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# Audit and Governance Committee 28 July 2021

EASTBOURNE
Borough Council

Working in partnership with **Eastbourne Homes**

**Time and venue:**

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

**Note: This meeting is a public meeting. The number of public seats, however, are limited and need to be carefully managed to ensure that the meeting is Covid-secure. For this reason, we would like to ask that anyone intending to attend as a member of the public, contact Democratic Services in advance by email: committees@lewes-eastbourne.gov.uk or phone: 01273 471600. Anyone attending the meeting will be requested to check in at the venue and to wear a face covering.**

**Membership:**

**Councillor Robin Maxted (Chair); Councillors Amanda Morris (Deputy-Chair) Helen Burton, Sammy Choudhury, Peter Diplock, Tony Freebody, Md. Harun Miah and Kshama Shore**

**Quorum: 2**

*Published: Tuesday, 20 July 2021*

# Agenda

**1 Minutes (Pages 5 - 12)**

To confirm the minutes of the last meeting of the Committee.

**2 Apologies for absence/declaration of substitute members**

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

**4 Questions by members of the public.**

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

**5 Urgent items of business.**

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

**6 Right to address the meeting/order of business.**

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

**7 External Auditor (Deloitte) report on the 2018/19 Statement of Accounts (Pages 13 - 156)**

Report of the Chief Finance Officer.

**8 External Audit 2019/20 Report**

A verbal update from External Auditor, Deloitte, and Eastbourne Council Officers.

**9 Redmond Review update and MHCLG External Audit Consultations (Pages 157 - 160)**

Report of the Chief Finance Officer.

**10 Treasury Management Annual Report 2020/21 (Pages 161 - 178)**

Report of the Chief Finance Officer.

**11 Annual Governance Statement Report (Pages 179 - 214)**

Report of the Chief Internal Auditor.

**12 Internal Audit and Counter Fraud Report for the financial year 2020-2021 (Pages 215 - 232)**

Report of the Chief Internal Auditor.

**13 Strategic Risk Register Quarterly Review (Pages 233 - 242)**

Report of the Chief Internal Auditor.

# Information for the public

**Accessibility:**

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

**Filming/Recording:**

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**Public participation:**

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

# Information for Councillors

**Disclosure of interests:**

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

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

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

**Councillor right of address:**

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

# Democratic Services

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

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EASTBOURNE
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# Audit and Governance Committee

**Minutes of meeting held remotely on 3 March 2021 at 6.00 pm.**

**Present:**

Councillor Robin Maxted (Chair).

Councillors Amanda Morris (Deputy-Chair), Sammy Choudhury, Paul Metcalfe, Md. Harun Miah and Barry Taylor.

**Officers in attendance:**

Oliver Dixon (Head of Legal Services), Lee Ewan (Counter Fraud Investigations Manager), Jackie Humphrey (Chief Internal Auditor), Homira Javadi (Chief Finance Officer), Ola Owolabi (Deputy Chief Finance Officer (Corporate Finance) and Elaine Roberts (Committee Officer).

**Also in attendance:**
Ben Sheriff and Paul Thomas (External Auditor - Deloitte)

## 26 Apologies for absence/declaration of substitute members

Apologies were received from Helen Burton.

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

There were none.

## 28 Minutes

The minutes of the last meeting, 26 November 2020, were approved.

## 29 Questions by members of the public.

No questions had been received.

## 30 Urgent items of business.

There were none.

## 31 Right to address the meeting/order of business.

The Chair confirmed that no requests to address the meeting had been received.

## 32 External Audit 2018/19

Report of the External Auditor, Deloitte.

The Deputy Chief Finance Officer (DCFO), Ola Owolabi, gave a verbal update to the Committee. He reported that a meeting of senior management from Deloitte and the Council, including Chief Finance Officer Homira Javadi, Chief Executive Rob Cottrill and Craig Wisdom, Partner (Audit & Assurance), Deloitte, had taken place in February to discuss the situation of outstanding External Audits. As a result, Deloitte had now committed appropriate resources, between March and September, to address the three external audits of 2018/19, 2019/20 and 2020/21. This would be supported with monthly progress-monitoring meetings.

Ben Sheriff, Deloitte, then presented his update on plans to complete the External Audit for 2018/19 (which had been circulated to committee members ahead of the meeting as an agenda supplement).

Mr. Sheriff confirmed that he expected to complete the ISA 260 report for the 2018/19 audit within a month or so and that there would be only minor amendments compared to the draft ISA 260 report presented to the Committee at the November 2020 meeting.

The Chair thanked Mr Sheriff, the CFO and the DCFO for their reports and for their efforts to establish a position where the Committee could now look forward with confidence to receiving the outstanding External Audits in the next few months.

**Resolved**

1. To note the updates from Deloitte and the Deputy Chief Finance Officer.
2. To request that Officers liaise with Democratic Services to agree an appropriate schedule of committee meetings to ensure timely review of External Audit reporting from Deloitte.

## 33 External Audit 2019/20

Ben Sheriff, External Auditor, Deloitte, presented a verbal update.

Mr. Sheriff confirmed that staff and resourcing at Deloitte, including input from specialists, had been secured from mid March, and that the Council's Finance Team was already working with Mr Sheriff to ensure the audit would start on schedule.

The Council's Chief Finance Officer, Homira Javadi, thanked Mr. Sheriff and his team, and acknowledged the immense pressure on resourcing at Deloitte.

The CFO confirmed there was full commitment from the Council to support and facilitate the work of Deloitte, and noted that Deloitte's commitment to provide continuity of resources had been a key outcome from the recent senior management meeting. This, along with the new monthly monitoring meetings, would mean closure of the External Audits was realistically achievable.

The Chair thanked Deloitte and the Council's Finance team for their reports.

**Resolved:**
To note the update from Deloitte and the CFO/DCFO**.**

**34 External Audit draft plan 2020/21 - to follow**

Deputy Chief Finance Officer, Ola Owolabi, presented his report regarding Deloitte's draft Plan for the External Audit of 2020/21. He noted that, in line with best practice, the Plan included: the assessment of key risks, the approach that would be taken by the external auditors, and the process for determining and ensuring economy and efficiency and effectiveness.

The DCFO welcomed the commitment of resources from Deloitte and the consequent opportunity it presented to deliver all three external audits this year. He reminded the Committee that Central Government was considering implementing some of Sir Redmond's Report's recommendations this year, which would change the deadline for publishing audited local authority accounts from 31 July to 30 September.

Ben Sherrif, Deloitte, then presented his draft Plan for the External Audit 2020/21. He summarised the main areas of risk and focus for the audit, and noted that these would be monitored and revisited if matters arose.

The Chair thanked Mr Sheriff and the Committee considered the report.

Mr Sheriff confirmed that the three main risk areas of property valuation, credit, and management control, were all typical for a local authority. Focus areas would include pensions, ICE accounting and Covid-19-related matters.

He noted that 'value for money' reporting would be different for this audit, to reflect new regulations for more detailed commentary on this issue.

Mr Sheriff clarified the context for property valuations and the noted the potential for uncertainty around valuations as a result of Covid-19 impacts.

During discussion of the issue of property valuation:

- The DCFO confirmed that a list of Council property valuations could be made available to the committee, if requested. Issues of commercial sensitivity around information from the Council's investment portfolio would have to be considered first

- The CFO clarified that there was a rolling programme of evaluation monitoring and such a list would be from a given point of time.

- The CFO clarified that when the Council had a specific interest, either for making an investment or disposing of an asset, then far more detailed work would be undertaken to determine both fair market value and the best 'value for money' outcome for the Council.

- Mr Sheriff confirmed that the external audit work would include a detailed review of the property valuations and use of outside specialists to ensure a comprehensive 'check and challenge' approach.

The Committee expressed a preference for having the external audits presented to them individually across the coming months, rather than all in one meeting.

An ideal schedule for presenting the external audits was agreed as:
2018/19 Accounts – April/May time
2019/20 Accounts – July
2020/21 Accounts – September/November

The Chair thanked Ben Sheriff and Paul Thomas for attending the meeting, and went on to thank both the team at Deloitte and the Finance Team within the Council for the progress on resolving the issue of the delayed external audits.

**Resolved:**

1. To note the draft External Audit Plan for 2020/21.
2. The Deputy Chief Finance Officer to liaise with Democratic Services to schedule Committee meetings to fit with expected report delivery from Deloitte. Nominally, for May, July and end of September.

**35 Annual report on the use and governance of covert surveillance powers**

Lee Ewan, RIPA (Regulation of Investigatory Powers Act 2000) Monitoring Officer, presented the report and the Committee considered the recommendations.

Lee Ewan clarified that the Team had a responsibility to continuously monitor to check that any surveillance activity remains appropriate and proportionate to continue with any surveillance. If a case no longer warranted surveillance before the end of the period granted by the JP, it would cease immediately.

Lee Ewan confirmed that a complaints process is in place for anyone wishing to express a grievance about the Council's use of surveillance. The process is managed by the Investigatory Powers Commissioner's Office (IPCO), an independent authority for investigating allegations of a breach or concerns of abuse of powers. IPCO conducts regular independent reviews of Local Authorities; its recent report of Eastbourne Borough Council was very complimentary.

The Chair thanked Lee Ewan for his report.

**Resolved:**

1. To note the report

## 36 Draft Internal Audit Plan 2021/22

The Chief Internal Auditor, Jackie Humphrey presented the report of the Draft Internal Audit Plan for 2021/22.

In her presentation, Jackie Humphrey explained that the Plan had been designed to provide flexibility while ensuring an appropriate breadth of coverage and proceeded to explain the approach in detail, including explanation for the areas of focus and the rationale for the selections.

The Committee then considered the proposed plan.

The relatively high proportion of time allocated for Corporate Services and Service Delivery was noted, but it was recognised that the report detailed why this was required, due to the wide scope and varied activities that these areas encompass. The Chief Internal Auditor highlighted that this would also include the work of the Counter Fraud Team.

The Chief Internal Auditor confirmed that the Plan was flexible and would adapt to any changes that might occur between during the course of the year.

**Resolved**

1. To agree the proposed Internal Audit Plan 2021/22.

## 37 Internal Audit and Counter Fraud Quarterly Review

The Chief Internal Auditor, Jackie Humphrey, presented a review of Counter Fraud activity over the last quarter and the Committee considered the report.

The Chief Internal Auditor clarified that CMT (Corporate Management Team) had requested a caveat in the reporting of the Council's Covid-19 response: namely, that while the Council had responded well to the Covid-19 crisis, there was not a detailed written plan: the assurance level would go back up, once the response plan activity had been captured as a process, in writing.

The Chief Internal Auditor confirmed that, while some aspects of Counter Fraud activity had been limited due to Covid-19, a lot of work had still gone ahead. This included investigating cases around tenancies, right to buy and housing options, debt, business grants fraud and post verification. Work in this area had proved vital both from recovery of monies as well as savings – identifying fraud before payments were made.

The Committee thanked Jackie Humphrey and her team and all that their hard work had achieved, especially under such difficult circumstances.

**Resolved:**

1. To note the report.

## 38 Strategic Risk Register Quarterly Review

Chief Internal Auditor, Jackie Humphrey, presented the report and provided an explanation of the current risk register.

The Committee then considered the report.

The Chief Internal Auditor clarified that the impacts of Covid-19 had been regularly captured under the new flexible reporting model adopted for this year. In addition, a specific mention had now been included as a measure of control, in line with recommendations from Central Government.

The Chief Internal Auditor drew attention to the change of risk score for Risk 9 (from '3 / 4' to '5 / 5') and explained that, while any changes would normally be downward not upward, the rise in this instance was because this is 'unknown territory' and the higher grading ensured that it was properly flagged.

The Committee commented on the number of 'red tagged' items (5 in total), specifically the item regarding 'issues delegated to the officers' (Risk 11). The Chief Internal Auditor explained this was to recognise the additional risks from having remote meetings and the potential impacts from any technical issues.

The Committee thanked the Chief Internal Auditor and her team, and recognised the comprehensive, clear and accessible quality of the reporting.

**Resolved:**

1. To note the report

## 39 Arrangements for dealing with complaints about Councillor conduct report

The Council's Monitoring Officer (MO), Oliver Dixon, presented his report.

He explained that the proposal for a complaints procedure to support the Members' Code of Conduct would help ensure transparency and consistency, protect the Council from accusations of unfairness, and align it with best practice recommendations by the Committee on Standards in Public Life.

The Committee considered the report.

During discussions the MO clarified that:

- There were no changes being proposed to The Code of Conduct itself.
- The only difference between the approach taken by Lewes District Council (LDC) and Eastbourne Borough Council (EBC) is that the Lewes arrangements include provision for complaints about members and co-opted members of parish councils.
- The amendments referenced in recommendation no. 3 referred to minor technical changes only. These would always be reported to the Chair. If any substantive change was ever proposed, it would be brought to the Audit

and Governance Committee for approval, before the procedure was formally changed.

Members discussed the benefits of a written complaints procedure and noted that it would:

- provide an extra element of governance, which would be particularly useful for serious cases;
- ensure greater transparency and consistency for the Council; and
- help provide support and confidence to the MO and his team in the execution of their duties.

The work of the previous MO in resolving complaints about Councillor conduct was noted and praised.

**Resolved**

1. To approve the procedure for dealing with complaints about councillor conduct, as set out in Appendix 1;

2. To approve the investigation procedure and hearings procedure set out at Appendices 2 and 3 respectively; and

3. To grant delegated authority to the Monitoring Officer to make any administrative or technical amendments to the above procedures, necessary to ensure ongoing compliance with the law and best practice.

4. To request that the procedures be published on the Council's website and copies sent to all Members.

**40 Date of next meeting**

The date of the next scheduled meeting was confirmed as the 28th July 2021.

Other meeting dates would be confirmed following resolution made under item 9 of the agenda.

The meeting ended at 7.40 pm

Councillor Robin Maxted (Chair)

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# Agenda Item 7

| | |
|---|---|
| **Report to:** | **Audit and Governance Committee** |
| **Date:** | **28 July 2021** |
| **Title:** | **The External Auditors (Deloitte) report on the 2018/19 Statement of Accounts** |
| **Report of:** | **Chief Finance Officer** |
| **Cabinet member:** | **Councillor Stephen Holt, Cabinet Member for Finance** |
| **Ward(s):** | **All** |
| **Purpose of report:** | **To review the Independent Auditor's (Deloitte) report to those charged with governance regarding the audited 2018/19 Statement of Accounts.** |
| **Decision type:** | **Budget and Policy Framework** |
| **Officer recommendation(s):** | **The Committee is recommended to:**<br>**1. Note the Independent Auditor's (Deloitte) report to those charged with governance on EBC Accounts, and the Value for Money conclusion report.**<br>**2. To approve the Audited 2018/19 Statement of Accounts.**<br>**3. Authorise the Chief Finance Officer to sign the formal Letter of Representation to Deloitte.**<br>**4. Note the 2019/20 Statement of Accounts audit update.** |
| **Reasons for recommendations:** | **The Council is required to produce an annual Statement of Accounts in line with the Accounts and Audit Regulations.** |
| **Contact Officer:** | **Name: Ola Owolabi**<br>**Post title: Deputy Chief Finance Officer**<br>**E-mail: ola.owolabi@lewes-eastbourne.gov.uk**<br>**Telephone number: 01323 415083** |

## 1 Introduction

1.1 This report summarises the key findings (Appendix A) arising from Deloitte final audit work in relation to the Council's 2018/19 financial statements (Appendix B), and on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

1.2 The completion of the audit was delayed, primarily due to the challenges of determining the appropriate accounting treatment, valuation and entries in respect of the Council's financial guarantee arrangements via Investment Company Eastbourne ("ICE") in the Council and Group financial statements.

**2.0 2018/19 Statement of Accounts**

2.1 Under its terms of reference, it is the role of this Committee to review/approve the annual statement of accounts and the external auditor's report to those charged with governance, having considered whether appropriate accounting policies have been followed, and any issues raised by Deloitte from the audit of the accounts.

2.2 The auditors envisage issuing an unqualified audit opinion on the Council's financial statements. A number of accounting and presentational adjustments arising from normal audit work have been noted, discussed, and resolved as stated in the report.

2.3 Deloitte has also completed the review of the arrangements made by the Council to secure economy, efficiency, and effectiveness in the use of resources (Value for Money - VFM) and did not identify any significant VFM risks in 2018/19. Deloitte is satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2019, and did not feel it necessary to report on any particular points on value for money issues.

**Letter of Representation 2018-19**

2.4 Each year, on completion of the audit of the Council's Financial Statements, the Chief Finance Officer is required to submit a Letter of Representation to the Council's external auditor. The letter formally and publicly confirms the accuracy and completeness of the presented Statement of Accounts.

2.5 A copy of the draft Letter of Representation for 2018/19 is attached at Appendix C and on receipt of the signed Letter of Representation, the Council's external auditor will formally issue an opinion on the Financial Statements.

**3.0 Annual Statement of Accounts 2019/20- update**

3.1 The Accounts and Audit Regulations set out the timescales to produce the Council's accounts, including the dates of the public inspection period. Following the coronavirus outbreak and in response to the pressures this has placed upon finance teams and external auditors in the production of the 2019/20 accounts, the Accounts and Audit (Coronavirus) (Amendment) Regulations were amended to change the came up with changes including S151, Members and publication dates.

3.2 The draft 2019/20 Statement of Accounts was submitted to the External Auditors (Deloitte) in July 2020, and the auditor envisages starting the 2019/20 audit immediately after the completion of the 2018/19 audit.

**4 Corporate plan and council policies**

4.1 Considered as part of the overall Accounts and Audit Regulations requirement and the timescales.

**5 Financial appraisal**

5.1 There are no direct financial considerations arising from this report.

## 6 Legal implications

6.1 Comment from the Legal Services Team is not necessary for this routine monitoring report. The Accounts and Audit (England) Regulations requires the Statement of Accounts to be considered and approved by way of a committee resolution and thereafter published.

## 7 Risk management implications

7.1 There are no implications arising from this report.

## 8 Equality analysis

8.1 Equality issues are considered

## 9 Appendices

9.1
- Appendix A - The Eastbourne Borough Council Report to the Audit and Governance Committee on the audit for the year ended 31 March 2019.
- Appendix B - Audited 2018/19 Statement of Accounts.
- Appendix C - Formal Letter of Representation to Deloitte.

## 10 Background papers

10.1 The Background Papers used in compiling this report: 2018/19 Statement of Accounts

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Deloitte.

EASTBOURNE Borough Council

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# Eastbourne Borough Council

## Report to the Audit and Governance Committee on the audit for the year ended 31 March 2019

Issued for the meeting on 28 July 2021

Deloitte Confidential: Government and Public Services

# Contents

# Introduction

## The key messages in this report

This report sets out the status of the 2018/19 audit of Eastbourne Borough Council (the Council). The scope of our audit was set out within our planning report previously presented to the audit committee.

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.



**Status of the audit**

The completion of the audit has been delayed, primarily due to the challenges of determining the appropriate accounting treatment, valuation and entries in respect of the Council's financial guarantee arrangements via Investment Company Eastbourne ("ICE") (including joint venture accounting for the Council's interest in Infrastructure Investments Leicester Limited ("IIL")) in the Council and Group financial statements.

The remaining outstanding areas of the audit are:

- receipt of signed management representation letter; and
- our review of events since 31 March 2019 through to signing.

**Conclusions from our testing**

We have included in this paper our conclusions from testing of key areas of the financial statements.

Management have made a significant number of adjustments to the financial statements during the course of the audit, including:

- Accounting treatment for the investment in Infrastructure Investments Leicester Ltd (IIL);
- Accounting treatment for the inception of the financial guarantee instrument;
- Accounting treatment for subsequent measurement of that instrument;
- Entries in relation to asset valuations and additions; and
- The valuation of pension assets and liabilities.

We envisage issuing an unmodified audit opinion, with no reference to any matters in respect of the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources, or the Annual Governance Statement.

We have considered the impact of the Covid-19 pandemic on our work – this is a non-adjusting subsequent event in relation to the 31 March 2019 financial statements. This has been updated as a subsequent event in the latest version of the 2018/19 financial statements.

We have identified a number of internal control recommendations set out on page 14, initially shared with management during the original audit visit.

