is included within the budget framework. The cost of control actions to be put in place will be covered either from existing budgets or, where this is not possible, by a growth bid through the Service and Financial Planning process or through a report to Cabinet.

Risks should be identified and evaluated as early as possible in any project or policy decision so that the costs of managing the risk can be included in the overall project funding.

Risk financing can be retained, i.e. self-funded, or transferred. The transfer of risk financing is carried out either through the outsourcing of operations or through the purchase of insurance.

The councils' insurance cover is provided by Zurich Municipal via a block policy. The current approach to agreeing premiums shows a low risk appetite, reducing as far as possible the risk of uncertainty.

## **5. ROLES AND RESPONSIBILITIES**

Overall the risk management process will be overseen by the Chief Internal Auditor but managed by the Corporate Management Team.

### Cabinets

- review the risk management implications of all Cabinet decisions

### Audit and Risk Committee (Lewes) and Audit and Governance Committee (Eastbourne)

- approve the council's risk management arrangements through its Risk Management Policy
- consider the effectiveness of the authority's risk management arrangements
- review the council's strategic risks

### Corporate Management Team

- review the implementation of the risk management framework, policy and process
- agree the councils' strategic risks
- monitor progress on managing risks

- oversee development of the Risk Management Policy
- oversee development of the Annual Governance Statement

#### Internal Audit

- use a risk based approach to inform the Internal Audit Plan utilising the Strategic Risk Register as well as its own assessment. This will be carried out annually and reviewed quarterly
- carry out independent reviews to assess the effectiveness of risk management and make appropriate recommendations

#### Directors/Assistant Directors/Heads of Service

- ensure that a risk register is in place for their service area and this is regularly reviewed
- ensure that risks are discussed at each Departmental Management Team meeting

#### Managers

- ensure that risk is managed in their area of work in accordance with the Risk Management Policy
- promote understanding and good practice amongst their staff
- identify and assess emerging risks in their service areas
- ensure that every risk identified has an appropriate Risk Owner

#### Risk Owners

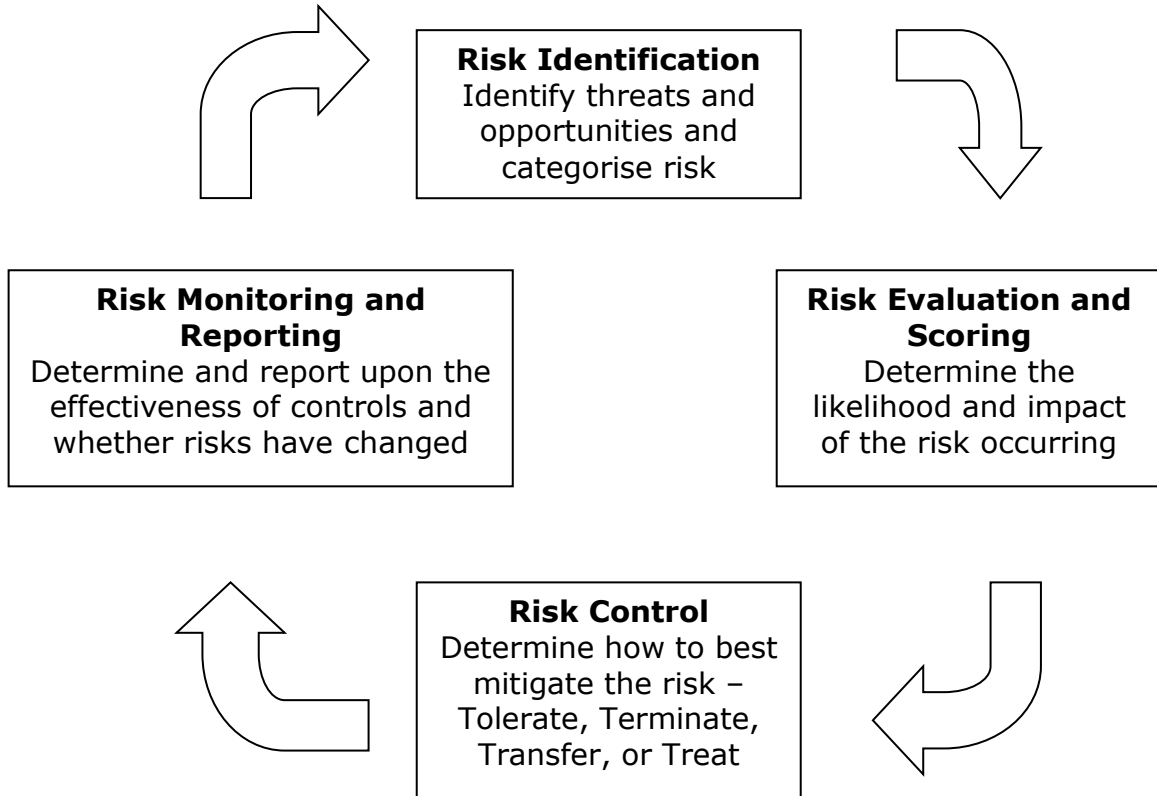
- evaluate emerging risks
- identify and implement mitigation where necessary
- monitor effectiveness of the mitigation
- maintain and review an accurate risk register for their risks