# Introduction

## The key messages in this report (continued)

| | |
|---|---|
| **Financial Sustainability and Value for Money** | • Our review of the Council's arrangements has concluded that in the year to 31 March 2019, there are no material matters which we need to report in our Auditor's report on the financial statements with respect to the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources ("value for money").<br>• As noted on page 6, we had identified the Investment Company Eastbourne ("ICE") transaction and financial guarantee contract with Infrastructure Investments Leicester Ltd (IIL) as a significant risk. Following review of documentation and interviews with management, as well as review of the report of internal audit on the governance of the transaction, we concluded that:<br>    • The authority had appropriately taken legal, property and commercial advice during the due diligence of the transaction.<br>    • There were a number of areas for improvement for future transactions in terms of ensuring clarity of the accounting and budgetary impact ahead of entering into a transaction, ensuring clear consideration of downside risks, and transparent consideration of changes in transactions from initial approvals.<br>    • It is not necessary to include an exception to our value for money conclusion in respect of this matter.<br>• As noted on page 18, the Council has a relatively low level of General Fund reserves, increasing the risks to financial sustainability, particularly in the context of the pressures from Covid-19 on income and expenditure going forward. However, this does not impact our value for money conclusion for the 2018/19 financial year. |
| **Narrative Report & Annual Governance Statement** | • We have reviewed the Council's Annual Report & Annual Governance Statement to consider whether it is misleading or inconsistent with other information known to us from our audit work.<br>• We have no significant matters to raise with you in respect of the Narrative Report. The timing of the work on the report means that we have asked management to include some brief subsequent events disclosures with respect to Covid-19 and its future impact on the council (relative to the 31 March 2019 financial statement date). |
| **Duties as public auditor** | • We did not receive any formal queries or objections from local electors this year.<br>• We have not identified any matters that would require us to issue a public interest report. We have not had to exercise any other audit powers under the Local Audit and Accountability Act 2014. |

# Our audit explained

## We tailor our audit to your organisation

1. Identify changes in your business and environment
2. Determine materiality
3. Scoping
4. Significant risk assessment
5. Conclude on significant risk areas
6. Other findings
7. Our audit report

**Identify changes in your business and environment**

In our planning report we identified the key changes in your business and articulated how these impacted our audit approach.

We obtained further information with regards to the financial guarantee contract within ICE, and have updated our risk assessment accordingly.

**Determine materiality**

When planning our audit we set our group materiality at £2.08m based on approximately 2% of forecast gross expenditure and council materiality at £2.06m.

**Scoping**

The Council is the only significant component for the group audit. We have also performed procedures at group level on the property valuations within the subsidiaries.

**Significant risk assessment**

In our planning report we explained our risk assessment process and detailed the significant risks we have identified on this engagement. We report our findings and conclusions on these risks in this report. We have identified an additional significant risk with respect to the treatment of the Guarantee contract in relation to Investment Company Eastbourne (“ICE”).

**Conclude on significant risk areas**

We draw to the Committee’s attention our conclusions on the significant audit risks. In particular the Committee must satisfy themselves that management’s judgements in relation to going concern are appropriate.

**Other findings**

As well as our conclusions on the significant risks we are required to report to you our observations on the internal control environment as well as any other findings from the audit. These are set out on pages 14 to 17 of this report.

**Our audit report**

Based on the current status of our audit work, we envisage issuing an unmodified audit report and value for money conclusion.

# Significant risks

## Accounting for the ICE financial guarantee contract

**Risk identified**

This is an additional significant risk, identified since the planning stage, and is also a risk in relation to value for money.

The Council (through its subsidiary, ICE), agreed to provide certain guarantees with respect to a loan taken out in relation to a property investment in Leicester. This property is owned and operated by a third party.

The guarantee is two-fold, in that ICE (and the council) are guaranteeing the repayments of the bank borrowings by the third party, and also a certain level of rental income through the property.

The Council has also purchased a related option to buy up to 49% of the share capital of the property company for £1 at any time, and gains the rights to 100% of the share capital should there be an event of default.

This is a complex arrangement, and the financial statement risks include the potential for the accounting treatment to be incorrect, Additionally, we have identified a significant Value for Money risk in relation to the governance and informed decision making with regards to this significant and unusual transaction.



**Deloitte response**

With respect to the value for money risk, we obtained documentation as to the work that Management had performed in order to gain an understanding of the legal form of the arrangements and whether they had appropriate powers to enter into the arrangements. Additionally documentation setting out the purpose and risks of the arrangements was obtained.

However, it was clear from these, and from discussion with management that the detailed accounting implications for the Council were not adequately understood (as confirmed by the delays owing to the lack of a finalised accounting treatment) – and this reflected in part lack of clarity over the full terms of the agreements and the related risks to the Council.

Following detailed discussions with management, with our own specialists, and with management's experts, we have since performed the following:

- Concluded that the appropriate accounting treatments are as set out below (subject to management's finalisation of journals to post the accounting entries):

| Area | Appropriate treatment | Notes |
|---|---|---|
| Investment in ICE | This is a joint operation, and is therefore equity accounted, with the Council showing its share of the results and net assets of the entity | Management's advisors had originally not considered whether the arrangement met the criteria for "joint control" or "significant influence". |
| Rental guarantee | Treated as a non-financial guarantee under IFRS 9. Income is recognised over the life of the guarantee, with the carrying value re-measured each year to fair value (with movements in the CIES) | Expected value on recognition c£16.7m, amortising to c£16.2m at 31 March 2019 |
| Loan interest guarantee | This is a financial guarantee. IFRS 9 requires that this is initially recognised at fair value, and subsequently at the higher of that value (less cumulative income against the guarantee) and any determined loss allowance. | Expected value on recognition c£1.2m, amortising to just under £1.2m at 31 March 2019. |
| Contract receivable | There are cashflows receivable with respect to the guarantee arrangement, being an annual guarantee fee (£300k, subject to indexation), and a proportion of the value of the property at termination (100% of the first £35m, and 50% of any amount above £70m). The balance is discounted and so increases as the discounting unwinds. The exposure to property valuation movements means this is also required to be measured at fair value (movements to CIES). | The initial estimate of this receivable was not at fair value, and did not include the property valuation. This has subsequently been adjusted for. The initial value of the debtor of c£12.4m unwinds for a year's discounting to c£12.9m at 31 March 2019. |

# Significant risks and Value for money

## Accounting for the ICE financial guarantee contract (continued)

**Deloitte response (continued)**

- Involved our own specialists in challenging the treatment of the contract, including accounting for the investment in ICE.
- Challenged management's valuation of the various elements of the financial instruments, including in particular, the treatment of the property valuation, discount rates, and the models used.
- Held discussions with Management's advisors, including Grant Thornton and Arlingclose, in order to fully understand the assumptions and estimates that management had made.
- Considered the nature of the transaction and whether the Council had the *vires* to make the arrangement.
- Performed sensitivity analyses of key assumptions, in order to challenge the robustness of the model, and to focus our testing on the key judgements.
- Considered any indications that the transaction had been entered into on a basis other than that of arm's length.
- Reviewed the implications of the accounting for the transaction, and the significant challenges that occurred in presenting this in the financial statements, as part of our work on Value for Money



**Value for Money considerations**

We identified a significant risk to our VFM conclusion in respect of the ICE financial guarantee contract, due to the complexity and size of the transaction. In response:

- We reviewed supporting documentation with regards to the advice taken by the Council prior to entering into the agreement, including legal, property and commercial advice during the due diligence of the transaction, and the internal documentation on the approval of the decisions.
- We discussed the Council's arrangements with senior operational staff – including the Chief Executive Officer and Chief Financial Officer.
- We considered the overall financial impact of the agreement, as well as the balance of risks and rewards.
- We reviewed Internal Audit's report into the governance of the transaction, which had a "Reasonable Assurance" conclusion, but noted a number of recommendations in respect of transparency around decision making, clarity of consideration of the risks of transactions, consideration of accounting requirements, and record keeping on decision making for complex transactions.
- Performed the work to support the financial statement audit.

Following review of documentation and interviews with management, as well as review of the report of internal audit on the governance of the transaction, we concluded that it is not necessary to include an exception to our value for money conclusion in respect of this matter. We note that the final contractual structure entered into in 2018 was not the same as that initially consulted on and approved by Council in 2017, and would view it as good practice for a major transaction for the updated transaction structure to have been reported. We have identified other control recommendations in respect of complex transactions in our findings on page 14 onwards.

**Deloitte view**

The effect of the adjustments for ICE accounting reduces the £2m gain that was previously recorded in reserves, with the effect being a c£1m reduction at 31 March 2019. As the transaction gives rise to significant potential risks over time, and with a significant portion of the value of the transaction only received at the end of 30 years on disposal of the property, we understand management are considering an appropriate reserves policy to ensure adequate allowance for risk in the use of proceeds of the transaction.

The Council has an option, for £1, to acquire a 49% shareholding in IIL (which is one of the key factors in determining the company should be treated as a joint venture). We recommend the Council consider when and/or under what circumstances it will exercise this option, as the Council will only receive dividends from IIL after the option is exercised.

Although the 2018/19 valuations of the elements of the transaction have assumed no significant in year fair value movements, we note that the required accounting will give rise to complex valuation estimates in future years, particularly with the impact of increased market volatility as a result of Covid-19. These movements are likely to give rise to volatility in the CIES, and we understand that management are considering their reserves policy for accounting entries arising from this transaction.

# Cut off and completeness of expenditure via accruals and provisions

**Risk identified**

For 2018/19, the Council approved a budget with a net cost of service of £16.9m. As at September 2018, the Council reported a forecast overspend of £498k, but that they were working towards a balanced position which was achieved in 2017/18. Given the Council's current budget position and the pressures across the whole of the public sector, there is an inherent risk that the year-end position could be manipulated by omitting or misstating accruals and provisions.

**Deloitte response**

We obtained an understanding of the design and implementation of the key controls in place in relation to recording completeness of accruals and provisions.

We performed focused testing in relation to the completeness of expenditure including a detailed review of accruals and provisions.

As part of this focused testing challenged any assumptions made in relation to year-end accruals and provisions.

We reviewed the year on year movement in accruals and provisions and investigated significant movements.

We tested an enhanced sample of expenditure for late cut-off at year end.

**Deloitte view**

Our testing did not identify any issues in these areas.

# Significant risks

## Valuation of property assets

**Risk identified**

The Council is required to hold property assets within Property, Plant and Equipment and Investment Properties at valuation. The valuations are by nature significant estimates which are based on specialist and management assumptions and which can be subject to material changes in value.

**Key judgements and our challenge of them**

The Council held £275.8m of property assets at 31 March 2019, an decrease of £9m, made up of £8.2m revaluation gain, £5.9m of additions, offset by depreciation of £7.1m and disposals of £16.0m. Investment properties increased from £23.9m to £25.7m, of which £1.1m was valuation gains and the remainder additions. We draw attention to the fact that these values have all been changed subsequent to the version of the accounts provided for the initial audit.

All properties were subject to a desktop revaluation exercise in the year as part of the council's approach to the valuations, while the investment properties were fully revalued by management's expert (WHE).

**Deloitte response**

- Our testing of the valuations of the Council's property assets involved our property valuation specialists, Deloitte Real Estate (DRE).
- They completed their initial review, following which there were a number of significant questions for the valuer and for management.
- The main engagement team performed a review of the final version of DRE's report, and followed up with management on certain points indicated for further investigation. All matters were ultimately satisfactorily resolved.



**Deloitte view**

Our work on this matter is now complete. The key matters are as follows:

- Treatment of additions between valuations, which had been added to fixed assets at cost without corresponding disposal entries. Management have adjusted the figures in respect of this, whereby restatement of the comparative was performed in the financial statements.
- Assumptions in relation to the valuations of David Lloyd (Broadwater Way), Hampden Retail Park, and the property in IIL

In addition, we identified a number of instances where we consider that the valuers did not follow best practice in their approach, typically through an overly simplified approach, and where improvements could be made for future valuations. These matters were noted to the valuer during the review process.

We have gained assurance over the these areas and no other issues were noted.

# Significant risks

## Management override of controls

**Risk identified**

In accordance with ISA 240 (UK) management override is a significant risk. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Council's controls for specific transactions.

Additionally, there was a significant, and unusual transaction in the year which was the setting up of the guarantee contract through Investment Company Eastbourne ("ICE"). This is covered as an additional significant risk.



**Deloitte response**

We have considered the overall sensitivity of judgements made in preparation of the financial statements, and note that:

- The Council's results throughout the year showed a surplus of income over expenditure.
- Senior management's remuneration is not tied to particular financial results.

We have considered these factors and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements.

### Significant and unusual transactions

See separate risk in relation to ICE. There were no other significant or unusual transactions in the period.

### Journals

We have performed design and implementation testing of the controls in place for journal approval.

We have used Spotlight data analytics to risk assess journals and select items for detailed follow up testing. The journal entries were selected using computer-assisted profiling based on areas which we consider to be of increased interest.

We have completed testing of the appropriateness of journal entries recorded in the general ledger. We are testing the appropriateness of other adjustments made in the preparation of financial reporting as the adjustments are made.

### Accounting estimates

We have performed design and implementation testing of the controls over key accounting estimates and judgements.

The key judgements in the financial statements are those selected as significant audit risks and other areas of audit interest: valuation of the Council's estate, the pension liability, and accounting for ICE, as discussed elsewhere in this report.

We reviewed accounting estimates for biases that could result in material misstatements due to fraud.

### Deloitte view

We have not identified any significant bias in the key judgements made by management.

We have not identified any instances of management override of controls in relation to the specific transactions tested.

# Conclusion on arrangements to secure economy, efficiency and effectiveness from the Council's use of resources

**Background**

Under the National Audit Office's Code of Audit Practice, we are required to report whether, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Code and supporting Auditor Guidance Notes require us to perform a risk assessment to identify any risks that have the potential to cause us to reach an inappropriate conclusion on the audited body's arrangements. We are required to carry out further work where we identify a significant risk - if we do not identify any significant risks, there is no requirement to carry out further work.

**Our risk assessment**

We set out the risk assessment procedures we had performed and our further planned procedures in our audit planning report including discussion with relevant officers and review of Council documentation including internal audit reports. We did not identify any further significant risks from our remaining risk assessment procedures. Our areas of focus included the below:



- **Investment in ICE and related financial guarantee:** We identified a significant risk with respect to the arrangements surrounding this transactions. As detailed on Page 10, we have concluded that we do not need to draw attention to this in our audit opinion on the Council's arrangements. However, there are a number of areas for improvement that we have noted.
- **Capital Plans:** As at 31 March 2019, the Council had significant capital projects planned. Our review of the Council's arrangements in respect of monitoring these schemes and mitigating associate risks did not give rise to a significant risk to our conclusion.

**Deloitte view**

On the basis of our work, having regard to the guidance issued by the Comptroller and Auditor General in November 2017, we are satisfied that, in all significant respects, Eastbourne Borough Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

# Other matters

## Defined benefits pension scheme

**Background**

The Council participates in the East Sussex Local Government Pension Scheme, administered by East Sussex County Council.

The net pension liability has increased from £45.6m at 31 March 2018 to £56.2m at 31 March 2019 primarily as a result of asset value movements, offset by a slight decrease in the discount rates, and an increase in inflation assumption.

The Council's pension liability is affected by the McCloud legal cases in respect of potential discrimination in the implementation of transitional protections following changes in public sector pension schemes in 2015. Subsequent to year-end, the Government was denied leave to appeal the case, removing the uncertainty over recognition of a liability. The actuary has assessed the impact on the defined benefit obligation as being in the range 0.1% - 1% with a central estimate of 0.3% - an adjustment has been made of £0.8m reflecting this.



| | Council | Benchmark | Comments |
|---|---|---|---|
| Discount rate (% p.a.) | 2.4% | 2.42 | Reasonable, slightly prudent |
| Consumer Price Index (CPI) Inflation rate (% p.a.) | 2.5% | 2.19% | Prudent |
| Salary increase (% p.a.) (over CPI inflation) | 0.4% | Council specific | Prudent – in line with CPI estimates and recent outcomes |
| Pension increase in payment (% p.a.) | 2.5% | 2.19% | In line with CPI estimates |
| Pension increase in deferment (% p.a.) | 2.5% | 2.24% | In line with CPI estimates |
| Mortality - Life expectancy of a male pensioner from age 65 (currently aged 65) | 22.1 | 22.1 | Reasonable |
| Mortality - Life expectancy of a male pensioner from age 65 (currently aged 45) | 23.8 | 23.8 | Reasonable |

**Deloitte response**

- We obtained a copy of the actuarial report produced by Hymans Robertson LLP, the scheme actuary, and agreed in the disclosures to notes in the accounts.
- We assessed the independence and expertise of the actuary supporting the basis of reliance upon their work.
- We reviewed and challenged the assumptions made by Hymans Robertson, including benchmarking as shown the table opposite.
- We have reviewed and challenged the calculation of the impact of the McCloud case on pension liabilities.
- We reviewed the disclosures within the accounts against the Code.
- We received assurance from the auditor of the pension fund over the controls for providing accurate membership data to the actuary.
- We tested the movements in pension asset values from 31 March 2018 to 31 March 2019 via substantive analytic procedures. The updated total asset values are consistent with our expectation.

**Deloitte view**

The Council has adjusted the pension liability for the impact of the McCloud case, and for actual asset valuations at 31 March 2019 (having prepared the original draft financial statements on estimated values, with a net adjustment of £5.8m.

We have reviewed the assumptions and, on the whole, the set of assumptions is reasonable and lies towards the middle of the range of assumptions when compared with the Deloitte benchmarks. The assumptions have been set in accordance with generally accepted actuarial principles and are compliant with the accounting standard requirements of IAS19.

# Other matters

## Group Accounts

**Audit considerations regarding the Group Accounts**

We have not been appointed the auditor of the material subsidiary companies within the group. In order to gain sufficient assurance over significant account balances in the group accounts, we have performed further audit procedures based on a group risk assessment. The key components for audit procedures are shown in the table below (with figures based on the original consolidation pending ICE accounting).

We will test the final consolidation and eliminations/consolidation adjustments prepared after posting of the remaining required adjustments.

| Components | Expenditure (Cost of Services) 2018/19 £m | Net Assets 31/3/19 £m | %age of total Group Expenditure | %age of group Net Assets | Summary of work to be performed |
|---|---|---|---|---|---|
| Council | 91.5 | 239.3 | >100% | 99.7% | The Deloitte group audit team has performed full-scope audit procedures under the Code on this component. Matters arising are noted throughout this report |
| EHIC | - | 0.6 | <1% | <1%* | *EHIC holds £11.1m of investment property (other items are primarily intercompany which eliminate). The valuation of the investment property was therefore in scope for our group audit, and audited by the group team. |
| ICE | The transactions in ICE eliminate with group (as the investment in IIL in ICE's company only accounts is replaced by joint venture accounting on consolidation), and hence we have tested these at Council and Group level. | | | | |
| Infrastructure Investments Leicester (IIL) Ltd | IIL is accounted for as a Joint Venture under the equity method. We have considered whether elements of the IIL accounts could have a material impact on the group or Council financial statements, where the group accounts for the movement in its share of the net assets of the JV and its share of any profit or loss. | | | | |
| Others | 0.1 | 2.1 | <1% | <1% | These components are not significant. Desktop reviews have been performed over these entities |

**Group Materiality**

Materiality for the group is £2.08m with the Council stand alone materiality level set at £2.06m. In order to apply meaningful specified procedures to the non-Council, in-scope group entities, component materiality has been reduced accordingly, with work on EHIC being performed to a component materiality of £0.83m. Work on IIL valuation, as a JV, has been performed to group materiality only.

# Other significant findings

## Internal control and risk management

During our audit we have identified several internal control and risk management findings, initially raised in draft with management in July 2019, which we have included below for information.

| Area | Observation | Priority |
|---|---|---|
| **Quality of draft financial statements** | The initial draft financial statements which were published for public inspection and presented for audit were not of the expected standard. Issues noted included:<br>• The initial draft only included EBC figures and omitted the Group consolidated primary statements and notes<br>• The initial draft did not include the cash flow statement or the expenditure and funding account<br>• Accounts disclosures not updated for 2018/19 changes in the Code including in respect of the reconciliation of financial liabilities<br>• Inconsistencies between notes and primary statements<br>• Accounting policies not updated for the adoption of IFRS 9 and IFRS 15<br>• Accounts disclosures not updated for the adoption of IFRS 9<br>• Accounts disclosures not updated for the adoption of IFRS 15<br>• Accounting for the ICE financial guarantee contract not being finalised or reflected the financial statements.<br>• Other sundry issues noted through the financial statements.<br>Together these indicate significant deficiencies in the financial reporting and close process.<br>We recommend the Council review the year-end reporting and close process, including:<br>• preparation of a skeleton draft of the financial statements ahead of year-end, reviewed against the Code for any changes in the year and for the disclosure requirements for any new or changed activities of the Council<br>• documentation and quantification of judgments in respect of materiality of disclosure requirements in preparing the accounts<br>• documented and reviewed use of CIPFA disclosure checklists<br>• documented and reviewed internal checks of arithmetic accuracy and internal consistency<br>• completion of the CIPFA "pre-audit checks on draft year-end accounts" checklist<br>• documented and reviewed internal tie back and referencing of the draft financial statements to supporting working papers. | |

The purpose of the audit was for us to express an opinion on the financial statements. The audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that we have identified during the audit and that we have concluded are of sufficient importance to merit being reported to you.

Low Priority

Medium Priority

High Priority

# Other significant findings

## Internal control and risk management

| Area | Observation | Priority |
| --- | --- | --- |
| **Determination of accounting treatments for complex transactions and preparation of accounting papers** | Management accounting papers were not available in relation to ICE prior to the preparation of the financial statements. We note that at a paper on ICE had been commissioned from Grant Thornton at the time of preparation of the financial statements, but:<br>• this was not complete at the time of the preparation of the financial statements or for a number of months thereafter;<br>• was therefore not reflected in the accounting of the accounts published for inspection; and<br>• this work was commissioned significantly after the transaction had been entered into.<br>This meant that in entering into the ICE transaction, the Council was fully not sighted on the accounting, and so budgetary, consequences of the transaction.<br>We would expect organisations undertaking complex accounting transactions to have undertaken an appropriate accounting analysis (either internally or with suitable external accounting advice), so that the accounting and budgetary consequences were fully understood. While Arlingclose provided brief comments on some accounting matters in their Investment Reports, these were by reference to earlier proposed transactions structures rather than the final transaction structure that was entered into.<br>It is good practice (and the expectation of the Financial Reporting Council) for organisations to prepare accounting papers in respect of key matters in the application of accounting standards, in particular for matters of judgement or of estimation complexity. Typically these would include consideration of the relevant requirements of the accounting standards and the Code, the fact pattern (including details of relevant terms of contracts etc), an assessment of how the standards apply in this context, consideration of potential alternative treatments, the proposed approach to measurement/calculation of accounting entries required, and the required disclosures.<br>The preparation of accounting papers both supports accurate financial reporting, including facilitating both internal and external review and challenge, and provides a resource to ensure institutional knowledge in the organisation.<br>We recommend the Council adopt an approach of preparing papers for any key accounting judgements or issues arising. | ● |
| **Governance arrangements on approval of significant or unusual transactions** | As set out on page 11, although we do not anticipate qualifying our value for money conclusion in respect of this transaction, we did identify areas for improvement in the Council's arrangements around this transaction, and note that the Council has previously set up other innovative structures such as Clear Sustainable Futures (albeit with limited transactions).<br><br>We recommend the Council consider whether there are further actions that may be appropriate to put in place in respect of decision making around commercial, innovative or otherwise significant or unusual transactions, even if these do not require immediate borrowings, for example embedding additional controls over both the governance and accounting arrangements with respect to significant or unusual transactions. | ● |

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# Other significant findings

## Internal control and risk management

| Area | Observation | Priority |
|---|---|---|
| **Institutional knowledge and documentation of complex arrangements** | One of the challenges of determining the accounting treatment for the ICE transaction was that there were gaps in the understanding of the transaction as a whole and of the interaction of the various income streams, potential costs, and risks that the Council was exposed to, which was affected by the key officer involved having left during the year.<br>For complex transactions, particularly those with an impact over long time periods, it is important to create adequate internal documentation to explain the transaction, the interrelationship of documentation and provisions in agreements, the potential risks and mitigations available, and any actions required for on-going monitoring of the position, as well as consideration of the accounting. | |
| **New accounting standards – IFRS 9 and 15** | The Council did not prepare accounting papers on the transition to IFRS 9 and 15 in advance of preparation of the draft account. The initial draft accounts were not updated for changes in disclosure requirements from IFRS 9 and 15. Although our work on IFRS 9 and 15 did not identify any material changes to the financial statements, we highlight that this has been done as a year-end exercise to assess and calculate the impact of GAAP differences, without embedding into the Council's underlying systems, processes and controls.<br>This presents a risk that new contracts or transaction may give rise to unanticipated impacts in future, or not be detected.<br>We recommend the Council review how to update its day to day accounting processes, including any necessary system and control changes, to reflect the requirements of IFRS 9 and 15 and the process to be followed in assessing new and unusual transactions. | |
| **Preparation for IFRS 16** | The implementation of IFRS 16, Leases, is expected to have a greater and more complex impact upon most Councils than the adoption of IFRS 9 and 15. The scope and potential complexity of work required, which may require system or process changes to underpin correct accounting under the standard, will require work to be completed at a significantly earlier stage than has been the case for IFRS 9 and 15 to allow for financial reporting timetables to be met.<br>The timing of implementation of IFRS 16 is currently being discussed by HM Treasury and it is possible this will again be delayed to 1 April 2022 – however, this is currently planned for 2021/22. We recommend the Council targets completion of its IFRS 16 impact analysis during 2020/21, and to calculate an adjusted opening balance sheet position for audit. We recommend early consideration following the impact analysis of actions required to embed IFRS 16 accounting in the Council's underlying accounting systems. | |

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# Other significant findings

## Internal control and risk management

| Area | Observation | Priority |
|---|---|---|
| **Information technology** | Our IT specialists raised a number of insights with regards to the Council's systems, including:<br>• Password lockout and lockout duration were not defined;<br>• No use of formal classification systems for potentially sensitive data;<br>• No data leakage risk assessment analysis had recently been performed; and<br>• New joiners created using previous user accounts as templates (which could lead to propagation of inappropriate access levels).<br>Whilst these matters had no impact on our audit approach, they are areas in which the Council could make improvements to the functionality of their systems and to reduce risks. | |
| **Journal authorisation** | It was noted during our D&I testing for controls over journal posting, that there is no control in place within Civica (the accounting system used) which prevents a user from posting a journal with has not been authorised. Only finance staff are able to post journals and are given instructions to seek approval for journals which are posted for amounts greater than £100k. We note that this is dependent on the journal preparer communicating this to the senior accountant (i.e. they are still able to post journals without authorisation). Higher level reviews provide a mitigating control, however embedding the authorisation policy would improve the control environment. | |

# Financial sustainability

## COVID-19’s impact on financial sustainability

Due to the timing of the COVID 19 pandemic:

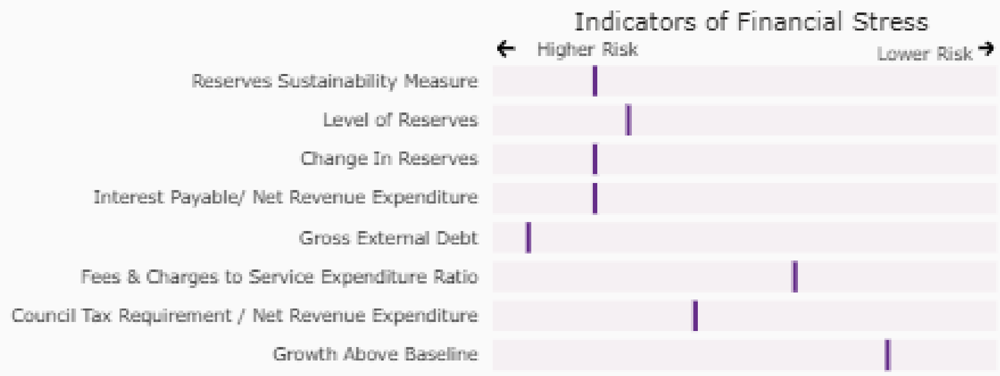
- For 2018/19, there is a non-adjusting subsequent event to disclose.
- For 2019/20, there was limited impact on the Council’s income and expenditure for the financial year.

However, as the committee will be well aware it is having a significant impact on the Council’s operations and performance in 2020/21. Based on the Ministry of Housing, Communities & Local Government (“MHCLG”) *Local authority COVID-19 financial management information reporting data*, during August Local Authorities were forecasting to incur additional COVID-19 related expenditure of £5.24bn in 2020/21 and to suffer a loss in income of £5.99bn over the same period. In relation to the cost increases, the largest expected pressure was in Adult Social Care which comprised £2.30bn to the total. For lost income the three main components were Business rates (£1.61bn), Council Tax (£1.56bn) and Sales, fees and charges (£2.01bn). To date the government has allocated £3.7bn of emergency funding to local authorities but this still leaves a significant gap which will present a challenge for the Council and will likely be an area which we need to focus upon in our value for money work in 2020/21.



### Eastbourne’s position

At the start of the 2019/20 year, when compared to comparable authorities in the CIPFA Financial Resilience Index, Eastbourne was considered to be relatively higher risk in relation to the level of financial reserves. (Note that this is prior to the adjustments in respect of ICE accounting discussed earlier in the report). (We note that management are discussing with CIPFA some of the figures used in their index, as this reflects a snapshot position).




| Indicator | Min | Indicator Value | Max |
|---|---|---|---|
| Reserves Sustainability Measure | 5.81 | 48.53 | 100.00 |
| Level of Reserves | 23.28% | 66.50% | 261.90% |
| Change In Reserves | -34.07% | -5.82% | 190.25% |
| Interest Payable/ Net Revenue Expenditure | 0.19% | 23.25% | 38.03% |
| Gross External Debt | £1,250k | £123,734k | £216,985k |
| Fees & Charges to Service Expenditure Ratio | 3.50% | 29.58% | 38.34% |
| Council Tax Requirement / Net Revenue Expenditure | 37.90% | 61.43% | 75.49% |
| Growth Above Baseline | 10.00% | 28.00% | 78.00% |

# Financial sustainability

## COVID-19’s impact on financial sustainability

### Eastbourne’s position

During the year to 31 March 2020, the draft 2019/20 financial statements (prior to ICE accounting) show a net £3.5m reduction in the General Fund (including a £1.2m transfer to Earmarked Reserves).

The pandemic has affected 2020/21 budgets, and the Council has considered various updates during the year to date, including actions that can be taken to mitigate the impact on the Council’s income and costs. The Council was already in a relatively weak financial position, and COVID-19 presents additional significant financial challenges in 2020/21 and beyond. The Council’s response will be an area we focus upon in our value for money work going forward and which we would expect to comment upon in our narrative commentary in the Auditor’s Annual Report.

Following the capitalisation direction to the Council and 7 other authorities, the Ministry of Housing, Communities and Local Government has appointed external reviewers to provide a detailed assessment of the councils’ financial position and management, making recommendations where necessary on how the Council can take action to improve.

The external reviews will provide an assessment of the Council’s financial management and management of risk, deliverability of savings plans and efficiency in delivering services.

Any recommendations from these reviews will inform the Local Government Secretary’s decisions on exceptional financial support for the financial year 2021-22, and any other matters of concern.

# Your annual report

We are required to report by exception on any issues identified in respect of the Annual Governance Statement.

| | Requirement | Deloitte response |
|---|---|---|
| Narrative Report | The Narrative Report is expected to address (as relevant to the Council):<br>- Organisational overview and external environment;<br>- Governance;<br>- Operational Model;<br>- Risks and opportunities;<br>- Strategy and resource allocation;<br>- Performance;<br>- Outlook; and<br>- Basis of preparation<br>- Future sustainability and risks to this posed by Covid-19. | We have assessed whether the information given in the Narrative Report meets the disclosure requirements set out in guidance, is misleading, or is inconsistent with other information from our audit.<br>We fed back some improvements that could be made in various areas of the report to improve drafting and understandability.<br>We have considered the sustainability narrative including the requirement to discuss and evaluate the impact of Covid-19 within this assessment. We note that for the 31 March 2019 accounts, only a reference to Covid-19 as a subsequent event is required.<br>Overall we concluded satisfactorily in this matter. |
| Annual Governance Statement | The Annual Governance Statement reports that governance arrangements provide assurance, are adequate and are operating effectively. | We have assessed whether the information given in the Annual Governance Statement meets the disclosure requirements set out in guidance, is misleading, or is inconsistent with other information from our audit.<br>The initially approved AGS did not discuss governance around the ICE transaction and on-going governance of the relationship with this entity. Given that the approval process of the AGS did not permit the AGS to be amended, an addendum has been provided. We reviewed the content of the proposed addendum and we are satisfied the transaction on ICE will be properly disclosed.<br>Overall we concluded satisfactorily in this matter. |

# Purpose of our report and responsibility statement

## Our report is designed to help you meet your governance duties

### What we report

Our report is designed to help the Audit Committee and the Council discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK) to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the Narrative Report.

### What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Council.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

### The scope of our work

Our observations are developed in the context of our audit of the financial statements. We described the scope of our work in our audit plan and again in this report.

This report has been prepared for the Audit Committee and Council, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

We welcome the opportunity to discuss our report with you and receive your feedback.

Deloitte LLP

for and on behalf of Deloitte LLP

8 July 2021

# Appendices

# Appendix 1 – Schedule of misstatements – Corrected adjustments

The following misstatements have been identified up to the date of this report which have been corrected by management. We nonetheless communicate them to you to assist you in fulfilling your governance responsibilities, including reviewing the effectiveness of the system of internal control.

| Sr. No. | Description | Account balance / class of transaction | Balance sheet: Assets / liabilities Dr (Cr) | Balance sheet: Other Comprehensiv Dr (Cr) | Income statement (CIES) Dr (Cr) | |
|---|---|---|---|---|---|---|
| 1 | IAS 19 pension adjustment for McCloud case | Settlements and Curtailments | - | - | 145,000 | Subsequent to the reporting date there was a revision in the assumptions used to calcualte the pension numbers due to the McCloud judgement which resulted in the revised actuarial valuation report. This revision of numbers was incorporated in the financial statements through this adjustment. |
| | | Past Service Costs | - | - | 597,000 | |
| | | Interest costs and return on Assets | - | - | 10,000 | |
| | | Pension Costs adjustment - GF | - | - | (752,000) | |
| | | Pension Asset/Liability | (752,000) | - | - | |
| | | Pension Reserve | - | - | 752,000 | |
| | | Pension Asset/Liability | (5,096,000) | - | - | |
| | | Pension Reserve | - | - | 5,096,000 | |
| 2 | Impairment on valuations of Pear Tree Court and Tideswell Road (see page 9) | Capital Charges - Depreciation | - | - | 1,908,471 | These assets were originally held at historic cost however Deloitte identified that these were impaired at reporting date hence impairment was recorded through this adjustment. |
| | | Impairment - HRA | - | (1,917,175) | - | |
| | | Year end transfer - Post Audit | - | 8,704 | - | |
| | | Capital Adjustment Account | - | 1,917,175 | - | |
| | | Council Dwellings | (1,917,175) | - | - | |
| 3 | Investment property valuations of Hampden Retail Park (see page 9) | Investment properties | - | - | 1,676,210 | The valuation performed by management's expert was revised after the comments of Deloitte's specialist and this adjustment was recorded to reflect the same. |
| | | Depreciation / Impairment - GF | - | (1,676,210) | - | |
| | | Capital Adjustment Account | - | 1,676,210 | - | |
| | | Investment Properties | (1,676,210) | - | - | |
| 4 | Prior year adjustment for HRA dwellings (see page 9) | Gain or loss on HRA asset sales | - | - | 12,541,784 | This adjustment was identified by Deloitte due to a difference in the accounting treatment of major works capital expenditure rellating to HRA which resulted in the impairment charge which was recorded through this adjustment. |
| | | Gain or loss on asset sales - HRA | - | (12,541,784) | - | |
| | | Council Dwellings | (12,541,784) | - | - | |
| | | Capital Adjustment Account | - | 12,541,784 | - | |
| 5 | Intangible assets accounting for JTP assets | Intangible Fixed Assets | 1,095,707 | - | - | This adjsutment was identified as a result of dissagreement with management on the accounting treatment of a consultancy work which was recorded as an intangible through this adjustment proposed by Deloitte. |
| | | Vehicles Plant Furniture & Equipment | 208,986 | - | - | |
| | | Capital Adjustment Account | - | (1,303,777) | - | |
| | | Capital Adjustment Account | - | (917) | - | |
| 6 | Debtor provision adjustment for the correction of rental as explained in adjustment number 3 above. | CIES | - | - | 90,000 | See adjustment number 3 above. |
| | | Debtor provision | (90,000) | - | - | |
| 7 | Accounting for ICE transaction (see pages 6-7) | CIES impact (affecting General Fund) | - | - | 1,170,775 | This adjustment is a consolidation adjustment as the clarity one the treatment of ICE transaction was achieved subsequently and this adjsutment was recorded after discussions with the management and it's expert. |
| | | Balance Sheet LT Investment | 3,500,000 | - | - | |
| | | Balance Sheet LT Debtor | 5,524,319 | - | - | |
| | | Balance Sheet LT Debtor | 7,183,855 | - | - | |
| | | Balance Sheet LT Liability | (1,167,873) | - | - | |
| | | Balance Sheet LT Liability | (16,211,076) | - | - | |
| 8 | Intangible assets accounting for JTP assets | IT Contract | - | - | (1,304,693) | It is a part of adjustment number 5 above. |
| | | Capital Adjustment Account | - | 1,304,693 | - | |
| 9 | Valuation adjustment to properties (see page 9) | Year end transfer post audit and following HRA adjustment | - | (8,704) | - | These adjustments were a result of the valuation adjustments after Deloitte review. |
| | | Properties | - | - | 807,306 | |
| | | Depreciation / Impairment - GF | - | (807,306) | - | |
| | | Council Dwellings | 8,704 | - | - | |
| | | Other Land & Buildings | (110,830) | - | - | |
| | | Revaluation Reserve | - | - | (696,476) | |
| | | Capital Adjustment Account | - | 798,602 | - | |
| | | HRA Major Repairs Reserve | - | 8,704 | - | |

# Fraud responsibilities and representations

## Our other responsibilities explained

**Responsibilities:**

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.



**Required representations:**

We have asked the Council to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you are not aware of any fraud or suspected fraud that affects the group.

We have also asked the Council to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

**Audit work performed:**

In our planning we identified the risk of fraud in Cut off and completeness of expenditure via accruals and provisions and management override of controls as key audit risks.

During course of our audit, we have had discussions with management and those charged with governance.

In addition, we have reviewed management's own documented procedures regarding fraud and error in the financial statements

**Concerns:**

We have not identified any concerns from our audit work.

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# Eastbourne Borough Council
# Statement of Accounts 2018/19

## TABLE OF CONTENTS

I am very pleased to welcome you to Eastbourne Borough Council's Statement of Accounts for 2018/19, which gives me the opportunity to set the accounts in the context of the financial challenges being faced by the Council.

As ever, the Council is committed to delivering its key services and providing an environment where everyone works to create a confident and ambitious Borough.

The Authority approved its 2018/19 net revenue budget on 20 February 2018. However, once the financial year was underway Eastbourne, like many other councils, experienced considerable difficulty in managing a number of pressures, particularly within temporary housing services and those services, which are directly influenced by wider economic factors. This was despite the allocation of considerable additional Council resources within the budget.
The accounts show that despite these pressures, through careful cost control and additional income and funding opportunities elsewhere, the financial challenges have been managed and a balanced outturn position has been delivered. This allowed the Council's balances to be increased and financial resilience to be maintained.

The Council recognises that the financial work undertaken throughout 2018/19 focused primarily on delivering a balanced budget for 2019/20 and Members were advised of the budget gaps for each of the three years 2020/21 to 2022/23. Clearly, given the current operating climate, particularly with the uncertainty around the future funding for the Local Government sector, coupled with Brexit, there remains much work to do.

The Joint Transformation Programme has created the operational framework to facilitate change and support our efforts to balance the budget. The Council is committed to the regeneration of Eastbourne Town Centre and the wider Borough and this remains a key Council priority. A number of major schemes such as reopening of the Congress Theatre, as part of the Devonshire Quarter have been completed or are currently underway together with exciting longer-term proposals, which are at the development stage. This is aimed at revitalising the Eastbourne offer and the prosperity of the Borough.

I want to thank all of our Finance staff who have once again worked hard to close the accounts to a very high standard.

I also want to acknowledge the excellent work done to balance the 2018/19 and 2019/20 budgets, and to monitor and manage the financial position of the Council throughout the financial year. Careful financial administration allows fully informed decision making when determining the best use of Council resources so that services of the best possible quality can be delivered.

**Homira Javadi CPFA, FCCA, ACCA**
Chief Finance Officer (S151 Officer)

## NARRATIVE REPORT BY CHIEF FINANCE OFFICER

### INTRODUCTION

The Statement of Accounts contains all the financial statements and disclosure notes required by statute. They have been prepared in accordance with 2018/19 Code of Practice on Local Authority Accounting in the United Kingdom (the Code), based on International Financial Reporting Standards and the Service Reporting Code of Practice (SeRCOP), together with guidance notes and published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The Statement of Accounts aims to provide information so that members of the public, including electors and residents of Eastbourne, Council Members, partners, stakeholders and other interested parties can:

- Understand the overarching financial position of the Council and the outturn for 2018/19;
- Have confidence that the public money with which the Council has been entrusted has been used and accounted for in an appropriate manner; and
- Be assured that the financial position of the Council is sound and secure.