#### All Members and Employees

- understand that risk management and risk awareness are part of the councils' culture
- understand their accountability for individual risks
- report promptly to managers any emerging risks or failures in existing controls
- assist in the identification and evaluation of risks and opportunities
- implement any mitigating actions assigned
- comply with control processes introduced

## 6. RISK MANAGEMENT ARRANGEMENTS

To manage risks effectively, they need to be systematically identified, evaluated, controlled and monitored. The four stages in the risk management cycle are illustrated in the diagram below:



### 6.1 Risk Identification

Any process of risk identification must be carried out in a systematic manner to ensure that all risks to the councils' objectives are identified. It must therefore be integrated into the councils' business processes and holistic in its approach.

For every risk identified, a risk owner will be appointed who will be responsible for the remainder of the risk management process, i.e. evaluation, mitigation, monitoring and reporting of that risk. All risks should be assigned to an individual rather than a group.

#### Operational Risks

The Corporate Management Team decided that only risks at departmental and strategic level need be managed within the Risk Management Policy. However, an understanding of all the operational risks will be necessary in order to better inform the departmental risk registers. Therefore, whilst not necessary under this policy, managers may decide to retain their own operational risk register.

### Departmental (Service Area) Risks

Departmental (Service Area) risk registers will be maintained by Heads of Service/Directors by way of their departmental management teams. These registers will identify the threats and opportunities that could influence the service area's ability to achieve its overall objectives. These will also be considered quarterly by the Corporate Management Team.

### Strategic Risks

The Strategic Risk Register will be considered at Corporate Management Team at least quarterly. They will review the strategic risk registers, assess any new high level risks reported to them and, where appropriate, include them in the strategic risk register.

### Project Risks

A project is defined as "A unique process, that has a beginning and an end, which is carried out to achieve a particular purpose, to a set quality, within given constraints of time, cost and resources."

All projects thus defined within the councils are managed under project management methodology. As such a risk register and action plan is developed at the beginning of each major project.

As part of the consideration of risks for a project, entrance and exit strategies must be considered and put in place.

For further information please refer to the Project Management Toolkit.

### Partnerships

When entering into a partnership, entrance and exit strategies must be considered and put in place. Risks must be considered and recorded and regularly reviewed throughout the duration of the partnership.

### Contracts

When outsourcing work via a contract it must be remembered that all risks are not outsourced with the contract. Some risks will remain, particularly around the possible failure of the contract.

Individual risk registers can be maintained for all large contracts and/or the major risk/s must be included in the service level risk register.

Consideration must be given to an exit strategy should the contractor suddenly not be able to provide the service.

## **6.2 Risk Categories**

When risks have been identified, they will fall into one of four main categories. These are:

<b>Strategic Risks</b>	Risks that may prevent or delay the councils meeting their strategic objectives;
<b>Departmental Risks</b>	Risks that may prevent or delay the department meeting its strategic objectives;
<b>Operational Risks</b>	Risks that officers face when working to meet their service objectives;
<b>Project Risks</b>	Risks that may prevent or delay a project meeting its objectives.

These categories are then further subdivided into:

<b>Political</b>	Risks associated with achievement of central or local policy/ manifesto commitments.
<b>Customer</b>	Risks that could affect the councils' ability to meet their customers' requirements and expectations.
<b>Reputation</b>	Risks that relate to the councils' image, credibility or reputation.
<b>Financial</b>	Risks that relate to losing monetary resources or incurring unacceptable liabilities.
<b>People</b>	Risks that could affect staff, customers and other individual stakeholders.
<b>Environment and Sustainability</b>	Risks that could adversely impact the local environment or the local economy.
<b>Regulatory</b>	Risks associated with the regulatory (or legal) environment.