The Narrative Report provides information about Eastbourne, including the key issues affecting the Council and its accounts. It also provides a summary of the financial position at 31 March 2019 and is structured as below:

- About Eastbourne
- Governance
- Corporate Risk
- Summary of Achievements
- Financial Performance of the Council in 2018/19
- Staffing
- Future Plans
- Explanation of Financial Statements
- Further Information.

### ABOUT EASTBOURNE

#### The Council

Eastbourne Borough Council is one of five district and borough councils in East Sussex, each providing key services to their residents. These services include waste collection and recycling, environmental health, tourism, leisure and amenities, planning and collection of council tax.

East Sussex County Council serves this entire part of South East England. It provides services including education, social services, roads and transport, waste disposal and libraries.

#### Our Environment

Eastbourne is a large town in East Sussex and is a gateway to the eastern end of the South Downs National Park, with approximately 7km (over 4 miles) of outstanding coastline. For an urban borough it has significant natural environment, a high proportion of which is downland. This natural environment with its panoramic views, areas of outstanding natural beauty and sites of special scientific interest, has 485 hectares (1,200 acres) of open access land and is highly valued by our residents and visitors. Eastbourne is primarily a seaside resort with natural shelter provided by Beachy Head.

Within its built environment, Eastbourne has a wide range of parks and gardens and significant areas of historic interest, including 250 listed buildings and almost 10 per cent of the built-up area protected with Conservation Area status. Eastbourne also has a range of sport and leisure facilities including: an international, high quality tennis centre developed in partnership with the Lawn Tennis Association; a number of community and borough sporting facilities; theatres; a modern art gallery; and a number of smaller venues act as centres of local memory and heritage.

It has an outstanding seafront destination offering miles of unspoilt coast, with a preserved Victorian promenade, extending to a modern, high quality marina and berthing facility at Sovereign Harbour. The borough has a diverse range of restaurants, retail and hospitality accommodation adding to the visitor and community offer.

**The Community**

Eastbourne has an estimated population of 103,745. Historically, it has attracted older people to come and live in the town. Compared to the county, region and nation as a whole, Eastbourne has a higher percentage of the population of pensionable age, 25.1% aged over 65 years old against a national average of 18.4%. However, this is changing and although Eastbourne still provides an attractive location for retirement, the town has also experienced considerable housing and economic development that has attracted a younger age group, leading to an increasingly more balanced community. We now have 32.2% of our population below the age of 30.

Eastbourne has a high proportion of people with a long-term health problem or disability at 20.9%. The national average is 17.9%. Two areas of Eastbourne fall within the most 10% deprived in England. These are found within the Devonshire and Hampden Park wards.

**The Economy**

Public administration, education and health are the largest employers in Eastbourne at 37.5% followed by wholesale and retail trade at 20%. Both sectors have greater concentrations in Eastbourne than East Sussex, the South East and Great Britain.

Compared to the South East and Great Britain, Eastbourne has a lower proportion of individuals employed in managerial and senior officials, professional, associate professional and technical, administrative and secretarial, skilled trades and process, plant and machine occupations but a higher concentration of caring, leisure and other service, sales and customer service and elementary occupations.

Average earnings for Eastbourne are £403 per week, which is lower than the national average of £466, but comparable with the rest of East Sussex. The local unemployment rate in Eastbourne (4.1%) is higher than in East Sussex (3.6%) and the South East (3.4%) and nationally is (4.4%).

The financial impact of Brexit is as yet uncertain. It could be positive or negative, but is likely to affect interest and inflation rates, labour costs and property and rental values as well as the business and tourist economies.

**HOW THE COUNCIL OPERATES**

Eastbourne Borough Council is a complex organisation. Elected councillors direct our policies, which the Corporate Management Team (shared with Lewes District Council) then implements through the officers of the Council. There are 27 councillors representing 9 wards within the borough. Full Council elections take place every four years, most recently in May 2015. At 31 March 2019, composition of the Council was:

| | |
|---|---|
| Liberal Democrat Party (controlling political group) | 16 Councillors |
| Conservative Party | 7 Councillors |
| Independent Individuals | 3 Councillors |
| Vacancy | 1 Councillor |

All councillors meet together as the Council. Meetings of the Council are normally open to the public. Here councillors decide the Council's overall policies and set the budget each year. The Council appoints the members of the Scrutiny Committee and all other council committees – for example, the Audit and Standards Committee and the Planning Applications Committee. The Council considers recommendations made to it by the Cabinet and the Scrutiny Committee as to any changes in policy, which might need to be made.

The Executive is made up of the Leader, appointed by the full Council, together with a Cabinet of councillors who the Leader appoints. Each member of the Cabinet has a portfolio of the areas for which they are responsible. Cabinet normally meets seven times in a municipal year.

At 31 March 2019, Cabinet members were:

| | |
|---|---|
| Councillor David Tutt | Leader of the Council and Chair of Cabinet, and Cabinet Member for responsibilities aligned with the Chief Executive |
| Councillor Alan Shuttleworth | Deputy Leader Cabinet Member for Direct Assistance Services |
| Councillor Stephen Holt | Cabinet Member for Finance |
| Councillor Colin Swansborough | Cabinet Member for Core Support and Strategic Services |
| Councillor Margaret Bannister | Cabinet Member for Tourism and Leisure Services |
| Councillor Jonathan Dow | Cabinet Member for Place Services |
| Councillor John Ungar | Cabinet Member for Community Safety |

The Leader of the Council is responsible for discharging most day-to-day decisions, although the Leader may decide to delegate his/her powers to the Cabinet as a whole, or to an officer.

The Scrutiny Committee is in place to ensure that the Council's policies, plans, decisions and actions are being made in the community's best interest. It consists of eleven Councillors who are not on Cabinet. This enables non-executive members to influence decisions and ensure the views and needs of local people are taken into account. It is about being a 'critical friend'. A member of the Minority Group chairs the Scrutiny Committee.

Supporting the work of councillors is the organisational structure of the Council headed by the Corporate Management Team (CMT). CMT is comprised of our most senior staff (officers) as follows:

| | |
|---|---|
| Robert Cottrill | Chief Executive (Statutory Head of Paid Service) |
| Ian Fitzpatrick | Director of Regeneration and Planning |
| Tim Whelan | Director of Service Delivery |
| Phil Evans | Director of Tourism and Enterprise |
| Homira Javadi | Chief Finance Officer (Statutory Section 151 Officer) |
| Catherine Knight | Assistant Director of Legal and Democratic Services |
| Becky Cooke | Assistant Director of Human Resources and Transformation |
| Peter Finnis | Assistant Director of Corporate Governance (Statutory Monitoring Officer) |

The Council appoints the three statutory posts of Head of Paid Service, Section 151 Officer and Monitoring Officer as required by law. These officers have responsibility to take action if the Council has, or is about to, break the law or if the Council is about to set an unbalanced budget.

Eastbourne Borough Council is supported by a workforce fully shared and integrated with Lewes District Council to provide more flexible, customer-focussed and cost-effective services. This was achieved via the phased Joint Transformation Programme (JTP) which has now concluded.

The JTP has delivered considerable changes in technology that has enabled the scale of transformation needed by the councils. The two Councils share a joint website (www.lewes-eastbourne.gov.uk) which continues to develop and become the main point of contact for many customers. An ongoing increase in the number of online transactions being completed demonstrates a positive direction of travel towards channel shift and the aspiration to be digital by default.

However, local democratic accountability is maintained with both Councils remaining separate sovereign entities with their own distinct priorities.

**CORPORATE RISK**

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

| Title | Description | Internal Controls |
|---|---|---|
| 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. | **Reduces Likelihood**<br>1. Create inclusive governance structures which rely on sound evidence for decision making.<br><br>**Reduces Impact**<br>2. Annual review of corporate plan and Medium Term Financial Strategy<br><br>3. Creating an organisational architecture through the Joint Transformation Programme that can respond to changes in the environment. |
| Changes to the economic environment makes the Council economically less sustainable | 1. Economic development of the town suffers.<br><br>2. Council objectives cannot be met. | **Reduces Impact**<br>1. Robust Medium Term Financial Strategy reviewed annually and monitored quarterly. Refreshed in line with macro-economic environment triennially.<br><br>2. Creating an organisational architecture through the Joint Transformation Programme that can respond to changes in the environment. |
| Unforeseen socio-economic and/or demographic shifts creating significant changes of demands and expectations. | 1. Unsustainable demand on services.<br><br>2. Service failure.<br><br>3. Council structure unsustainable and not fit for purpose.<br><br>4. Heightened likelihood of fraud. | **Reduces Impact**<br>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).<br><br>2. Ensuring community and interest group engagement in policy development (e.g. Neighbourhood Management Schemes; Corporate Consultation Programme) |
| 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. | **Reduces Likelihood**<br>1. Joint Transformation programme to increase non-financial attractiveness of EBC to current and future staff.<br><br>2. Appropriate reward and recognition policies reviewed on a regular basis.<br><br>**Reduces Likelihood and Impact**<br>3. Review of organisation delivery models to better manage the blend of direct labour provision. Pursuit of mutually beneficial shared service arrangements. |
| Not being able to sustain a culture that supports organisational objectives and future development. | 1. Decline in performance.<br><br>2. Higher turnover of staff.<br><br>3. Decline in morale.<br><br>4. Increase in absenteeism. | **Reduces Likelihood**<br>1. Deliver a fit for purpose organisational culture through Joint Transformation programme.<br><br>2. Continue to develop our performance management capability to ensure early |

| Title | Description | Internal Controls |
|---|---|---|
| | 5. Service failure<br><br>6. Increased possibility of fraud. | intervention where service and/or cultural issues arise.<br><br>3. Continue to develop communications through ongoing interactions with staff. |
| Council prevented from delivering services for a prolonged period of time. | 1. Denial of access to property<br><br>2. Denial of access to technology/information<br><br>3. Denial of access to people | **Reduces Likelihood**<br>1. Adoption of best practice IT and Asset Management policies and procedures.<br><br>**Reduces Likelihood and Impact**<br>2. Joint Transformation programme has created more flexible, less locationally dependent service architecture.<br><br>**Reduces Impact**<br>3. Regularly reviewed and tested Business Continuity Plans.<br><br>4. Regularly reviewed and tested Disaster Recovery Plan. |
| 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.<br><br>2. Cost profile of the Council changes materially as a result of the impact of the event. | **Reduces Likelihood and Impact**<br>1. Working in partnership with other public bodies.<br><br>2. Robust emergency planning and use of Council's emergency powers.<br><br>**Reduces Impact**<br>2. Ongoing and robust risk profiling of local area (demographic and geographic).<br><br>3. Review budget and reserves in light of risk profile. |
| Failure to meet regulatory or legal requirements | 1. Credibility of the Council is negatively impacted.<br><br>2. Deterioration of financial position as a result of regulatory activity/penalties.<br><br>3. Deterioration of service performance as a result of regulatory activity/penalties.<br><br>4. Increased probability of prosecutions and compensation claims as a result of inadequate management of Health and Safety duties.<br><br>5. Possibility of fraud and bribery.<br><br>6. Ensure compliance with legislation such as Data Protection and Safeguarding. | **Reduces Likelihood**<br>1. Developing, maintaining and monitoring robust governance framework for the Council.<br><br>2. Building relationships with regulatory bodies.<br><br>3. Develop our Performance Management capability to ensure early intervention where service and/or cultural issues arise.<br><br>4. Take forward the recommendations of the CIPFA Asset Management report to ensure we meet regulatory/legal requirements regarding the management of property.<br><br>5. Ensure there is full understanding the impact of new legislation.<br><br>6. All managers are required to abide by the Council's procurement rules.<br><br>7. JTP Board considers activity mapping, ensuring that it covers regulatory/legal and main financial matters. |

| Title | Description | Internal Controls |
|---|---|---|
| | 7. Entering into contracts etc. without having adequate finance in place. | 8. Ensure that fire risk regulations are adhered to and that Fire Risk Assessments are regularly reviewed. |
| Commercial enterprises that are fully controlled by the authority do not deliver financial expectations or do not meet governance requirements. | 1. Unfamiliar activity with staff inexperienced in this area<br><br>2. Council finances affected if projects do not meet financial expectations.<br><br>3. Reputational damage if governance procedures are inadequate.<br><br>4. Failure to abide by company law. | **Reduces Likelihood**<br>1. Hire suitably qualified/experienced staff to give legal and specialist support.<br><br>2. Appoint Head of Commercial Activities.<br><br>3. Ensure that projects meet core principles.<br><br>4. Up or re-skill staff to maximise commercial opportunities.<br><br>5. Ensure governance processes are set up and adhered to. |

## SUMMARY OF ACHIEVEMENTS

### Performance against our priorities in 18/19

In the 2018/19 financial year, the following key successes were delivered from the plan;

- Completion of the Joint Transformation Programme; establishing a single staff team for Lewes and Eastbourne Councils, delivering new ways of working and associated technology improvements and making savings of £3.2m
- Re-opening of the Congress Theatre following significant restoration and refurbishment. This is a major milestone in our programme to make Devonshire Park a premier conference and cultural destination including: a new welcome building: restoration of the Winter Garden and Devonshire Park Theatres: improving accessibility: improving tennis facilities: new conference/exhibition space & café and public realm improvements
- Opening of the new extended shopping centre, The Beacon and significant improvements to 'public realm', to improve the shopper experience and revitalise the town centre
- Construction of a new restaurant, the Wish Tower, in an iconic seafront location, to be occupied by Bistro Pierre
- Significant reduction of single use plastics by the council as a result of a council-wide campaign
- Creation of a new council controlled company – South East Environmental Services Limited – which will deliver waste and recycling services for Eastbourne from July 2019
- Implementation of an innovative project to tackle rough sleeping in Eastbourne, funded through a significant grant award from MHCLG
- A new community centre has been built to serve the Sovereign Harbour community

### Key Performance Indicators

The following performance indicators (non-financial) have been used to track performance in the past year and progress has been reported through our Scrutiny Committee and Cabinet on a quarterly basis.

2018/19 has been a challenging year for the council with a considerable amount of organisational change which has had an impact on performance. However, positive management action is being taken in all cases and improvement plans have been established to address these issues. Performance will continue to be closely monitored in the coming year and improvements have already been seen in many areas through the year.

| Performance indicator | Target for 2018/19 | Performance in 2018/19 | |
|---|---|---|---|
| Percentage of Major Planning Applications processed within 13 weeks | 65% | 82% | |
| Percentage of minor planning applications processed within 8 weeks | 75% | 71% | |
| Percentage of household waste sent for reuse, recycling and composting | 36% | 35.35% | |
| Number of households living in emergency (nightly paid) accommodation | 80 | 179 | |
| Average void relet time (key to key) | 24 | 24.8 | |
| Revs and Bens: Average days to process new claims | 23 | 22 | |
| Phone calls: average speed of answer | 1 min | 3 mins 29 secs | |
| Percentage of Council Tax collected during the year | 97.06% | 96.63% | |
| Percentage of Business Rates collected during the year | 98.5% | 97.07% | |
| Average days lost per FTE employee due to sickness | 8 days | 8.96 days | |

The key financial metrics are referenced in areas of the financial performance below.

**FINANCIAL PERFORMANCE OF THE COUNCIL IN 2018/19**

The Council incurs both revenue and capital expenditure during the financial year. Revenue spending is generally on items that are consumed within a year and is financed from Council Tax, Government Grants and other income. Capital expenditure is on items which have a life beyond one year and which also add value to a fixed asset (known as non-current assets). This is financed largely by capital grants, loans and other capital contributions.

**1. Comprehensive Income and Expenditure Account**

All the services provided by the Council, including council housing, are shown within the Comprehensive Income and Expenditure Statement. This statement shows the equivalent of the trading position of a UK listed company in accordance with IFRS requirements, and discloses a 'defcit' for 2018/19 of £4.224m. (Split between General Fund deficit £6.088m and HRA surplus £1.864m). The Movement in Reserves Statement reconciles this IFRS 'surplus' together with other reserve transfers into a net increase in the general fund balance of £1.349m and an HRA surplus of £0.759m.

The General Fund and Housing Revenue outturn detailed below does not reconcile with the statutory presentation of the Comprehensive Income and Expenditure Statement as the outturn is prepared on the basis of how the Council sets its revenue budget rather than the accounting provisions of the Code, and therefore is not presented on the same basis as the Comprehensive Income and Expenditure Statement. The Expenditure and Funding Analysis at note 7, identifies the adjustments between the management and the financial accounts. The Council's underlying financial position, including usable Reserves, is identical in both its management and financial accounts.

**2. General Fund**

The General Fund is the main revenue fund of the Council and covers day to day expenditure and related income on all services. The Council set its Budget Requirement at £13.5m (amount to be funded by Government Grant, Council Tax and Business Rates). The Council set a Band D Council Tax for 2018/19 of £239.67, being a 2.9% percent increase over 2017/18.

A summary of the General Fund position is shown below in the format used for management accounting and reported to Members throughout the year:

| General Fund | Original Budget £000 | Revised Budget £000 | Actual £000 | Variance £000 |
|---|---|---|---|---|
| Corporate Services | 5,330 | 3,398 | 2,518 | (880) |
| Service Delivery | 5,621 | 4,828 | 5,074 | 246 |
| Regeneration and Planning | (622) | 412 | 946 | 534 |
| Tourism and Enterprise | 3,597 | 3,627 | 3,752 | 125 |
| Other Operating Income and Expenditure | (1,342) | (336) | - | 336 |
| Service Total | 12,584 | 11,929 | 12,290 | 361 |
| Capital Financing Costs | 2,025 | 2,063 | 1,692 | (371) |
| **Total Expenditure** | **14,609** | **13,992** | **13,982** | **(10)** |
| Transfer from General Fund Balance | (1,562) | (883) | (1,226) | (343) |
| **Budget Requirement** | **13,047** | **13,109** | **12,756** | **(353)** |
| Council Tax | (8,413) | (8,413) | (8,413) | - |
| Business Rates | (3,654) | (3,654) | (3,321) | 333 |
| Government Grants | (980) | (1,042) | (1,022) | 20 |
| **Total Funding** | **(13,047)** | **(13,109)** | **(12,756)** | **353** |

The actual in the table above is the revenue outturn position reported to Cabinet and is based on funding before any accounting adjustments under government regulations.

The General Fund Revenue outturn is a surplus of £353,000 against the revised budget. When the budget was originally set in February 2018 the Council estimated it would need to make a contribution of £1,562,000 from the General Fund Reserve in order to balance the budget. The actual contribution was £1,226,000.

As a result of this movement the General Fund Balance as at 31 March 2019 was £4.382m.

The main variances between the revised budget and the actual net expenditure are detailed below:

| Analysis of Major Variances | £000 |
|---|---|
| Increase in homelessness demand costs | 663 |
| Corporate landlord expenditure on necessary works to properties | 359 |
| Re-profiling of the in-year savings and some transitional costs | 336 |
| Business Rates section 31 grant income lower than estimated | 333 |
| Pensions costs for transferred staff | 163 |
| Contribution form Reserves | 300 |
| Contribution received from grant reallocation | (1,100) |
| Interest payments lower than budget due to continued low interest rates, together with additional interest earnings on advances made | (371) |
| Recovery of associated costs with WEL | (250) |
| Additional income from Solarbourne | (81) |

The 2018/19 accounts include a disclosure note – the Expenditure and Funding Analysis (EFA) (note 7a to the Accounting Statements) – which sets out the net amounts chargeable to the General Fund, HRA and Earmarked reserves balances for the year as compared to the amounts accounted for under generally accepted accounting practices shown in the Comprehensive Income and Expenditure Statement. These amounts are analysed across the directorates of the Council on the same basis as shown in the outturn summary table above.

## 3. Housing Revenue Account

The Council continues to be the major provider of rented accommodation in the borough and it transferred responsibility for the management of the housing stock to Eastbourne Homes Ltd (EHL), an arm's length management organisation, on 1 April 2005. At 31 March 2019 there were 3,403 dwellings provided for rent. Housing Associations are the second major provider, and the Council continues its work with them in order to meet new affordable housing requirements for Eastbourne.

For 2018/19 the Housing Revenue Account net position shows an overall surplus of £759,000 for the year against an expected budgeted surplus of £119,000 resulting in a favourable variance of £640,000.

The following table compares movement in the HRA Balance from the budget to the outturn for 2018/19:

| **HRA** | **Original Budget** £000 | **Revised Budget** £000 | **Actual** £000 | **Variance** £000 |
|---|---|---|---|---|
| Income | (15,332) | (15,392) | (15,720) | (328) |
| Expenditure | 12,716 | 12,801 | 12,605 | (196) |
| Capital Financing & Interest | 1,972 | 1,972 | 1,856 | (116) |
| Contribution to Reserves | 500 | 500 | 500 | - |
| **Total HRA** | **(144)** | **(119)** | **(759)** | **(640)** |

The analysis on this table does not agree to HRA statutory accounts due to the different reporting requirements; however, the surplus does reconcile to the movement on the HRA statement

The main variances between the revised budget and the actual net expenditure are detailed below:

| | **£000** |
|---|---|
| Take up of under occupation scheme | (65) |
| Average Interest rates lower than budgeted | (66) |

## 4. Collection Fund

The Council has, by law, to maintain a specific account called the Collection Fund which records all income from Council Tax and Non-Domestic Rates and its distribution to the major precepting authorities, being Central Government, East Sussex County Council, Sussex Police, East Sussex Fire Authority and Eastbourne Borough Council.

The overall Collection Fund is showing a deficit of £1.898m (Council tax surplus (£0.360m) and Business Rates deficit £2.258m) as at 31 March 2019 (compared to a deficit of £2.254m as at 31 March 2018).

Collection Fund surpluses or deficits declared by the billing authority in relation to Council Tax are apportioned to the relevant precepting bodies in the subsequent financial year. The January 2019 forecast surplus for the Council Tax element of the fund of £0.466m will be distributed to precepting bodies pro rata to their Band D Council Tax during 2019/20 leaving a balance of £0.098m, to be recovered in 2020/21. The Council's actual share as at 31 March 2019 was a surplus of £0.046m.

The forecast deficit for the Business Rate element of the fund was £1.827m, which will be collected from preceptors in proportion to their share of the business rate income during 2019/20 leaving a balance of £0.431m to be collected in 2020/21. The Council's actual share as at 31 March 2019 was a deficit of £0.904m.

In 2014/15, the local government finance regime was revised with the introduction of the retained business rates scheme. The main aim of the scheme is to give Councils a greater incentive to grow businesses in the area. It does, however, also increase the financial risk due to non-collection and the volatility of the Business Rates Tax Base.

During 2018/19 the Council worked within a Business Rate Pool with the other East Sussex Borough and District Councils, East Sussex County Council and East Sussex Fire Authority. Under this arrangement, 50% of any growth in business rate income which would otherwise be paid as levy to the Government can be retained by the Pool to be redistributed to its participating authorities in accordance with an agreed memorandum of understanding.

The government continues to work towards transferring control to local authorities over the locally generation business rate income. In December 2017, the government announced the aim of increasing the level of business rates retained by local government from the current 50% to the equivalent of 75% in April 2020. In order to test increased business rates retention and aid understanding of how to transition into a reformed business rates retention system in April 2020, the government invited local authorities in England to apply to become 75% business rates retention pilots in 2019/20. The East Sussex Pool became one of the pilot pools for 2019/20.

## 5. Capital Programme

The Council's capital programme spending in the year was £44.5m compared with a revised budget of £55.9m. Capital programme expenditure has been financed as follows:

| | **£000** |
|---|---|
| Capital Receipts | 7,787 |
| Grants & Contributions | 3,795 |
| Major Repairs Reserve | 4,162 |
| Revenue Financing | 432 |
| Financed from borrowing | 27,281 |
| **Total** | **44,482** |

The main items of capital programme expenditure are set out below:

| | **Budget £000** | **Actual £000** | **Variance £000** |
|---|---|---|---|
| Council Dwelling Improvements & building | 5,476 | 4,675 | (801) |
| Investment & Land Acquisition (see note below) | 4,000 | 1,248 | (2,752) |
| Devonshire Park Development (see note below) | 31,242 | 27,464 | (3,778) |
| Asset Improvements & building | 4,928 | 3,124 | (1,804) |
| Loans to Subsidiary Companies | 4,480 | 2,169 | (2,311) |
| IT & JTP | 2,177 | 3,595 | 1,418 |
| Disabled Facilities & Private Sector Renewal Grants | 2,121 | 782 | (1,339) |
| Playground & Sports Facilities Improvements | 177 | 26 | (151) |
| Beach Management | 302 | 288 | (14) |
| Community Facilities | 859 | 924 | 65 |
| Other Schemes | 112 | 187 | 75 |
| **Total Capital Programme Expenditure** | **55,874** | **44,482** | **(11,392)** |

Investment and Land Acquisition – further schemes to be identified, underspend to be carried over into 2019/20.

Devonshire Park Development – major project to include a new Welcome building and the restoration of Congress, Winter Garden and Devonshire Park theatres. Underspend due to phasing of works and underspend will be carried over into 2019/20.

The Council continues to invest in assets to support the local community and economy. The most significant planned capital schemes are:

- Improvements to the Council's housing stock;
- Economic regeneration;
- Asset improvements.

### 6. Pensions

The Council's liability for future pension payments has increased from £45.6m to £56.2m. The Defined Benefit Obligations have increased by £21.4m from £199.0m to £221.1m and the net asset value has increased by £11.6m from £153.4m to £165.0m. It is important to realise that this accounting change does not trigger an immediate change in contribution rates, as these are assessed with a longer-term view of liabilities and of investment performance.

### 7. Treasury Management

The Council's external loan debt at 31 March 2019, comprising long and short-term borrowing, stood at £123.6m excluding accrued interest payable. This is made up of £96.6m repayable in more than one year and £27m repayable in less than one year. This is a net increase of £18.6m over the previous year, mainly as a result of additional borrowing.

No short-term investments were held at 31 March 2019, the same as the previous year. The Council held cash balances as at 31 March 2019 of £2.2m, compared to £3.6m as at 31 March 2018.

## STAFFING

A summary of the Council's staffing is shown in the table below:

| **Employees** | **2018/19** |
|---|---|
| Total number of current permanent full and part time employees | 718 |
| Total number of current temporary/fixed term employees | 50 |
| **Total Number of Employees** | **768** |
| Total number of employees expressed as full-time equivalents | 720.1 |

| **Posts** | **2018/19** |
|---|---|
| Total number of permanent full and part time posts | 753 |
| Total number of temporary/fixed term posts | 50 |
| **Total number of posts** | **803** |
| Total number of posts expressed as full-time equivalents | 753.43 |

Staff turnover was 16.5% in 2018/19 and 80.3% of this turnover was through voluntary resignation.

Sickness absence for 2018/19:

| **Number of Hours Lost** | **Number of Days Lost** | **Average Number of Days Lost per employee** |
|---|---|---|
| 43,460 | 6,182 | 8.96 |

## FUTURE PLANS

- **Medium Term Financial Plan**

The Council's spending plans continue to be linked to residents' priorities and the Government's national priorities for all local authorities. The General Fund budget for 2018/19 and the Medium Term Financial Strategy for the years through to 2020/21 were set in February 2018 in the context of the multi-year Government funding settlement which is intended to give participating local authorities increased certainty of funding through to 2019/20. The council continues to set a balanced budget without the need to draw from reserves to support recurring expenditure.

The Council's philosophy is to maintain and enhance services to the public whilst meeting the financial challenge through efficiencies and income generation.

The current strategy set out a rolling three-year plan to:

- Mitigate the anticipated further reduction in Government support of a further 30% from the 2018/19 level.
- Integrate the service and financial planning process with the main change programmes under the JTP.
- Mitigate the unavoidable growth in service demands.
- Maintain front line services to the public.
- Make further recurring savings of £3m per annum by 2019/20.
- Maintain at least a minimum level of revenue reserves of £2m.
- Use surplus reserves in the medium term for:
  - Invest to save projects
  - Smooth the requirement for savings over the cycle of the MTFS
  - Invest in one off service developments in line with the corporate plan.
- Benchmark fees & charges and increase where possible.
- Reinvest in the capital programme when headroom is created.
- Set council tax rises at or below the Government's level of target inflation (2%).
- Maintain a Strategic Change Fund to finance the transformation programme in order to increase efficiency.
- Maintain an Economic Regeneration Reserve to finance external interventions that promote economic activity.
- Use borrowing to support the capital programme only on a business case basis.
- Continue the process of priority-based budgeting to target investment and differential levels of savings targets at services according to priority.
- Identify new income streams to supplement diminishing resources.

**Summary of MTFS 2018-2021 - General Fund**

| | 2019/20 £'000s | 2020/21 £'000s | 2021/22 £'000s | 2022/23 £'000s | 2023/24 £'000s |
|---|---|---|---|---|---|
| **Adjusted Base Budget** | 13,509 | 13,986 | 13,858 | 14,455 | 15,535 |
| Pay and Price Inflation | 300 | 300 | 300 | 300 | 300 |
| Pay Award & Increments | 30 | 30 | 30 | 30 | 30 |
| National Living Wage | 20 | 0 | 0 | 0 | 0 |
| Inflation on Contracts | 250 | 250 | 250 | 250 | 250 |
| Capital Financing | 300 | 400 | 500 | 500 | 500 |
| Recurring Growth | 407 | 22 | 17 | | |
| | 14,816 | 14,988 | 14,955 | 15,535 | 16,615 |
| **External Funding** | | | | | |
| RSG | 0 | 0 | 0 | 0 | 0 |
| Retained Business Rates | (4,394) | (3,955) | (3,560) | (3,204) | (2,884) |
| Business Rates Pool | (200) | 0 | 0 | 0 | 0 |
| Other Government Grants | (147) | (147) | (147) | (147) | (147) |
| New Homes Bonus | (187) | (102) | (60) | (60) | (60) |
| Total External Funding | (4,928) | (4,204) | (3,767) | (3,411) | (3,091) |
| **Council Tax** | (8,234) | (8,626) | (8,910) | (9,203) | (9,506) |
| **Council Tax Growth** | (392) | (284) | (293) | (303) | (313) |
| **Council Tax Surplus** | (152) | 0 | 0 | 0 | 0 |
| **Total Sources of Funding** | (13,706) | (13,114) | (12,970) | (12,917) | (12,910) |
| Gap if no further action was taken | 1,110 | 1,874 | 1,985 | 2,618 | 3,705 |
| Inflation on Income | (180) | (130) | (100) | | |
| Non-recurring growth | 538 | 25 | 25 | | |
| JTP - Shared Transformation | (200) | (100) | | | |
| Service Efficiencies | (350) | (200) | (200) | | |
| VAT Exemption - Cultural Services | | (250) | | | |
| Devonshire Park | 739 | 575 | 149 | | |
| Procurement Savings - Art | | (50) | | | |
| Property Management Cost Review | | (200) | | | |
| Contribution from HRA towards JTP | (250) | | | | |
| Commercial Income | (100) | (200) | (200) | | |
| Devonshire Park Reserve | (739) | (575) | (149) | | |
| Balance to/from Reserves | (568) | | | | |
| Cumulative Gap/ (Surplus) | 0 | 769 | 2,279 | TBC | TBC |

- **Capital Programme**

The Capital Programme has been framed to deliver significant investment in infrastructure in the future. It is funded by Capital Receipts, Grants and Contributions, Reserves and Borrowing.

The Council has a policy of only using borrowing for schemes that are invest to save and can generate enough savings or additional income to service the financing costs.

The Capital Programme for 2019/20 to 2021/22 is as follows:

| **Capital Programme** | **2019/20 £000** | **2020/21 £000** | **2021/22 £000** |
|---|---|---|---|
| HRA | 4,344 | 4,399 | - |
| Community Services | 1,530 | 300 | - |
| Tourism & Leisure | 15,300 | 15,165 | - |
| Corporate & Core Services | 18,725 | 11,580 | 2,500 |
| Asset Management | 3,494 | 821 | - |
| **Total Programme** | **43,393** | **32,265** | **2,500** |
| **Financed By:-** | | | |
| Capital Receipts | 2,168 | - | - |
| Capital Grants & Contributions | 8,253 | 300 | - |
| Capital Reserves | 4,371 | 4,399 | - |
| Revenue | 491 | - | - |
| **Total Financing excluding Borrowing** | **15,283** | **4,699** | **-** |
| **Borrowing Needed** | 28,110 | 27,566 | 2,500 |
| **Total Financing** | **43,393** | **32,265** | **2,500** |

- **Corporate Plan**

The Corporate Plan sets out our priorities and key projects covering the period 2016 to 2020. Refreshed annually (most recently in 2018) the four-year plan sets out the key outcomes the Council will deliver with its partners for our Borough. The Plan has been informed and developed in consultation with our residents, partners and other stakeholders. We monitor the Plan and report progress to Cabinet each quarter. It is a 'living plan' that responds to changing times, and the financial context within which we operate, whilst keeping a focus on the needs of our local communities. We publish the Plan on our website https://www.lewes-eastbourne.gov.uk/about-the-councils/corporate-plans/

- **Key Considerations in relation to COVID-19**

In March 2020, the UK was placed in lock-down in an unprecedented step to limit the spread of the Coronavirus which was sweeping Europe. Many businesses were closed, and the Government provided initial financial support in the order of £123 billion in loans, grants, and business rates relief. In April 2020, the Budget Deficit increased by £62 billion to part fund these initiatives, amid warnings from the Bank of England of the worst recession since the 18th Century.

In response to the COVID-19 outbreak, The Ministry of Housing Communities and Local Government was clear that any council who made an immediate response to the COVID19 outbreak would be financially supported in their decision making by the government. In addition, the government has been making a series of ongoing policy announcements, which has meant that local authorities have had to respond quickly to new announcements and understand the financial implications arising.

The Council has played a significant role in responding to Covid19, in supporting businesses and the most vulnerable in our communities as well as running essential services. The financial impact of Covid19 has been an evolving picture and this will continue into 2021/22. The Council is forecasting additional costs in 2020/21 in the region of £3.7m including homelessness prevention, unachieved savings, redeployment costs, support for the Leisure services, additional PPE, community grants and cleaning costs.

The Council's income streams have been affected, with projected losses in the region of £10m including admissions, sales, trade waste, car parking, planning income, and rental income. The Government has provided support to local authorities through £4.6bn, new burdens funding, and income compensation support (75p compensation in every 95p of income loss from fees and charges).
There is no statutory definition of a minimum level of reserves and it is for this reason that the matter falls to the judgement of Section 151 Officer. The minimum level of General Fund Balance was set at approximately 15% of the net expenditure budget and considered to be within the range that is deemed appropriate to mitigate against the impact of unexpected events and emergencies. An analysis of earmarked reserves held by the Council revealed that the level of individual reserves is appropriate and are adequate to meet the commitments and forecast expenditure facing the Council.

The financial impact of Covid19 continue to be difficult to predict, income streams have been reviewed and revised where appropriate. Conversely, if businesses and households continue to experience lower incomes then lower Council Tax, Business Rates and other income to the Council will remain below those anticipated in the Budget. These longer-term risks emphasise the importance of additional government financial support to local authorities as a consequence of the pandemic and the extra vital work we are carrying out in supporting vulnerable households and local businesses. These matters will be monitored closely and modelled with regular updates to members.

- **MHCLG financial support and capitalisation directive**

In August 2020, it became very clear that a July recovery and bounce back was no longer an option and the Council's Chief Finance Officer initiated a formal notification process with MHCLG asking for financial support or capitalisation directive.

On 2nd February 2021, Luke Hall, MP and Minister of State for Regional Growth and Local Government in a letter addressed to Cllr Tutt, Leader of the Council, approved a total capitalisation direction to fund revenue expenditure not exceeding £6.8m, for the financial year 2020/21 and up to £6m for 2021/22.

The letter included:
*With respect to the financial year of 2020/21, the Secretary of State is content to approve a total capitalisation direction to fund revenue expenditure not exceeding £6.8m, subject to conditions. The conditions would be set out in the capitalisation direction when issued. With respect to the financial year of 202*1/22, the Secretary of State is minded to approve a capitalisation direction of a total not exceeding £6m. Again, such a direction may be subject to conditions, which would be set out in the capitalisation direction when issued.

## EXPLANATION OF THE FINANCIAL STATEMENTS

The Statement of Accounts comprises:

**A Statement of Responsibilities -** This statement defines the roles and responsibilities for preparing the accounts.

**Independent Auditor's Report**

**The Core Accounting Statements**:

- **Movement in Reserves Statement** – this statement shows the movements in the year of the different reserves held by the Council. It also provides the interaction of the economic costs and legislation and their impact on changes in the Council's reserves, showing the true cost of the provision of Council services funded by Council Taxpayers.
- **Comprehensive Income and Expenditure Statement** – this statement sets out the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation.
- **Balance Sheet** - this statement sets out the overall financial position of the Council as at 31 March 2019. It shows the balances and reserves at the Council's disposal, its long-term indebtedness and incorporates the values of all assets and liabilities.
- **Cash Flow Statement** – this statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes for the financial year. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.
- **Notes to the accounting statements** - required to provide more detail, in line with accounting and statutory requirements. The statement of accounting policies, which describe the underlying accounting policies and concepts used in producing the figures in the accounts, are included here.

**The Supplementary Single Entry Financial Statements**:

- **Housing Revenue Account** – this account reflects the statutory obligation to account separately for council housing provision. It shows the main elements of housing revenue expenditure – maintenance, administration and capital financing costs and how these are met by rents and other income.
- **Collection Fund** - this account reflects the statutory requirement to maintain a separate record of transactions in relation to Non-Domestic Rates and Council Tax and illustrates the way in which these have been distributed to local authorities and the Government.

**Group Accounts** – These accounts show the material interests that the Council has in its subsidiary companies. The group accounts are structured in line with the Council's core accounting statements and are accompanied by notes in the same way.

## FURTHER INFORMATION

Summary financial information is published annually on the Council's website (www.lewes-eastbourne.gov.uk). Further information on any of the financial statements may be obtained from the Chief Finance Officer, Town Hall, Grove Road, Eastbourne, BN21 4UG.

**Homira Javadi**
Chief Finance Officer
Statutory Section 151 Officer

## ADOPTION OF THE ACCOUNTS

In accordance with Accounts and Audit Regulations the Chair of the meeting adopting the Statement of Accounts must sign and date the statement in order to confirm that the adoption process has been completed.

The Statement of Accounts for 2018/19 will be approved at the meeting of the Audit and Governance Committee to be held on 28 July 2021.

Signed

**Councillor Robin Maxted**
Chair, Audit and Governance Committee

Date: 28 July 2021

## STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

**The Council's Responsibilities**

**The Council is required to:**

- make arrangements for the proper administration of its financial affairs and secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Chief Finance Officer;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the Statement of Accounts.

**The Chief Finance Officer's Responsibilities**

The Chief Finance Officer is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA /LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

**In preparing this Statement of Accounts, the Chief Finance Officer has:**

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Local Authority Code.

**The Chief Finance Officer has also:**

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

**Certificate of the Chief Finance Officer**

I certify that the Statement of Accounts presents the true and fair financial position of the Council as at 31 March 2019 and its income and expenditure for the year ended 31 March 2019.

**Homira Javadi**
Chief Finance Officer
Statutory Section 151 Officer

Date: 28 July 2021

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EASTBOURNE BOROUGH COUNCIL

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

### Opinion

In our opinion the financial statements of Eastbourne Borough Council ('the Authority') and its subsidiaries ('the group'):

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2019 and of the group's and the Authority's expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

We have audited the financial statements which comprise:

- the Authority and group Movement in Reserves Statements;
- the Authority and group Comprehensive Income and Expenditure Statements;
- the Authority and group Balance Sheets;
- the Authority and group Cash Flow Statements;
- the Housing Revenue Account;
- the Movement on the Housing Revenue Account Statement;
- the Collection Fund Revenue Account; and
- the related notes to the accounting statements 1 to 32, notes to the Housing Revenue Account 1 to 8, notes to the Collection Fund Revenue Account 1 to 4, and notes to the group accounting statements 1 to 8.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting (2018/19).

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the Chief Financial Officer's use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the Chief Financial Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

The going concern basis of accounting for the Authority is adopted in consideration of the requirements set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, which require entities to adopt the going concern basis of accounting in the preparation of the financial statements.

**Other information**

The Chief Financial Officer is responsible for the other information. The other information comprises the information included in the statement of accounts and the annual governance statement, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

**Chief Financial Officer's responsibilities**

As explained more fully in the Chief Financial Officer's responsibilities statement, the Chief Financial Officer is responsible for the preparation of the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Financial Officer is responsible for assessing the group's and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting on the assumption that the functions of the group and the Authority will continue in operational existence for the foreseeable future.