### 6.3 Risk Evaluation and Scoring

#### Original Risk Score

When risks have been identified, they will be scored according to the likelihood of the risk occurring and the impact caused by the consequences of the risk occurring.

The judgement on the likelihood and impact of the risk occurring should be made by those with experience in the relevant service area.

The numerical values of the likelihood and impact are then multiplied together. This facilitates targeting of risk mitigation by ranking the risks. Two risk scores need to be assessed. The first is the "original risk score". This is the risk to the councils if no mitigating action is taken.

It is important that all risk registers use the same methodology to calculate the risk score in order to allow comparison and facilitate understanding of the risk levels.

### Scoring – Likelihood and Impact

#### **Likelihood**

The following indicators will be used to assess the likelihood, or probability, of the risk occurring.

<b>Score</b>	<b>Likelihood</b>	<b>Probability</b>
1	Rare	< 10%
2	Unlikely	c 25%
3	Possible	c 50%
4	Likely	c 75%
5	Almost certain	> 95%



## Impact

The following table will be used to determine the impact score.

Risk Score	1	2	3	4	5
	MINOR	MODERATE	SIGNIFICANT	MAJOR	CRITICAL
<b>Political</b>	Delay in delivery of one area of councils' objectives.	Delay in delivery of one or more of the councils' objectives. Delay in meeting a Govt policy.	Major delay in meeting a larger area of the councils' objectives. Delays in meeting Govt policies.	Failure and delays in meeting one or more of the councils' objectives. Significant delay or failure to meet Govt policies.	Failure to deliver local and national government policies.
<b>Customer Satisfaction</b>	Short term, minor service problem. Impact limited to a few customers. Unlikely to cause adverse publicity.	Short term service problem. Impact number of customers. Some adverse local publicity, needs careful PR.	Short to medium term disruption, impact many customers in one group/area. Adverse publicity in local media. Possible damage to credibility.	Long term disruption in one area or med term disruption to wider area affects many customers. Major adverse local publicity, major loss of credibility.	Major disruption with impact on widespread groups. Significant adverse publicity in national media..
<b>Financial</b>	Minor financial loss – accommodated within service area budget	Moderate financial loss – accommodated within divisional budget	Significant financial loss – accommodated within councils' overall budget	Major financial loss - major impact on councils' financial plan	Severe financial loss – critical impact on councils' financial plan, resources unlikely to be available
<b>People</b>	Staff dissatisfaction in localised area.	Dissatisfaction disrupts localised service.	Significant dissatisfaction and disruption to one or more service area.	Short/medium term dissatisfaction and disruption to large area of councils' services.	Long term, widespread dissatisfaction and disruption to councils' services.
<b>Environment &amp; Sustainability</b>	No lasting detrimental effect	Short term, localised detrimental effect	Serious short-medium term effect that requires remedial action	Long term detrimental impact	Extensive, long term detrimental impact
<b>Regulation</b>	Breaches of local procedures/ standards. Internal only.	Possible complaints or litigation. Breaches of regulations or standards.	High potential for complaint, litigation possible. Breaches of law punishable by fines or imprisonment.	Litigation likely & may be difficult to defend. Breaches of law punishable by fines or imprisonment.	Litigation certain & difficult to defend. Breaches of law punishable by imprisonment.

### Gross Risk Score

Once the likelihood and impact scores have been assessed the risk level itself is then calculated by multiplying the scores.

i.e. likelihood x impact = gross risk score

### **6.4 Risk Control/Mitigating Actions**

Once the original risk score has been calculated, consideration needs to be given to the actions that can be taken to mitigate the risk. The likelihood and impact must then be reassessed taking into account the mitigations and new scores evaluated. This is the “residual risk” – the risk remaining after the mitigating actions have been put in place.

When considering the mitigating actions to be taken for identified risks consideration should be given to comparing the cost of mitigation to the cost of exposure.

All risks should be considered for levels of mitigation dependent upon their own, or aggregated merits.

Having identified, analysed and evaluated the risks, it must be decided what actions will be taken to mitigate the risk to an acceptable level. Mitigation is the action taken to control the risk by reducing the impact and/or reducing the likelihood.