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

**REPORT ON OTHER LEGAL AND REGULATORY MATTERS**

**Report on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**

**Conclusion**

On the basis of our work, having regard to the guidance issued by the Comptroller and Auditor General in November 2017, we are satisfied that, in all significant respects, Eastbourne Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

**Respective responsibilities in respect of our review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
We are not required to consider, nor have we considered, whether all aspects of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether Eastbourne Borough Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Eastbourne Borough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

**Matters on which we are required to report by exception**

The Code of Audit Practice requires us to report to you if:

- any matters have been reported in the public interest under Section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of, the audit;
- any recommendations have been made under Section 24 of the Local Audit and Accountability Act 2014;
- an application has been made to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- an advisory notice has been issued under Section 29 of the Local Audit and Accountability Act 2014; or
- an application for judicial review has been made under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

**CERTIFICATE OF COMPLETION OF THE AUDIT**

We certify that we have completed the audit of the accounts of Eastbourne Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

**USE OF OUR REPORT**

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014. Our audit work has been undertaken so that we might state to the members of the Authority, as a body, those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

**Ben Sheriff (Key Audit Partner)**
For and on behalf of Deloitte LLP
St Albans, United Kingdom

Date

## MOVEMENT IN RESERVES STATEMENT

| | General Fund | HRA Balance | Earmarked Reserves (note 16) | Major Repairs Reserve | Capital Receipts Reserve | Capital Grants & Contributions Unapplied | Total Usable Reserves | Unusable Reserves (note 28) | Total Reserves |
|---|---|---|---|---|---|---|---|---|---|
| | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** |
| **Balance at 31 March 2017 as previously stated** | **(2,660)** | **(4,366)** | **(8,976)** | **(514)** | **(5,161)** | **(5,613)** | **(27,290)** | **(215,664)** | **(242,954)** |
| Restatement (see note 1) | **-** | **-** | **-** | **-** | **-** | **-** | **-** | 4,043 | 4,043 |
| **Restated Balance at 1 April 2017** | **(2,660)** | **(4,366)** | **(8,976)** | **(514)** | **(5,161)** | **(5,613)** | **(27,290)** | **(211,621)** | **(238,911)** |
| **Movement in Reserves 2017/18** | | | | | | | | | |
| Total Comprehensive Expenditure and Income (restated) | 4,069 | (5,852) | - | - | - | - | **(1,783)** | (1,741) | **(3,524)** |
| Adjustments between accounting basis & funding basis under regulations (restated) (note 8) | (3,791) | 4,654 | - | (351) | (2,377) | 846 | **(1,019)** | 1,019 | **-** |
| Transfers (to)/from Earmarked Reserves (note 16) | (651) | 376 | 275 | - | - | - | **-** | - | **-** |
| **(Increase) / Decrease in Year** | **(373)** | **(822)** | **275** | **(351)** | **(2,377)** | **846** | **(2,802)** | **(722)** | **(3,524)** |
| **Balance at 31 March 2018 as previously stated** | **(3,033)** | **(5,188)** | **(8,701)** | **(865)** | **(7,538)** | **(4,767)** | **(30,092)** | **(224,154)** | **(254,246)** |
| Restatement (see note 1) | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **7,927** | **7,927** |
| **Restated Balance at 1 April 2018** | **(3,033)** | **(5,188)** | **(8,701)** | **(865)** | **(7,538)** | **(4,767)** | **(30,092)** | **(216,227)** | **(246,319)** |
| **Movement in Reserves 2018/19** | | | | | | | | | |
| Total Comprehensive Expenditure and Income | 6,088 | (1,864) | - | - | - | - | **4,224** | 2,704 | **6,928** |
| Adjustments between accounting basis & funding basis under regulations (note 8) | (4,134) | 1,210 | - | (190) | (7) | 2,164 | **(957)** | 957 | **-** |
| Transfers (to)/from Earmarked Reserves (note 16) | (3,303) | (105) | 3,408 | - | - | - | **-** | - | **-** |
| **(Increase) / Decrease in Year** | **(1,349)** | **(759)** | **3,408** | **(190)** | **(7)** | **2,164** | **3,267** | **3,661** | **6,928** |
| **Balance at 31 March 2019** | **(4,382)** | **(5,947)** | **(5,293)** | **(1,055)** | **(7,545)** | **(2,603)** | **(26,825)** | **(212,566)** | **(239,391)** |

This statement shows the movements in the year on the different reserves held by the Council, analysed into "usable reserves" (those that can be used immediately to fund expenditure or to reduce local taxation) and other reserves. The purpose of individual reserves is set out in Note 2.19, and more details are given for earmarked and unusable reserves in Notes 16 and 28 respectively. The line entitled "Total Comprehensive Expenditure and Income" shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the amounts required by statute to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwelling rent setting purposes.

## COMPREHENSIVE INCOME & EXPENDITURE STATEMENT

| 2017/18 Restated | | | | | 2018/19 | | |
|---|---|---|---|---|---|---|---|
| **Exp.** | **Income** | **Net** | | **Note** | **Exp.** | **Income** | **Net** |
| **£000** | **£000** | **£000** | | | **£000** | **£000** | **£000** |
| 9,301 | (581) | 8,720 | Corporate Services | | 7,372 | (461) | 6,911 |
| 63,202 | (54,199) | 9,003 | Service Delivery | | 59,321 | (50,480) | 8,841 |
| 4,686 | (1,575) | 3,111 | Regeneration and Planning | | 5,099 | (1,705) | 3,394 |
| 10,338 | (5,967) | 4,371 | Tourism and Enterprise | | 11,332 | (6,129) | 5,203 |
| 6,684 | (16,263) | (9,579) | Housing Revenue Account | | 8,393 | (16,168) | (7,775) |
| **94,211** | **(78,585)** | **15,626** | **Cost of Services** | | **91,517** | **(74,943)** | **16,574** |
| 216 | - | 216 | Levy Payable | | 222 | - | 222 |
| 281 | - | 281 | Payments to housing capital receipts pool | | 281 | - | 281 |
| 3,884 | (1,419) | 2,465 | Loss on sale and de-recognition of non-current assets | | 11,204 | (10,129) | 1,075 |
| **4,381** | **(1,419)** | **2,962** | **Other Operating Expenditure** | | **11,707** | **(10,129)** | **1,578** |
| 2,764 | - | 2,764 | Interest payable & similar charges | 22 | 3,022 | - | 3,022 |
| - | - | - | Fair Value movement in shares | | 212 | - | 212 |
| - | - | - | Income from amortisation of Financial Guarantee contract | 4,5 | - | (496) | (496) |
| 1,150 | - | 1,150 | Net Interest on the Net Defined Benefit Liability | 29 | 1,237 | - | 1,237 |
| - | (650) | (650) | Interest & other investment income | 22 | - | (910) | (910) |
| 833 | (1,880) | (1,047) | Investment Properties | | 1,572 | (4,177) | (2,605) |
| 1,595 | (1,489) | 106 | Trading Accounts | | 2,378 | (1,455) | 923 |
| **6,342** | **(4,019)** | **2,323** | **Financing and Investment Income and Expenditure** | | **8,421** | **(7,038)** | **1,383** |
| - | (11,467) | (11,467) | Non ring-fenced grants and contributions | 15 | - | (4,492) | (4,492) |
| - | (8,007) | (8,007) | Council Tax income | | - | (8,294) | (8,294) |
| 10,330 | (13,550) | (3,220) | Non Domestic Rates Income and Expenditure | | 11,044 | (13,569) | (2,525) |
| **10,330** | **(33,024)** | **(22,694)** | **Taxation and Non-specific Grant Income and Expenditure** | | **11,044** | **(26,355)** | **(15,311)** |
| **115,264** | **(117,047)** | **(1,783)** | **Surplus on Provision of Services** | | **122,689** | **(118,465)** | **4,224** |
| | | (1,757) | Surplus on revaluation of Property, Plant and Equipment Assets | 28 | | | (2,563) |
| | | (3,868) | Re-measurement of the net defined benefit liability | 29 | | | 5,267 |
| | | **(5,625)** | **Other Comprehensive I & E** | | | | **2,704** |
| | | **(7,408)** | **Total Comprehensive I & E** | | | | **6,928** |

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Councils raise taxation in order to cover expenditure in accordance with regulations, and this definition of expenditure may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

# BALANCE SHEET

| 1 April 2017 Restated | 31 March 2018 Restated | | Notes | 31 March 2019 | |
|---|---|---|---|---|---|
| £000 | £000 | | | £000 | £000 |
| 308,598 | 328,476 | Property, Plant & Equipment | 18 | 357,569 | |
| 15,034 | 15,034 | Heritage Assets | 19 | 15,034 | |
| 5,627 | 23,893 | Investment Property | 20 | 25,656 | |
| 4,478 | 4,995 | Intangible Assets | 21 | 6,279 | |
| 238 | 323 | Long Term Investments | 12 | 1,030 | |
| - | - | Investment in Joint Venture | 4,5 | 3,500 | |
| 10,839 | 13,668 | Long Term Debtors | 24 | 26,895 | |
| **344,814** | **386,389** | **Long Term Assets** | | | **435,963** |
| 378 | - | Assets Held for Sale | | - | |
| 107 | 139 | Inventories | | 132 | |
| 11,515 | 18,742 | Short Term Debtors | 24 | 19,503 | |
| 1,857 | 3,609 | Cash and Cash Equivalents | 30 | 2,241 | |
| **13,857** | **22,490** | **Current Assets** | | | **21,876** |
| (10,310) | (23,374) | Short Term Borrowing | 22 | (27,447) | |
| (9,578) | (10,870) | Short Term Creditors | 25 | (20,142) | |
| (562) | (489) | Short Term Provisions | 26 | (614) | |
| (116) | (13) | Revenue Grants Receipts in Advance | 15 | (13) | |
| **(20,566)** | **(34,746)** | **Current Liabilities** | | | **(48,216)** |
| (772) | (204) | Long Term Creditors | 25 | (69) | |
| (55,050) | (82,050) | Long Term Borrowing | 22 | (96,617) | |
| - | - | Other Long Term Liabilities | 25 | (17,379) | |
| (43,372) | (45,560) | Long Term Liabilities Pensions | 29 | (56,167) | |
| **(99,194)** | **(127,814)** | **Long Term Liabilities** | | | **(170,232)** |
| **238,911** | **246,319** | **NET ASSETS** | | | **239,391** |
| (27,290) | (30,092) | Usable Reserves | 27 | | (26,825) |
| (211,621) | (216,227) | Unusable Reserves | 28 | | (212,566) |
| **(238,911)** | **(246,319)** | **TOTAL RESERVES** | | | **(239,391)** |

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The Council's net assets (assets less liabilities) are matched by the reserves that it holds. Reserves are reported in two categories: usable and unusable. Usable reserves are those that the Council may use to provide services, subject to the need to keep a prudent level of reserves and to any statutory limits on their use, such as the Capital Receipts Reserve only being used to fund capital expenditure or to repay debt. Unusable reserves are those that the Council is not able to use to provide services. This category includes reserves to hold unrealised gains and losses (such as the Revaluation Reserve), where amounts would only become available to provide services if the asset was sold, and reserves that hold timing differences shown in the section in the Movement in Reserves Statement labelled "Adjustments between accounting basis and funding basis under regulation."

I certify that this Statement of Accounts provides a true and fair view of the financial position of the Council as at 31 March 2019 and its Comprehensive Income and Expenditure Statement for the year then ended.

**Homira Javadi**
Chief Finance Officer

## CASH FLOW STATEMENT

| 2017/18 Restated £000 | CASH FLOW STATEMENT | 2018/19 £000 |
|---|---|---|
| (1,783) | Net (Surplus) / Deficit on provision of services | 4,224 |
| (7,193) | Adjustment to net surplus on the provision of services for non-cash movements | (30,827) |
| 12,445 | Adjustment for items included in the net surplus on the provision of services that are investing and financing activities | 13,081 |
| **3,469** | **NET CASH (INFLOWS) / OUTFLOWS FROM OPERATING ACTIVITIES** | **(13,522)** |
| 32,761 | Investing Activities | 32,617 |
| (37,982) | Financing Activities | (17,727) |
| **(1,752)** | **NET (INCREASE) / DECREASE IN CASH AND CASH EQUIVALENTS** | **1,368** |
| (1,857) | Cash and cash equivalents at the beginning of the reporting period | (3,609) |
| **(3,609)** | **CASH AND CASH EQUIVALENTS AT THE END OF THE REPORTING PERIODS** | **(2,241)** |

| 31 March 2018 £000 | COMPONENTS OF CASH AND CASH EQUIVALENTS | 31 March 2019 £000 |
|---|---|---|
| 577 | Bank Current Accounts | 2,202 |
| 32 | Cash held by the Authority | 39 |
| 3,000 | Short-term deposits with banks | - |
| **3,609** | **Total Cash and Cash Equivalents** | **2,241** |

Included in the inflow and outflow figures are recharges of expenditure incurred on behalf of Lewes DC and Eastbourne Homes Ltd of £14.9m (2017/18 £13.3m) and £2.8m (2017/18 £1.7m) respectively.

The Cash Flow Statement shows the changes in the Council's cash and cash equivalents during the financial year. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the Council's operations are funded from taxation and grant income or from the recipients of the Council's services. Investing activities represent the amount to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

## NOTES TO THE ACCOUNTING STATEMENTS

### 1. CHANGES TO ACCOUNTING POLICIES AND TO PREVIOUS YEAR'S FIGURES

The accounting policies applied in 2018/19 are consistent with those applied in 2017/18 with the exception of policy 2.9 being updated for IFRS 9 Financial Instruments and a new policy 2.25 for IFRS 15 Revenue from Contracts with Customers. Both these new IFRS standards were implemented from 1 April 2018. IFRS 15 incudes additional guidance on the principles of revenue recognition and a revised section on Revenue from Contracts with Service Recipients. IFRS 9 introduced extensive changes to the classification and measurement of financial assets along with relevant disclosure requirements as a consequence of the expected credit loss model for impairment of non-contractual debts.

**PRIOR PERIOD ADJUSTMENT**

A prior period adjustment had been made to the accounts in relation to the treatment of Housing Revenue Account (HRA) capital expenditure between valuations. Capital additions had been added to gross cost without corresponding disposal entries. The policy has now been revised so that there are corresponding entries. The total adjustment was £7.927m of which £4.043m related to the financial year 2016/17 and £3.884m to 2017/18. The Balance Sheet and Movement of Reserves Statement have been restated at 1 April 2017 for the £4.043m and restated for the £3.884m at 31 March 2018. The 2017/18 comparator figures have also been updated for the impact of this change in the Comprehensive Income and Expenditure Statement), the Cash Flow Statement, Note 8 Adjustments between Accounting Basis and Funding Basis under the Regulations, Note 18 Property, Plant & Equipment, Note 28 Capital Adjustment Account, Note 30 Cash and Cash Equivalents, Housing Revenue Account Income and Expenditure Statement, Movement on the HRA Statement and HRA Note 1 Housing Stock. The Group Accounts have also been updated for these changes.

### 2. ACCOUNTING POLICIES

#### 2.1 General Principles

The Statement of Accounts summarises the Council's transactions for the 2018/19 financial year and its position at the end of 31 March 2019. It has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, which is based on International Financial Reporting Standards. The accounting convention adopted is historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments. They are prepared on a going concern basis.

#### 2.2 Accruals of Expenditure and Income

We account for activity in the year that it takes place, not simply when cash payments are made or received. In particular:

- Fees, charges and rents due from customers are accounted for as income at the date the Council provides the relevant goods or services.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption and where the amounts are significant, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- A de-minimis level of £1,000 has been set for accruals. Income and expenditure below this amount may not be accrued as it is considered trivial.

In cases where a full year's income & expenditure is shown in the accounts, for example utility bills and annual contracts, no accrual is made in the accounts as this would overstate the annual position.

Housing Rents is billed and accounted for on a weekly basis, at the start of each week. No adjustment is made at year end to record income to 31 March unless the adjustment is material.

Housing Benefit Payments are made on a weekly basis. No adjustment is made to the accounts at year end to record payments to 31 March unless the adjustment is material.

**Accounting for Council Tax**

While the Council Tax income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and transferred to the Council's General Fund, or paid out to the major preceptors. The amount credited to the General Fund under statute is the Council's demand for the year plus or minus the Council's share of the surplus or deficit on the Collection Fund for the previous year.

The Council Tax income included in the Comprehensive Income and Expenditure Statement is the Council's share of the Collection Fund's accrued income for the year. The difference between this value and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account via the Movement in Reserves Statement. Revenue relating to Council Tax shall be measured at the full amount receivable (net of any impairment losses) as the transactions are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates.

The cash collected by the Council from Council Tax payers belongs proportionately to the Council and the major preceptors. The difference between the amounts collected on behalf of the major preceptors and the payments made to them is reflected as a debtor or creditor balance as appropriate.

**Accounting for Non Domestic Rates (NDR)**

While the NDR income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and transferred to the Council's General Fund, or paid out to the precepting authorities and the Government. The amount credited to the General Fund under statute is the Council's share of NDR for the year specified in the National Non Domestic Rates NNDR1 return.

The NDR income included in the Comprehensive Income and Expenditure Statement is the Council's share of the Collection Fund's accrued income for the year and is as set out in the NNDR3 return. The difference between this value and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account via the Movement in Reserves Statement. Revenue relating to NDR shall be measured at the full amount receivable (net of any impairment losses) as these transactions are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates.

The cash collected by the Council from NDR payers belongs proportionately to the Council, the precepting authorities and Government. The difference between the amounts collected on behalf of the precepting authorities and Government and the payments made to them is reflected as a debtor or creditor balance as appropriate.

### 2.3 Cash and Cash Equivalents

The Council treats as "cash and cash equivalents" all money held as cash or in bank accounts (whether in surplus or overdrawn), including cash deposited in interest-bearing call accounts, repayable without penalty. Investments made for a period of less than one month are also accounted for in this category, rather than as investments.

### 2.4 Contingent Assets

A contingent asset is a possible asset that arises from a past event and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Council. Typically, a contingent asset is related to a legal action by the Council, whose outcome is uncertain when the balance sheet is compiled.

Contingent assets are not recognised in the balance sheet, but their existence is recorded in a note to the accounting statements.

## 2.5 Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required, or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

## 2.6 Employee Benefits

Benefits Payable during Employment

Accounting standards require that accruals for expenditure are made for short-term compensated absences, covering entitlement for annual leave, flexi-time and time in lieu. Short-term employee benefits are those due to be settled within 12 months of the year-end. Where considered material, an accrual is made for the cost of holiday entitlements earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made using an estimated average salary rate. The accrual is charged to Surplus or Deficit on the Provision of Services but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the relevant service cost line in the CI&ES when the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy. Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end

Post-Employment Benefits

The majority of employees of the Council are members of the Local Government Pension Scheme, administered by East Sussex County Council for local authorities within East Sussex. This scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees work for the Council. We therefore account for this scheme as a defined benefit plan.

- The liabilities of the East Sussex County Council pension scheme attributable to this Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 2.4% (based on the indicative rate of return on the iboxx Sterling Corporates Index, AA over 20 years) Previously the discount rate used was 2.6%.
- We include the assets of the East Sussex County Council Pension Fund attributable to this Council in the Balance Sheet at their fair value:
    - quoted securities – current bid price
    - unquoted securities – professional estimate
    - unitised securities – current bid price
    - property – market value.

- The change in the net pensions liability is analysed into the following components:
  - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;
  - past services cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement;
  - net interest on the net defined benefit liability , i.e. net interest expense for the Council – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the beginning of the period – taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.

- Re-measurement comprising:
  - the return on plan assets – excluding amounts included in net interest on the net defined liability – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure;
  - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- Contributions paid to the East Sussex County Council's Pension Fund – cash paid as employer's contributions to the Pension Fund in settlement of liabilities; not accounted for as an expense.

Statutory provisions require the Council to charge the General Fund Balance with the amount payable by the Council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. This means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and the amounts payable to the fund but unpaid at the year-end. The negative balance that arises on the Pension Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

### 2.7 Events after the Reporting Period

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events;
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events but, where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

## 2.8 Exceptional Items and Prior-Period Adjustments

When items of income and expenditure are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

Where the Code specifies a change of accounting policy, it is applied retrospectively to the previous financial year, so that the comparative figures for the opening and closing balance sheets for that year will be changed, along with the other accounting statements and the notes to the accounting statements.

Similar adjustments are made for any changes to accounting policies not directly specified by the Code, and to correct material errors in prior periods.

## 2.9 Financial Instruments

**Financial Liabilities**
Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For the Council's borrowings, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Where loans are replaced through restructuring, there are distinct accounting treatments, as follows:

- Modification - Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

- Substantially Different - Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

- Early repayment of loans - The accounting treatment for premiums and discounts arising on the early repayment of loans is largely dictated by the general principle that financial instruments are derecognised when the contracts that establish them come to an end. The amounts payable or receivable are cleared to the Comprehensive Income and Expenditure Statement upon extinguishment. In line with regulations and statutory guidance, the impact of premiums is spread over future financial years. These provisions are affected in the Movement in Reserves Statement on the General Fund Balance, after debits and credits have been made to the Comprehensive Income and Expenditure Statement. The adjustments made in the Movement in Reserves Statement are managed via the Financial Instruments Adjustment Account.

**Financial Assets**
Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics. There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL)
- fair value through other comprehensive income (FVOCI)

The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

**Financial Assets Measured at Amortised Cost**
Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement. Where loans are made at less than market rates (soft loans), a loss is recorded in the CIES (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the CIES at a
marginally higher effective rate of interest than the rate receivable, with the difference serving to increase the amortised cost of the loan in the Balance Sheet.

Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the CIES to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement. Any gains and losses that arise on the de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

**Financial Assets Measured at Fair Value through Profit of Loss**

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:
- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- **Level 1 inputs** – quoted prices (unadjusted) in active markets for identical assets that the Council can access at the measurement date.
- **Level 2 inputs** – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
- **Level 3 inputs** – unobservable inputs for the asset.

For pooled investment funds (i.e. money market fund, collective investment scheme as defined in section 235 (1) of the Financial Services and Markets Act 2000, investment scheme approved by the Treasury under section 11(1) of the Trustee Investments Act 1961 (local authority schemes)) regulations allow a statutory override (for a period of 5 years from 1/4/18) any unrealised gains or losses can be transferred via the Movement in Reserves Statement to a Pooled Investment Funds
Adjustment Account in the Balance Sheet.

Any gains and losses that arise on de-recognition of the asset are debited or credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

**Expected Credit Losses**

The Council recognises expected credit losses (impairments) on all of its financial assets held at amortised cost or FVOCI either on a 12-month or lifetime basis. Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses. The expected credit loss model applies to financial assets measured at amortised cost and FVOCI, trade receivables, lease debtors, third party loans and financial guarantees.

A simplified approach is applied to trade receivables and lease debtors whereby consideration of changes in credit risk since initial recognition are not required and losses are automatically recognised on a lifetime basis. A collective assessment is made for groups of instruments where reasonable and supportable information is not available for individual instruments without undue cost or effort. The aim will be to approximate the result of recognising lifetime expected credit losses if significant increases in credit risk since recognition had been measurable for the individual instruments.

Loans have been grouped into three types for assessing loss allowances:

**Group 1** – loans made to individual organisations. Loss allowances for these loans can be assessed on an individual basis.

**Group 2** – loans supported by government funding. As the loan repayments are recycled and the contract allows for a level of default then no additional impairment loss is required.

**Group 3** - car loans to employees. Loss allowances are based on a collective assessment.

Impairment losses are debited to the Financing and Investment Income and Expenditure line in the CIES. For assets carried at amortised cost, the credit entry is made against the carrying amount in the Balance Sheet. For assets carried at FVOCI, the credit entry is recognised in Other Comprehensive Income against the Financial Instruments Revaluation Reserve. For loan commitments and financial guarantee contracts, the loss allowance is recognised as a provision.

Impairment losses are not applicable to FVPL assets as the future contractual cash flows are of lesser significance and instead current market prices are considered to be an appropriate reflection of credit risk, with all movements in fair value, including those relating to credit risk, impacting on the carrying amount and being posted to the Surplus or Deficit on the Provision of Services as they arise. Impairment losses on loans supporting capital purposes, lease debtors and share capital are not a proper charge to the General Fund balance and any gains or losses can be reversed out through the Movement in Reserves Statement to the Capital Adjustment Account.

### 2.10 Fair Value Measurement

The Council measures some of its assets and liabilities at fair value at the end of the reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

a) in the principal market for the asset or liability, or
b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The Council uses External Valuers to measure the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Council external Valuers takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Valuers uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of the Council's fair value measurement of its assets and liabilities are categorised within the fair value hierarchy as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date.
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – unobservable inputs for the asset or liability.

### 2.11 Government Grants and Other Contributions

Whether paid on account, by instalments or in arrears, Government grants and third party contributions and donations are recognised as income at the date that the Council satisfies the conditions of entitlement to the grant/contribution, when there is reasonable assurance that the monies will be received.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried on the Balance Sheet as creditors. When conditions are satisfied the grant or contribution is credited to the relevant service line or taxation and non-specific grant income on the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

### 2.12 Property Plant and Equipment

Property plant and equipment consists of assets that have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis. They exclude assets which are held purely for investment purposes (Investment properties) and assets which the Council is actively seeking to sell (Assets available for sale).

<u>Categories</u>

- Council Dwellings – council houses owned by the Council.
- Land and buildings – properties owned by the Council, other than those in another category shown below, or Investment Properties.
- Vehicles, plant and equipment – individual items or groupings of items which are purchased from capital resources.
- Infrastructure – bus shelters and sea defences.
- Community assets – properties such as parks, which are used for the community as a whole, with no determinable market value in their present use, and which are not likely to be sold.
- Surplus assets – individual properties which the Council has determined to be surplus to operational requirements, but which are not actively being marketed.
- Assets under construction – capital expenditure on an asset before it is brought into use.

<u>Recognition</u>

Expenditure on the acquisition, creation or enhancement of property plant and equipment is capitalised on an accruals basis, provided that it yields benefits to the Council and the services that it provides for more than one financial year. Expenditure that secures but does not extend the previously assessed standards of performance of an asset (e.g. repairs and maintenance) is charged to the Comprehensive Income and Expenditure Statement as it is incurred. Assets valued at less than £10,000 are not included on the balance sheet, provided that the total excluded has no material impact.

Measurement

Assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use. Assets are then carried in the Balance Sheet using the following measurement bases:

- Council dwellings – current value, based on the market value for social housing in existing use (EUV-SH).
- Land and buildings – current value, usually based on the market value for the existing use (EUV). Some specialised properties, where the valuer cannot identify a market for the asset, are instead valued on the basis of depreciated replacement cost (DRC).
- Vehicles, plant and equipment – current value, for which depreciated historic cost is normally used as a proxy.
- Infrastructure – depreciated at historic cost.
- Community Assets – historic cost.
- Surplus assets - fair value, based on the highest and best use from a market participant's perspective.
- Assets under construction – historic cost.

We revalue assets included in the Balance Sheet at current value when there have been material changes in the value, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Gains are credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of an impairment loss previously charged to a service revenue account.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

The values of each category of assets and of material individual assets are reviewed at the end of each financial year for evidence of reductions in value. Where impairment is identified as part of this review or as a result of a valuation exercise, this is accounted for as follows:

Where there is no balance in the revaluation reserve or insufficient balance the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Account. Where there is a balance of revaluation gains in the revaluation reserve the carrying amount of the asset is written off against that balance (up to the amount of the accumulated gains).

Where an impairment loss is charged to the Comprehensive Income and Expenditure Statement but there were accumulated revaluation gains in the Revaluation Reserve for that asset, an amount up to the value of the loss is transferred from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and Non-Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is re-valued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale, adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

When an asset is disposed of or decommissioned, the Comprehensive Income and Expenditure Statement is debited or credited with the net loss or gain on disposal. This net sum consists of two elements: the net book value written out of the balance sheet, and the sale proceeds. Although these amounts appear in the Comprehensive Income and Expenditure Statement, neither of them are properly debited nor credited to the General Fund or to the Housing Revenue Account. Further adjustments are therefore made through the Movement in Reserves Statement to reverse the effect on the General Fund and the Housing Revenue Account:

- Net book value written out – a transfer to credit the General Fund or the Housing Revenue Account and to debit the Capital Adjustment Account.
- Sale proceeds - a transfer is made to debit the General Fund and credit the Capital Receipts Reserve. A proportion of receipts relating to housing disposals are payable to the Government, and a transfer is made from the Capital Receipts Reserve to the General Fund to allow for this. The remainder of the proceeds remain in the Capital Receipts Reserve and can only be used to reduce debt or to finance capital expenditure.

Any balance relating to the asset held in the Revaluation Reserve is also transferred to the Capital Adjustment Account.

Disposals for less than £10,000 are treated as revenue income within the Cost of Services in the Comprehensive Income and Expenditure Statement.

In some cases, the receipt of income from asset disposals is delayed until a future financial year. In such cases a credit is made to the Deferred Capital Receipts Reserve, matched by a long-term or short-term debtor. The income from these disposals cannot be used for debt reduction or capital investment until it is actually received.

<u>Depreciation</u>

Depreciation is provided for on all assets with a determinable finite life by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following basis:

- Land – not subject to depreciation
- Council dwellings – initially calculated as a straight-line allocation over the life of the property as estimated by the valuer.
- Buildings – straight-line allocation over the life of the property as estimated by the valuer.
- Vehicles, plant and equipment depreciated over the life of the type of asset, normally between 3 and 25 years.
- Infrastructure –straight-line depreciation over periods of time between 10 and 40 years, as assessed at the time of the capital investment.
- Community assets – not subject to depreciation.
- Surplus assets – not subject to depreciation.
- Assets under construction – not subject to depreciation.

Depreciation on Council Dwellings is a proper charge to the Housing Revenue Account balance, but a corresponding transfer is made from the Capital Adjustment Account to the Major Repairs Reserve to finance capital investment.

Depreciation on other assets is charged to the Cost of Services in the Comprehensive Income and Expenditure Statement, but a not a proper charge against the General Fund or to the Housing Revenue Account. A transfer is therefore made from the Capital Adjustment Account to the General Fund or the Housing Revenue Account to reverse the impact.

Where new assets are acquired or brought into use, depreciation is charged from the start of the following year. Depreciation is charged for the full final year when assets are sold.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Componentisation

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Council Dwellings are componentised by reference to the 30-year business plan which identifies the key components to be replaced at regular intervals over the life of the asset, costs of all capital works and their projected timing. The major components are identified and depreciated over their useful economic life and any residual is treated as an extended life asset which is depreciated over 60 years.

### 2.13 Heritage Assets

The Council maintains an art collection and a local history collection which are held in support of the Council's objective to increase the knowledge, understanding and appreciation of the arts and the history of the local area. Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment, except for the frequency of revaluations. Some of the measurement rules are relaxed in relation to Heritage Assets as detailed below. The Council's Heritage Assets are accounted for as follows:

**Art Collection**

The art collection includes paintings and sketches and is reported in the Balance Sheet at insurance value, which was based on the external valuation carried out in 2012/13. The art collection will be revalued every 10 years, with an annual impairment review. The art collection is deemed to have indeterminate life and a high residual value; hence we do not consider it appropriate to charge depreciation.

Acquisitions are made by purchase or donations. Acquisitions are initially recognised at cost and donations are recognised at valuation with valuations provided by the external valuers and with reference to appropriate commercial markets for the paintings using the most relevant and recent information.

**Local History Collection**

The Local History Museum, which comprises of the Eastbourne Archaeological Collection, The Eastbourne Local History Collection, The Eastbourne Photographic and Postcard Collection and The Eastbourne Local History and Archaeology Library and Research Resource is recognised on the balance sheet at insurance value as cost is not readily available and the Council believes that the benefits of obtaining the valuation for these items would not justify the cost. The collection has been acquired mainly by donation over 100 years ago with some additional items being donated and purchased over the years.

**Heritage Assets – General**

The carrying amounts of Heritage Assets are reviewed where there is evidence of impairment for Heritage Assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment – see note 2.12. We will occasionally dispose of Heritage Assets which have a doubtful provenance or are unsuitable for public display. The proceeds of such items are accounted for in accordance with the Council's general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts (see note 2.12).

### 2.14 Investment Property

Investment properties are those assets that are held solely to earn rentals or for capital appreciation, or both. Properties that are used to facilitate the delivery of a service or to support Council policy objectives fall under the category of property, plant and equipment (see Note 2.12) and not investment property. Investment properties are initially measured at cost and subsequently at fair value being the price that would be received to sell such an asset in orderly transactions between market participants at the measurement date. As a non-financial asset, Investment Properties are measured at highest and best use. Properties are not depreciated but are re-valued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and

Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal. Rentals received in relation to investment properties are credited to the Cost of Services within the Comprehensive Income and Expenditure Statement However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and the Capital Receipts Reserve.

**2.15 Intangible assets**

Intangible assets are identifiable non-monetary assets without physical substance, normally comprising computer software. Internal costs incurred in developing such software are capitalised if they meet criteria to establish that these costs are an essential element of preparing the asset for use.

The initial value of intangible assets is amortised to the Comprehensive Income and Expenditure Statement over the estimated period of their useful life. This is normally taken as a period of 3-10 years, but an annual review is undertaken, and the life is amended where necessary. The value of intangible assets is also reviewed on an annual basis, and an additional adjustment is made for impairment where necessary.

The calculated amounts for amortisation and impairment are charged to the Cost of Services in the Comprehensive Income and Expenditure Statement, but they are not proper charges against the General Fund. A transfer is therefore made from the Capital Adjustment Account to the General Fund to reverse the impact.

**2.16 Leases**

Definition of a Lease

A lease is an agreement whereby the lessor conveys to the lessee, in return for a payment or a number of payments, the right to use an asset (property, plant and equipment, investment properties, non-current assets available for sale or intangible assets) for an agreed period of time. A finance lease is a lease that transfers substantially all of the risk and rewards incidental to ownership to the lessee. Any lease that does not come within this definition of a finance lease is accounted for as an operating lease.

The Council may also enter into an agreement which, while not itself a lease, nevertheless contains a right to use an asset in the same way as a lease. Such agreements are treated as either finance leases or operating leases as set out below.

The Council reviews all of its leases to determine how they stand against various criteria which distinguish between finance and operating leases. In undertaking this review, however, the Council operates a de minimis level, so that all leases with a term of less than 10 years, or for assets valued at less than £10,000 are treated within the accounts as an operating lease.

Finance Leases – Council Acting as Lessee

Where the Council uses or occupies an asset held under a finance lease, the asset is recognised as such in the appropriate line in the balance sheet, subject to the de minimis limit noted in 2.12 above. The value recognised is the fair value, or (if lower) the present value of the minimum lease payments. This value is offset on the balance sheet by a creditor or long-term liability for the leasing charge.

Lease payments are apportioned between interest payable as the finance charge and the reduction of the outstanding liability. The finance charge is calculated to produce a constant periodic rate of interest on the remaining balance of the liability.

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases – Council Acting as a Lessee

Lease payments for operating leases are recognised as an expense on a straight-line basis over the lease term, even if this does not match the pattern of payments. (e.g. if there is a rent-free period at the commencement of the lease.)

<u>Operating leases – Council acting as a lessor</u>

Income from operating leases is recognised on a straight-line basis over the lease term, even if this does not match the pattern of payments. (E.g. if there is a premium paid at the commencement of the lease.)

**2.17 Overheads**

Support service costs (e.g. HR, Accountancy, Property) are included within the Corporate Services Department and are no longer recharged across services.

**2.18 Provisions**

The Council recognises provisions to represent liabilities of uncertain timings or amounts. Provisions in the balance sheet represent cases where:

- The Council has a present obligation as a result of a past event;
- It is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation;
- A reliable estimate can be made of the amount of the obligation.

**2.19 Reserves**

The Council maintains two groups of reserves, usable and unusable.

Usable reserves comprise the following:

- <u>Capital Receipts Reserve</u>: proceeds from the sales of Property, Plant and Equipment are initially credited to the Comprehensive Income and Expenditure Statement but are transferred to this reserve. The Council is obliged to pay over a proportion of proceeds received from the sale of Housing Revenue Account assets: this is paid from the Comprehensive Income and Expenditure Statement, but a corresponding transfer is made from the Capital Receipts Reserve to ensure that this liability does not fall upon the General Fund. The remaining amounts in this reserve can then only be used to support capital expenditure.
- <u>Capital Grants and Contributions Unapplied Reserve</u>: similarly the Council receives grants and contributions towards capital expenditure, and, if there are no conditions preventing their use, these are also credited to the Comprehensive Income and Expenditure Statement and immediately transferred into the Capital Grants and Contributions Unapplied Reserve until required to finance capital investment.
- <u>Earmarked Reserves</u>: the Council may set aside earmarked reserves to cover specific projects or contingencies. These are transferred from the General Fund or the Housing Revenue Account, and amounts are withdrawn as required to finance such expenditure. There are no restrictions on the use of earmarked reserves, and unspent balances can be taken back to the General Fund in the same way.
- <u>Housing Revenue Account</u>: this is required to be maintained separately by legislation, to ensure that the provision of council housing is financed primarily from rental income and not from Council Tax.
- <u>Major Repairs Reserve</u>: this was established by the Local Authorities (Capital Finance and Accounts) Regulations 2000. An amount equal to the total depreciation for the year for HRA properties is transferred to the reserve from the Capital Adjustment Account, and an amount equal to the Major Repairs Allowance can be used to finance capital investment.
- <u>General Fund</u>: this represents all other usable reserves, without legal restrictions on spending, which arise from annual surpluses or deficits.

Unusable Reserves consist of those which cannot be used to finance capital or revenue expenditure:

- <u>Collection Fund Adjustment Account</u>: the net amount of the Council's share of Council Tax collectable for the year is credited to the Comprehensive Income and Expenditure Statement, but only the amount previously estimated and formally notified can be added to the General Fund. The difference between the two amounts is credited or debited to the Collection Fund adjustment account and cannot be used until the following financial year.

- Revaluation Reserve: this consists of accumulated gains on individual items of Property, Plant and Equipment. Any subsequent losses on valuation can be set against previous gains on the same asset.
- Capital Adjustment Account: this receives credits when capital is financed from revenue resources or other usable reserves, and receives debits to offset depreciation and other charges relating to capital which are not chargeable against the General Fund.
- Pensions Reserve: this is a statutory reserve to offset the Pension Liability assessed on an accounting and actuarial basis, and to ensure that variations in this liability do not affect the General Fund.
- Deferred Capital Receipts Reserve: this holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.
- Accumulated Absence Account: this represents the estimated value of annual leave accrued but not taken by staff as at 31 March.

### 2.20 Revenue Expenditure Financed From Capital Under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of non-current assets, is charged as expenditure to the relevant service revenue account in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources, a transfer to the Capital Adjustment Account then reverses out the amounts charged, so there is no impact on the level of Council Tax.

### 2.21 Charges to Revenue for Non-current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- depreciation attributable to the assets used by the relevant service;
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off;
- amortisation of intangible assets attributable to the service.

The council is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance Minimum Revenue Provision (MRP), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

### 2.22 Value Added Tax

Value Added Tax (VAT) has not been included in the income and expenditure of the accounts unless it is irrecoverable.

### 2.23 Inventories and Long Term Contracts

Where the value is significant to an operation, inventories are included in the Balance Sheet at the lower of cost and net realisable value.

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

### 2.24 Interests in Companies and Other Entities

The Council has a material interest in five companies; Eastbourne Homes Ltd (EHL), Eastbourne Housing Investment Company Ltd (EHIC), Investment Company Eastbourne (ICE), Eastbourne Downs Water Company (EDWC) and South East & Environmental Services Ltd (SEESL). These companies are wholly owned subsidiaries of the Council and the Council is therefore required to prepare Group Accounts. EHL is limited by guarantee and therefore no value is recognised for the investment in the Council's own single entity accounts. There have been no transactions for EDWC which was dormant during 2018/19.

Aspiration Homes LLP (AH) is a limited liability Partnership owned equally by Eastbourne BC and Lewes DC. It was set up during 2017/18 for the purpose of developing housing.

The Council also holds an immaterial associate interest in CloudConnX with 48% of voting B Shares. As these are not material, they have not been consolidated into the Group Accounts.

### 2.25 Revenue Recognition

As from January 2018, the Council accounts for revenue recognition in accordance with IFRS 15 - Revenue Recognition from Contracts with Customers and IPSAS 23 Revenue from Non-Exchange Transactions (Taxes and Transfers). Prior to this revenue was recognised under IAS 18 – Revenue. Under IFRS15, the principles of revenue recognition are determining if the transaction is an exchange or non-exchange transaction. With non-exchange transactions there is no or only nominal consideration in return. The obligating event is often determined by statutory prescription (e.g. council tax, VAT or a fine for breach of law) or may be a donation or bequest. For exchange transactions, assets or services and liabilities of approximately equal value are exchanged. There is a contract which creates right and obligations. Performance obligations in the contract have to be measured and the transaction price allocated to these obligations. Revenue is recognised when the performance obligations are satisfied. Examples include fees and charges for services, sale of goods and services provided by the authority. No adjustments have been required to revenue on transition to the new standard from 1 April 2018.