There are four options available.

#### Tolerate the Risk

For some risks, for instance low scoring risks, it may be acceptable to do nothing and accept the risk. These risks should still be monitored to ensure that if the level of risk rises and becomes unacceptable, appropriate action is taken.

#### Treat the Risk

In most cases it will be possible to put controls in place that will reduce the likelihood of the risk occurring and/or reduce the severity of the consequences should the risk occur. Managers must judge which controls are most appropriate and cost effective. After controls have been put in place, the risks should always be re-evaluated to determine that the residual risk is acceptable.

#### Transfer the Risk

This involves transferring liability for the consequences of an event to another body. This can be done through transferring liability to another service provider through contractual arrangements for service delivery, or transferring some or all of the financial risk to an external insurance company. **NB** it is usually only possible to transfer responsibility for risk control and the financial impact, not the underlying risk itself.

## Termination

This is when it is decided not to undertake an activity or service because the risk is too great. This usually occurs where risk treatment or transfer is not appropriate.

The aim of these actions (other than tolerate) should reduce the risk by lowering the scores of the likelihood and/or impact. Once identified the overall risk score can be calculated in the same way as the original risk score.

## **6.5 Risk Monitoring and Reporting**

### Risk Registers

All risks will be logged on Pentana Performance.

There will be separate registers for departmental (service area) risks, strategic risks and project risks.

The risk registers will contain the following information:

- the description of the risk
- the risk score before mitigation (original risk score)
- the mitigating action to be taken and, where appropriate, contingent action should the risk occur
- the responsible officer
- the anticipated risk score after mitigation (residual risk)

Risk registers will be updated regularly, e.g. at least quarterly for departmental (service area) and strategic risks and at appropriate intervals for projects dependant upon the timescale of the project.

Guidance on completing risk registers and carrying out regular updates can be obtained from the Performance Specialist in Business Planning and Performance.

### Risk Monitoring

Risk monitoring and review is an essential and integral part of the risk management process.

When monitoring risks, risk owners will consider the following:

- is the risk still relevant?
- are the controls still in place and operating effectively?
- after reviewing the risk, what has happened to the risk score?
- if the risk score is increasing do I need to devise more controls or think of other ways of mitigating the risk?
- if the risk is decreasing can I relax some existing controls?

Risks should be reviewed at least quarterly and updates recorded on Pentana Performance. Guidance on carrying out regular updates can be obtained from the Performance Specialist in Business Planning and Performance.

Departmental (service area) risks will be reviewed and monitored as a standing item on Departmental Management Team meeting agendas. Project risks will be reviewed at each project team meeting.

Strategic Risks will be reviewed by the risk owners and the Corporate Management Team quarterly.

### Risk Reporting

Reports on key risks will contain the following information:

- description of the risks
- their impact and likelihood scores
- changes to the risk score since the last reporting period and how these have been achieved
- any significant control failures or weaknesses that have occurred in the reporting period along with action plans to address them
- any new or emerging risks
- further explanations must be given where residual risks remain high risk

### Departmental (Service Area) Risks

Risks with a residual high risk score will be reported to the Corporate Management Team by relevant Heads of Service/Directors and form part of their onward reporting to the relevant Audit Committee.

### Major Project Risks

Each major project must have a project risks register written at the start of the project. Monitoring reports will be presented to each project board meeting.

### Strategic Risks

All strategic risk reviews are reported to the Corporate Management Team and the audit committees quarterly.

## **7. EMBEDDING RISK MANAGEMENT WITHIN THE ORGANISATIONS**

In order to be effective, risk management must be embedded in the operations of an organisation and form part of the culture of that organisation.

Risk management training and awareness sessions will be delivered to members and officers of the councils.

All senior managers will, in addition to being responsible for managing their risks, be accountable for embedding the process into their areas of responsibility and for promoting understanding and good practice amongst their staff.

Formal risk management processes will form part of the management of all major projects and in the consideration of entering into any new partnership arrangements. The risks inherent in such projects will be clearly defined, managed and reported.

All reports to Council, Cabinet and Committees will include an assessment and analysis of the risks associated with the requested decision.

## **8. UPDATING THE STRATEGY**

This strategy will be reviewed and updated annually.

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<b>Report to:</b>	<b>Audit and Standards Committee</b>
<b>Date:</b>	<b>14<sup>th</sup> September 2020</b>
<b>Title:</b>	<b>Strategic Risk Register Quarterly Review</b>
<b>Report of:</b>	<b>Chief Internal Auditor</b>
<b>Ward(s):</b>	<b>All</b>
<b>Purpose of report:</b>	<b>To report to Committee the outcomes of the quarterly review of the register by Corporate Management Team.</b>
<b>Officer recommendation(s):</b>	<b>To receive and note the update to the Strategic Risk Register</b>
<b>Reasons for recommendations:</b>	<b>The Council is committed to proper risk management and to regularly updating the committee with regard to the Strategic Risk Register.</b>
<b>Contact Officer(s):</b>	<b>Name: Jackie Humphrey Post title: Chief Internal Auditor E-mail: <a href="mailto:Jackie.humphrey@lewes-eastbourne.gov.uk">Jackie.humphrey@lewes-eastbourne.gov.uk</a> Telephone number: 01323 415925</b>

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## **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 Background to April 2020 Review**

- 2.1 When the strategic risk registers were reviewed in February it was agreed to update the risk "Council materially impacted by the medium to long term effects of an event under the Civil Contingencies Act" by the addition of a point in the description. The following point was added:

“Work adversely affected by reduced staff numbers due to the effects of pandemic virus”.

2.2 At that time Covid-19 had only just been named and had not been officially designated as pandemic. It was therefore decided not to raise the risk level at that time but to keep it under review.

2.3 The situation has changed dramatically and quickly since that report and the councils are now working in a completely changed environment. New pieces of work have been undertaken to deliver relief granted by the government as well as addressing perceived gaps in the voluntary sector. On top of this the councils are dealing with an exceptional increase in benefit applications and customer contacts. This has all happened alongside a sudden and unprecedented adjustment in the ways of working.

2.4 It is clear that, with the speed and extent of the changes to the ways of working, there would be an impact on processes and on the controls operating within those processes.

### **3. Report to Corporate Management Team**

3.1 A report was taken to the Corporate Management Team in April to report on the risks to the council as a result of the measures taken in response to the Covid-19 pandemic. The following areas were covered.

3.2 Ceased/relaxed controls – with the sudden change in ways of working it was clear that some controls may be relaxed or cease. An email was sent to all managers stating that the Internal Audit and Counter Fraud teams were still available to give advice on controls and to request that any changes to controls be reported to Internal Audit. Some requests for advice were received and dealt with and some changes in controls were reported. These areas have been noted and checks will be undertaken by Internal Audit and Counter Fraud on the work carried out during this period.

3.3 New areas of work – it was noted that new areas of work had been undertaken. These included the Business Rate Relief, Relief Grants, Hardship Grants and the packing and delivery of food parcels. Some initial investigations were undertaken and it appears that adequate controls had been put in place. However further checks will be undertaken by Internal Audit and Counter Fraud on the work carried out during this period at a later date.

3.4 General control risks – it was pointed out that with staff working outside of the office environment and with increased pressure to perform processes (especially the new ones) quickly there could be a tendency for individuals to relax controls. There is also the risk of redeployed staff not being aware of certain controls within the work they are being asked to carry out. Once again, further checks will be undertaken by Internal Audit and Counter Fraud on the work carried out during this period at a later date.

3.5 Financial Risks – the council are losing Business Rate income as well as income from theatres, events, conferences, catering, car parks etc. On top of this the



latest plans for making savings cannot be progressed and so significant targets cannot be met. This is likely to have a significant impact on the finances of the council going forward.

- 3.6 Health and Safety Risks – there are clear risks for the staff who are still in contact with the public. However, there may be hidden risks with the staff who are working from home. These could be suffering mentally from being in lockdown but also are likely to be working whilst sitting at tables and on chairs that are not designed for sitting on/at for long periods. This could build up physical issues which will impact on sickness levels at a later date.
- 3.7 Other risks – there are a range of other risks that have been highlighted such as issues taking payments for some licences over the phone, increased fly-tipping, payments to contractors and the reputation risk to the council (for example, negative feedback about the speed of arranging relief grants).
- 3.8 The report to the Corporate Management Team therefore recommended that, as the council is currently in uncharted territory, the fuller implications of the risks cannot be properly measured and so the following changes to risk levels are suggested, bringing relevant risk scores to the highest level until a better idea can be gained of possible outcomes.

<b>Risk</b>	Changes to the economic environment makes the council economically less sustainable.
<b>Last risk score</b>	Likelihood 5, Impact 5.
<b>Reason for change</b>	It is clear that the economy is going to be affected and it is not yet clear whether local authorities will be sufficiently funded to cover the impact of reduced income.
<b>Suggested risk score</b>	This is already at the highest risk level so cannot be raised.

<b>Risk</b>	Unforeseen socio-economic and/or demographic shifts creating significant changes of demands and expectations.
<b>Last risk score</b>	Likelihood 3, Impact 3
<b>Reason for change</b>	It cannot be known yet the full impact of the pandemic but there has already been a jump in benefit applications and there could be increased homelessness and demand for council homes.
<b>Suggested risk score</b>	Likelihood 5, Impact 5.

<b>Risk</b>	Council prevented from delivering services for a prolonged period of time.
<b>Last risk score</b>	Likelihood 2, Impact 4
<b>Reason for change</b>	Whilst there has been no prevention of delivery it has become more difficult.
<b>Suggested risk score</b>	Likelihood be raised to at least 3.

<b>Risk</b>	Council materially impacted by the medium to long term effect of an event under the Civil Contingencies Act
<b>Last risk score</b>	Likelihood 3, Impact 3.
<b>Reason for change</b>	There are already signs that the lack of income and not being able to make the saving intended will have a significant impact.
<b>Suggested risk score</b>	Likelihood 5, Impact 5.

<b>Risk</b>	Commercial enterprises that are fully controlled by the authority do not deliver financial expectations or do not meet governance requirements.
<b>Last risk score</b>	Likelihood 5, Impact 3.
<b>Reason for change</b>	The long terms effects of the current pandemic on companies cannot be currently judged
<b>Suggested risk score</b>	Likelihood 5, Impact 5.

3.9 All of these risk levels will be reviewed as time goes on once there is a better idea of just how the councils will be affected by the current situation.

#### 4. Decision by Corporate Management Team

4.1 At the meeting the Corporate Management Team agreed with the suggested risk scores with the exception of the risk “Council prevented from delivering services for a prolonged period of time” where it was agreed to raise the Likelihood score to 4.

4.2 Corporate Management Team also asked for the following footnote to be added to the Strategic Risk Register to refer to all of the risks listed at 3.8 above.

“These scores reflect the current situation regarding the Coronavirus Pandemic and the uncertainty in respect of its full impact and timeline. Mitigations that have been put in place include:

- ensuring that the council, as part of a regional network of partners, is able to undertake its civil contingencies duties in response to the national emergency
- the creative redeployment of staff and resources to enable sufficient capacity to respond to the needs of the community and maintain priority services in line with a robust business continuity focused approach
- maintaining an accurate record of all business impacts and cost implications attributable to the current situation and providing ongoing information to the Government to assist the process of reimbursements
- keeping the strategic risks under constant review and modification in response to the ongoing national and local situation

In stating all of the above, it must be noted that the council’s ability to maintain and implement mitigating actions and future recovery is very heavily dependent on the degree to which Central Government is able to compensate Local Government financial impacts relating to increased costs and income loss arising from the full extent of the Covid-19 national emergency.”

4.3 Finally, it was also requested that a new risk be added to the risk register and this is shown below and appears on the attached risk register as SR\_011.

<b>Risk</b>	Judicial challenge of decision-making is heightened as a consequence of increased reliance on use of officer delegated powers
<b>Description</b>	<p>There is scope for the public audience, members of whom may be directly or indirectly affected by Council decisions, to increase once they can routinely hear (and see) meetings from the comfort of their homes. So, the number of people who may be in a position to mount a challenge may similarly increase.</p> <p>There is potential for successful challenges where lapses in IT connectivity may mean that decisions are made where members have not heard and taken into account all relevant information and/or where key public or other participants have not been able to participate in the meeting due to technology failure.</p> <p>The officer resource needed to defend the councils against this type of challenge will be significant</p>
<b>Original risk score</b>	Likelihood 4, Impact 4.
<b>Mitigating Actions</b>	<p>Use of delegated powers to be adequately recorded.</p> <p>Work closely with IT to ensure that technological issues are kept to a minimum.</p> <p>Issue minutes of meetings as soon as practicable.</p>
<b>Current risk score</b>	Likelihood 4, Impact 4.

## 5 August 2020 review

5.1 The updated risk register was taken back to the Corporate Management Team in August to reconsider the scoring of the risks. It was agreed that no scores required amendment at this time.

## 6. Financial appraisal

6.1 There are no financial implications arising from this report.

## **7. Legal implications**

- 7.1 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 06.08.20*

*Legal ref: 009433-LDC-CK*

## **8. Risk management implications**

- 8.1 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.

## **9. Equality analysis**

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

## **10. Appendices**

- Appendix 1 - Strategic Risk Register

## **11. Background papers**

None



# Strategic Risk Register Position Table (Lewes)

**Report Type:** Risks Report  
**Generated on:** April 2020

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

## Strategic Risk Register (Lewes)



**Report Type:** Risks Report

**Generated on:** April 2020

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	<p><u>Reduces Likelihood</u></p> <p>1. Create inclusive governance structures which rely on sound evidence for decision making.</p> <p><u>Reduces Impact</u></p> <p>2. Annual review of corporate plan and Medium Term Financial Strategy</p> <p>3. Creating an organisational architecture that can respond to changes in the environment.</p>	Chief Executive	2	3	6	Amber	Nov-2020
SR_022	Changes to the economic environment makes the Council economically less sustainable	<p>1. Economic development of the town suffers.</p> <p>2. Council objectives cannot be met.</p>	5	5	25	<p><u>Reduces Impact</u></p> <p>1. Robust Medium Term Financial Strategy reviewed annually and monitored quarterly. Refreshed in line with macro economic environment triennially.</p> <p>2. Creating an organisational architecture that can respond to changes in the</p>	Chief Finance Officer	5	5	25	Red	Nov-2020

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
						environment.						
SR_023	Unforeseen socio-economic and/or demographic shifts creating significant changes of demands and expectations.	<p>1. Unsustainable demand on services.</p> <p>2. Service failure.</p> <p>3. Council structure unsustainable and not fit for purpose.</p> <p>4. Heightened likelihood of fraud.</p>	3	4	12	<p><u>Reduces Impact</u></p> <p>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).</p> <p>2. Ensuring community and interest group engagement in policy development (e.g. Neighbourhood Management Schemes; Corporate Consultation Programme)</p>	Director of Service Delivery	5	5	25	Red	Nov-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 standards and an increase in service costs.	4	4	16	<p><u>Reduces Likelihood</u></p> <p>1. Changes undertaken to increase non-financial attractiveness of EBC to current and future staff.</p> <p>2. Appropriate reward and recognition policies reviewed on a regular basis.</p> <p><u>Reduces Likelihood and Impact</u></p> <p>3. Review of organisation delivery models to better manage the blend of direct labour provision. Pursuit of</p>	Asst Dir of HR and Transformation	3	2	6	Amber	Nov-2020

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
						mutually beneficial shared service arrangements.						
SR_02 5	Not being able to sustain a culture that supports organisational objectives and future development.	<ul style="list-style-type: none"> <li>1. Decline in performance.</li> <li>2. Higher turnover of staff.</li> <li>3. Decline in morale.</li> <li>4. Increase in absenteeism.</li> <li>5. Service failure</li> <li>6. Increased possibility of fraud.</li> </ul>	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	Nov-2020
SR_02 6	Council prevented from delivering services for a prolonged period of time.	<ul style="list-style-type: none"> <li>1. Denial of access to property</li> <li>2. Denial of access to technology/information</li> <li>3. Denial of access to people</li> </ul>	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 more flexible, less locationally dependent service architecture.  <u>Reduces Impact</u> 3. Regularly reviewed and	Chief Executive	4	4	16	Red	Nov-2020



Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
						tested Business Continuity Plans.  4. Regularly reviewed and tested Disaster Recovery Plan.						
SR_027	Council materially impacted by the medium to long term effects of an event under the Civil Contingencies Act	1. Service profile of the Council changes materially as a result of the impact of the event. 2. Cost profile of the Council changes materially as a result of the impact of the event. 3. Work adversely affected by reduced staff numbers due to effects of pandemic virus.	3	5	15	<u>Reduces Likelihood and Impact</u> 1. Working in partnership with other public bodies. 2. Robust emergency planning and use of Council's emergency powers. <u>Reduces Impact</u> 3. Ongoing and robust risk profiling of local area (demographic and geographic). 4. Review budget and reserves in light of risk profile.	Asst Dir for Corporate Governance	5	5	25	Red	Nov-2020
SR_028	Failure to meet regulatory or legal requirements	1. Trust and confidence in the Council is negatively impacted. 2. Deterioration of financial position as a result of regulatory intervention/penalties'	3	4	12	<u>Reduces Likelihood</u> 1. Developing, maintaining and monitoring robust governance framework for the Council. 2. Building relationships with regulatory bodies.	Asst Dir Legal and Democratic Services	2	4	8	Amber	Nov-2020

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
		3. Deterioration of service performance as a result of regulatory intervention/penalties				<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> <p>7. Ensure that fire risk regulations are adhered to and that Fire Risk Assessments are regularly reviewed.</p>						
SR_009	Commercial enterprises that are fully controlled by the authority do not deliver	<p>1. Unfamiliar activity with staff inexperienced in this area</p> <p>2. Council finances</p>	3	4	12	<p><u>Reduces Likelihood</u></p> <p>1. Hire suitably qualified/experienced staff to give legal and specialist support.</p>	Dir of Regeneration and Planning	5	5	25	Red	Nov-2020

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
	financial expectations or do not meet governance requirements.	<p>affected if projects do not meet financial expectations.</p> <p>3. Reputational damage if governance procedures are inadequate.</p> <p>4. Failure to abide by company law.</p>				<p>2. Appoint Head of Commercial Activities.</p> <p>3. Ensure that projects meet core principles.</p> <p>4. Up or re-skill staff to maximise commercial opportunities.</p> <p>5. Ensure governance processes are set up and adhered to.</p>	<p>And</p> <p>Dir of Tourism and Enterprise</p>					
SR_010	The Council suffers a personal data breach by inadequate handling of data or by an IT incident	<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 compensation claims</p>	3	4	12	<p><u>Reduces Likelihood</u></p> <p>1. Ongoing corporate training for data protection.</p> <p>2. Ensure all staff complete 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</p>	<p>Asst Dir Legal and Democratic Services</p>	2	4	8	Amber	Nov-2020

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
		by persons affected by a personal data breach.				responsibilities under data protection, including personal data breach reporting arrangements.  6. Ensure the suite of IT policies is kept up to date.  7. Ensure that IT security is in place and regularly tested.  <u>Reduces Impact</u> 1. Incident management procedures to mitigate loss or breach of data are in place.						
SR_011	Judicial challenge of decision-making is heightened as a consequence of increased reliance on use of officer delegated powers	1. There is scope for the public audience, members of whom may be directly or indirectly affected by Council decisions, to increase once they can routinely hear (and see) meetings from the comfort of their homes. So, the number of people who may be in a position to mount a challenge may similarly increase.	4	4	16	<u>Reduces Likelihood</u> 1. Work closely with IT to ensure that technological issues are kept to a minimum.  <u>Reduces Impact</u> 1. Use of delegated powers to be adequately recorded.  2. Issue minutes of meetings as soon as practicable.	Asst Dir Legal and Democratic Services	4	4	16	Red	Nov-2020

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
		<p>2. There is potential for successful challenges where lapses in IT connectivity may mean that decisions are made where members have not heard and taken into account all relevant information and/or where key public or other participants have not been able to participate in the meeting due to technology failure.</p> <p>3. The officer resource needed to defend the councils against this type of challenge will be significant</p>										

**COVID-19**

These scores reflect the current situation regarding the Coronavirus Pandemic and the uncertainty in respect of its full impact and timeline. Mitigations that have been put in place include:

- ensuring that the council, as part of a regional network of partners, is able to undertake its civil contingencies duties in response to the national emergency

- the creative redeployment of staff and resources to enable sufficient capacity to respond to the needs of the community and maintain priority services in line with a robust business continuity focused approach
- maintaining an accurate record of all business impacts and cost implications attributable to the current situation and providing ongoing information to the Government to assist the process of reimbursements
- keeping the strategic risks under constant review and modification in response to the ongoing national and local situation

In stating all of the above, it must be noted that the council's ability to maintain and implement mitigating actions and future recovery is very heavily dependent on the degree to which Central Government is able to compensate Local Government financial impacts relating to increased costs and income loss arising from the full extent of the Covid-19 national emergency."