## 3. ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

At the balance sheet date, the following new standards and amendments to existing standards have been published but not yet adopted by the Code of Practice of Local Authority Accounting in the United Kingdom:

- IFRS 16 Leases will require local authorities that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities (there is recognition for low-value and short-term leases). CIPFA/LASAAC has deferred implementation of IFRS16 for local government to 1 April 2022.
- IAS 40 Investment Property: Transfers of Investment Property provides further explanation of the instances in which a property can be reclassified as investment property. This will have no impact on the Council as it already complies.
- IFRIC 22 Foreign Currency Transactions and Advance Consideration clarifies the treatment of payments in a foreign currency made in advance of obtaining or delivering services or goods. The Council does not have any material transactions within the scope of the amendment.
- IFRIC 23 Uncertainty over Income Tax Treatments provides additional guidance on income tax treatment where there is uncertainty. This will have no impact on the single entity accounts and minimal impact on the group accounts.
- IFRS 9 Financial instruments: prepayment features with negative compensation amends IFRS9 to make clear that amortised cost should be used where prepayments are substantially lower than the unpaid principal and interest. The Council has no loans to which this will apply.

## 4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in Note 2, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgement made in the Statement of Accounts are:

- There is a high degree of uncertainty about future levels of funding for local Government. However, the Council has determined that as at 31 March 2019 this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision. As disclosed in Note 32, subsequent to the year-end, Covid-19 has had a significant impact upon the Council's financial position and provision of services, and the Council is continuing to review the impact on its facilities and services in future periods.

- The Chief Finance Officer conducts an annual review using the criteria set out in IAS 37, to decide what, if any, provision should be included in the accounts for: liabilities of uncertain timing or amount (provisions); or liabilities whose occurrence will only be confirmed by one or more uncertain future events (contingent liabilities). Contingent liabilities have been estimated based on past experience and legal advice provided.
- As described in the group accounts, the Council's wholly owned subsidiary Investment Company Eastbourne Limited ('ICE') has the option to acquire 49.5% of the shares of Infrastructure Investments Leicester Limited ('IIL') for £1 at any time, as well as contractual rights over the management of that company and its property, St George's Tower ('the Property'), under a Development and Management Agreement. The Council has assessed that these potential voting rights and contractual rights give it joint control over IIL and has accounted for its interest in that entity as a joint venture in its Group Accounts.
- As described in the group accounts, ICE is the principal guarantor of a £48m loan to IIL and is also principal guarantor of a rental guarantee in respect of shortfalls of rental income in IIL. The Council is the ultimate guarantor for both of these guarantees, and under the arrangement ICE has agreed to pay the Council an initial £2m guarantee fee, the annual guarantee fee received from IIL, and the disposal proceeds received on eventual sale of the Property. The Council has therefore determined it is appropriate to recognise liabilities and related receivables arising from these arrangements in the Council's balance sheet.

## 5. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31 March 2019 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

**Property, Plant and Equipment** - Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets. If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £309,000 for every year that useful lives had to be reduced.

Land and buildings are revalued every five years, but a revaluation review is carried out annually which provides an indexation to be applied to some assets. Indexation is applied to a class of assets but does not take into account any individual assets and therefore the net book value at year end for some assets may change when a new professional valuation is carried out.

**Pensions Liability** - Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages and mortality rates. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied. The effects on the net pension's liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the real discount rate assumption would result in an increase in the pension liability of £22.9m, a 1 year increase in member life expectancy would increase the Employer's Defined Benefit Obligation by around 3-5%, a 0.5% increase in the Salary Increase Rate would increase the pension liability by £3.4m and a 0.5% increase in the Pension Increase Rate would increase the pension liability by £19.1m. See Note 29.7.

There is a high level of uncertainty about the implications of Britain leaving the European Union. At the current time there are three possible scenarios: a 'no deal' Brexit, an agreement with a transition period and an extension to EU membership of unknown length. It is not possible to predict which path will be taken and whether asset values and the discount rate will consequently change. The assumption has been made that this will not significantly impair the value of the Council's assets or change the discount rate. However, this assumption needs to be revisited and reviewed regularly. Higher impairment allowances may need to be charged in the future if asset values fall. If the discount rate changes, the size of the net pension liability will also vary.

**Arrears** - At 31 March 2019, the Council had a balance of all debtors for £46.4m. A review of the arrears balances has resulted in £4.4m being calculated as an appropriate expected credit loss. However, in the current economic climate it is not certain that such an allowance would be sufficient.

**Business Rates** - Since the introduction of Business Rate Retention Scheme effective from 1 April 2013, Local authorities are liable for successful appeals against business rates charged to businesses in 2012/13 and earlier financial years in their proportionate share. Therefore, a provision has been recognised for the best estimate of the amount that businesses have been overcharged up to 31 March 2019. The estimate has been calculated using the Valuation Office (VAO) ratings list of appeals and the analysis of successful appeals to date when providing the estimate of total provision up to and including 31 March 2019. There is a risk that future appeals will exceed the estimation. A 1% increase in successful appeals would result an increase in the provision required of £186,000.

**Infrastructure Company Eastbourne Limited and Infrastructure Investments Leicester Limited** – As a result of the arrangement with IIL described in the group accounts, the Council has been required to make a number of estimates and judgements in valuing the related loan and rental guarantees (shown in Note 25) and contract receivable (shown in Note 24). The loan guarantee and rental guarantee have been valued on initial recognition based on the amounts received and receivable under the agreement, discounted to present value. In determining these accounting entries, the Council has assumed:

- That the initial values of the guarantee fee (of £5.5m from IIL to ICE and £2m from ICE to the Council) and price paid for the share option over IIL (£3.5m) were at fair value.
- The value of the Property at May 2018, without the benefit of the rental guarantee, was £38.75m, based upon a valuation performed at the time.
- The growth in the value of the property over the 30 year life of the agreement (assumed to be 2% p.a. or less) will mean the value of the property on sale will be greater than £35m and below the £70m level at which the Council would receive an additional share of proceeds, and so the Council will receive £35m from the eventual disposal proceeds.
- Inflation (which affects the guarantee fee received each year, as well as guaranteed amounts) will be 2% p.a. over the life of the agreement.
- The appropriate discount rate for future cashflows is 5.58% p.a.
- Assumptions about the annual probability of default and recovery on default for loans to property companies.

The on-going measurement of these assets and liabilities will require reassessment of these assumptions each year.

The present value of amounts receivable at inception has been recognised as a contract receivable and the discount is being unwound over the life of the agreement, less amounts received and adjustments for expected credit loss. The loan guarantee has been valued at initial recognition based upon the probability of default, recovery on default, and the guaranteed amount over the life of the agreement, with the residual value attributed to the initial value of the rental guarantee. Both the loan guarantee and rental guarantee are being amortised over the 30-year life of the agreement.

Subsequent measurement of the contract receivable is on a fair value basis, as the Council is exposed to risks that are not associated with standard receivable instruments, including fluctuations in property valuations. The Council has concluded that the significant assumptions in valuing the receivable at inception continue to be valid as at 31 March 2019, and hence the receivable has not been revalued at that date except to take into account unwinding of discount and cash flows received.

The Council has concluded that the assumptions used in valuing the guarantees continue to be valid as at 31 March 2019 and hence the liabilities have not been revalued except to take into account the amortisation of the liability and recognition of income to that date.

## 6. MATERIAL ITEMS OF INCOME & EXPENDITURE

The Devonshire Park redevelopment has continued with capital spend in 2018/19 of £27.5m.

The new Wish Tower Restaurant is under construction with capital spend in 2018/19 of £1.2m.

The Council's revenue accounts include salary costs relating to Lewes District Council (LDC) & Eastbourne Homes Ltd (EHL) which are recharged to them but are shown in the Comprehensive Income and Expenditure Statement (CIES) net. Other costs included in the CIES relating to LDC include costs for JTP amounting to £1.3m which have been recharged to LDC.

On 31st May 2018 the Council sold its share in Greencoat House Ltd (Welbeing) for £8.3m. The Council received £1.3m in shares and £7m in cash. The Council also received repayment of the outstanding Long Term Debt of £1.3m.

In May 2018, the Council's wholly owned investment company, Investment Company Eastbourne Limited (ICE), entered into a deal with a private company in respect of a property in Leicester. ICE is acting as the principal guarantor of a £48m refinancing loan to a private company, with the Council being the ultimate guarantor. ICE is also providing a rental guarantee in respect of shortfalls of rental income, again with the Council being the ultimate guarantor. In return for providing this guarantee, ICE has received an initial guarantee fee and will receive an annual guarantee fee. The Council has received £2.0m as the ultimate guarantor.

## 7. EXPENDITURE AND FUNDING ANALYSIS

**7.a. The Expenditure and Funding Analysis** shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the council's directorates. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

| 2017/18 | | | | 2018/19 | | |
|---|---|---|---|---|---|---|
| **Net Expenditure Chargeable to the General Fund and HRA Balances** | **Adjustments between Funding and Accounting Basis (Restated)** | **Net Expenditure in the Comprehensive Income and Expenditure Statement (Restated)** | | **Net Expenditure Chargeable to the General Fund and HRA Balances** | **Adjustments between Funding and Accounting Basis** | **Net Expenditure in the Comprehensive Income and Expenditure Statement** |
| **£000** | **£000** | **£000** | | **£000** | **£000** | **£000** |
| 4,945 | 3,775 | 8,720 | Corporate Services | 4,299 | 2,612 | 6,911 |
| 5,722 | 3,281 | 9,003 | Direct Services | 5,444 | 3,397 | 8,841 |
| 2,436 | 675 | 3,111 | Regeneration, Planning Policy and Assets | 2,576 | 818 | 3,394 |
| 2,857 | 1,514 | 4,371 | Tourism and Enterprise | 2,734 | 2,469 | 5,203 |
| (3,228) | (6,351) | (9,579) | Housing Revenue Account | (2,548) | (5,227) | (7,775) |
| **12,732** | **2,894** | **15,626** | **Cost of Services** | **12,505** | **4,069** | **16,574** |
| (13,652) | (3,757) | (17,409) | Other Income and Expenditure | (11,205) | (1,145) | (12,350) |
| **(920)** | **(863)** | **(1,783)** | **(Surplus) or Deficit on the Provision of Services** | **1,300** | **2,924** | **4,224** |
| | | | | | | |
| **(16,002)** | | | **Opening General Fund and HRA Balance at 1 April** | **(16,922)** | | |
| (920) | | | Less: Surplus on General Fund and HRA for year | 1,300 | | |
| **(16,922)** | | | **Closing General Fund and HRA Balances at 31 March** | **(15,622)** | | |

**Note:**

For a split between the balance on the General Fund and Housing Revenue Account see the Movement in Reserves Statement.

## 7.b Note to the Expenditure and Funding Analysis

| 2017/18 Adjustment for Capital Purposes (Restated) £000 | 2017/18 Net Changes for the Pensions Adjustments £000 | 2017/18 Other Differences £000 | 2017/18 Total Adjustments (Restated) £000 | | 2018/19 Adjustment for Capital Purposes £000 | 2018/19 Net Changes for the Pensions Adjustments £000 | 2018/19 Other Differences £000 | 2018/19 Total Adjustments £000 |
|---|---|---|---|---|---|---|---|---|
| 702 | 3,073 | - | 3,775 | Corporate Services | 870 | 1,742 | - | 2,612 |
| 2,303 | 978 | - | 3,281 | Direct Services | 2,034 | 1,363 | - | 3,397 |
| 283 | 392 | - | 675 | Regeneration, Planning Policy and Assets | 312 | 506 | - | 818 |
| 1,125 | 389 | - | 1,514 | Tourism and Enterprise | 2,060 | 409 | - | 2,469 |
| (6,351) | - | - | (6,351) | Housing Revenue Account | (5,227) | - | - | (5,227) |
| **(1,938)** | **4,832** | **-** | **2,894** | **COST OF SERVICES** | **49** | **4,020** | **-** | **4,069** |
| (5,463) | 1,224 | 482 | (3,757) | Other Income and Expenditure | (2,080) | 1,321 | (386) | (1,145) |
| **(7,401)** | **6,056** | **482** | **(863)** | **Difference between General Fund and HRA surplus and Comprehensive Income and Expenditure Statement Surplus or Deficit** | **(2,031)** | **5,341** | **(386)** | **2,924** |

- **Adjustments for Capital Purposes** – this column adds in depreciation and impairment and revaluation gains and losses in the services line and for:
  - **Other Operating expenditure** – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
  - **Financing and investment income and expenditure –** the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
  - **Taxation and non-specific grant income and expenditure** – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non-Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

- **Net change for the Pensions Adjustments** – Net change for the removal of pensions contributions and the addition of IAS 19 employee Benefits pension related expenditure and income.
  - **For Services** this represents the removal of the employer pension contributions made by the Council as allowed by statute and the replacement with current service costs and past service costs.
  - **For Financing and Investment income and expenditure** – the net interest on defined benefit liability is charged to the CIES.

- **Other Differences** between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute.
  - **The charge under Taxation and non-specific grant income and expenditure** represents the difference between what is chargeable under statutory regulations for council tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

### 7.c Expenditure and Income analysed by Nature

The authority's expenditure and income is analysed as follows:

| 2017/18 Restated £000 | | 2018/19 £000 |
|---|---|---|
| | **Expenditure** | |
| 17,868 | Employees benefits expenses | 17,663 |
| 86,461 | Other services expenses | 83,538 |
| 3,790 | Depreciation, amortisation, impairment losses and reversals | 6,759 |
| 2,764 | Interest payments | 3,022 |
| 216 | Precepts and levies | 222 |
| 281 | Payments to the Housing Capital Receipts Pool | 281 |
| 3,884 | Loss on the disposal of assets | 11,204 |
| **115,264** | **Total expenditure** | **122,689** |
| | **Income** | |
| (32,108) | Fees, charges and other service income | (36,108) |
| (650) | Interest and investment income | (910) |
| (21,557) | Income from Council Tax and non-domestic rates | (21,863) |
| (61,313) | Government Grants and Contributions | (49,455) |
| (1,419) | Gain on the disposal of assets | (10,129) |
| **(117,047)** | **Total income** | **(118,465)** |
| **(1,783)** | **(Surplus) or Deficit on the Provision of Services** | **4,224** |

## 7.d Segmental Income

Fees, Charges and other Service Income received is analysed below:

| 2017/18 £000 | | 2018/19 £000 | 2018/19 £000 |
|---|---|---|---|
| (34) | **Corporate Services** | | (21) |
| | **Service Delivery** | | |
| (177) | Local Land Charges | (155) | |
| (500) | Recycling Credits | (518) | |
| (517) | Car Parks | (500) | |
| - | Green Waste | (685) | |
| (1,246) | Recovery of Housing Benefit Overpayments | (1,115) | |
| (318) | Summons and Liability Orders | (376) | |
| (963) | Bed and Breakfast charges | (1,822) | |
| (2,027) | Crematorium and Cemetery fees | (2,006) | |
| (747) | Other Service Income | (911) | |
| (6,495) | | | (8,088) |
| | **Regeneration and Planning** | | |
| (252) | Development Control | (331) | |
| (2,952) | Other Service Income | (921) | |
| (3,204) | | | (1,252) |
| | **Tourism and Enterprise** | | |
| (432) | Seafront | (1,066) | |
| (406) | Tourism | (486) | |
| (662) | Events | (593) | |
| (3,160) | Theatres | (2,721) | |
| (589) | Sports | (459) | |
| (16) | Other Service Income | - | |
| (5,265) | | | (5,325) |
| (15,683) | **Housing Revenue Account** | | (15,791) |
| (1,427) | **Trading Accounts and Investment Properties** | | (5,631) |
| **(32,108)** | **Total** | | **(36,108)** |

## 8. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

| | General Fund | HRA Balance | Major Repairs Reserve | Capital Receipts | Capital Grants & Contributions Unapplied | Total Usable Reserves | Unusable Reserves (Note 28) |
|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| **Restated 2017/18 Transactions:** | | | | | | | |
| **ADJUSTMENT TO THE REVENUE RESOURCES** | | | | | | | |
| *Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements* | | | | | | | |
| • Pensions costs (transferred to/from the Pensions Reserve | (6,056) | - | - | - | - | (6,056) | 6,056 |
| • Council tax and NDR (transferred to/from Collection Fund Adjustment Account) | (482) | - | - | - | - | (482) | 482 |
| • Holiday Pay (transferred to/from the Accumulated Absences Reserve) | (4) | - | - | - | - | (4) | 4 |
| • Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (those items are charged to the Capital Adjustment Account): | | | | | | | |
| - Charges for depreciation and credits for impairment reversals of non-current assets | (2,974) | 2,556 | - | - | - | (418) | 418 |
| - Movements in the fair value of investment properties | (792) | - | - | - | - | (792) | 792 |
| - Amortisation of intangible assets | (606) | (26) | - | - | - | (632) | 632 |
| - Revaluation losses on Property, Plant & Equipment | - | - | - | - | - | - | - |
| - Revenue expenditure funded from capital under statute | (1,007) | (353) | - | - | 1,023 | (337) | 337 |
| - Capital Grants and Contributions Received | 8,099 | 236 | - | - | (8,335) | - | - |
| **TOTAL ADJUSTMENTS TO REVENUE RESOURCES** | **(3,822)** | **2,413** | **-** | **-** | **(7,312)** | **(8,721)** | **8,721** |
| **ADJUSTMENTS BETWEEN REVENUE AND CAPITAL RESOURCES** | | | | | | | |
| Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve | 14 | 4,072 | - | (4,086) | - | - | - |
| Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve) | (281) | - | - | 281 | - | - | - |
| Posting of HRA resources from revenue to the Major Repairs Reserve | - | 4,174 | (4,174) | - | - | - | - |
| Statutory provision for the repayment of debt (transfer to the Capital Adjustment Account) | 1,279 | - | - | - | - | 1,279 | (1,279) |
| Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account) | 86 | 134 | - | - | - | 220 | (220) |

| | General Fund | HRA Balance | Major Repairs Reserve | Capital Receipts | Capital Grants & Contributions Unapplied | Total Usable Reserves | Unusable Reserves (Note 28) |
|---|---|---|---|---|---|---|---|
| | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** |
| Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal | (413) | (6,138) | - | - | - | (6,551) | 6,551 |
| Contributions transferred to Revenue | (654) | - | - | - | 654 | - | - |
| **TOTAL ADJUSTMENTS BETWEEN REVENUE AND CAPITAL RESOURCES** | **31** | **2,242** | **(4,174)** | **(3,805)** | **654** | **(5,052)** | **5,052** |
| **ADJUSTMENTS TO CAPITAL RESOURCES** | | | | | | | |
| Use of Capital Receipts Reserve to finance capital expenditure | - | - | - | 1,432 | - | 1,432 | (1,432) |
| Use of Major Repairs Reserve to finance capital expenditure | - | - | 3,823 | - | - | 3,823 | (3,823) |
| Use of Grants and Contribution to finance capital expenditure | - | - | - | - | 7,504 | 7,504 | (7,504) |
| Cash payments in relation to deferred capital receipts | - | - | - | (5) | - | (5) | 5 |
| Change in prior years financing | - | - | - | - | - | - | - |
| **TOTAL ADJUSTMENTS TO CAPITAL RESOURCES** | **-** | **-** | **3,823** | **1,427** | **7,504** | **12,754** | **(12,754)** |
| **Total Adjustments 2017/18** | **(3,791)** | **4,655** | **(351)** | **(2,378)** | **846** | **(1,019)** | **1,019** |
| **2018/19 Transactions:** | | | | | | | |
| **ADJUSTMENT TO THE REVENUE RESOURCES** | | | | | | | |
| *Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements* | | | | | | | |
| • Pensions costs (transferred to/from the Pensions Reserve | (5,340) | - | - | - | - | (5,340) | 5,340 |
| • Council tax and NDR (transferred to/from Collection Fund Adjustment Account) | 386 | - | - | - | - | 386 | (386) |
| • Holiday Pay (transferred to/from the Accumulated Absences Reserve) | 6 | - | - | - | - | 6 | (6) |
| • Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (those items are charged to the Capital Adjustment Account): | | | | | | | |
| - Charges for depreciation and credits for impairment reversals of non-current assets | (3,981) | 900 | - | - | - | (3,081) | 3,081 |
| - Movements in the fair value of investment properties | 1,067 | - | - | - | - | 1,067 | (1,067) |
| - Amortisation of intangible assets | (707) | (26) | - | - | - | (733) | 733 |
| - Revenue expenditure funded from capital under statute | (787) | (315) | - | - | 783 | (319) | 319 |
| - Capital Grants and Contributions Received | 2,157 | 13 | - | - | (2,170) | - | - |
| **TOTAL ADJUSTMENTS TO REVENUE RESOURCES** | **(7,199)** | **572** | **-** | **-** | **(1,387)** | **(8,014)** | **8,014** |

| | General Fund | HRA Balance | Major Repairs Reserve | Capital Receipts | Capital Grants & Contributions Unapplied | Total Usable Reserves | Unusable Reserves (Note 28) |
|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| **ADJUSTMENTS BETWEEN REVENUE AND CAPITAL RESOURCES** | | | | | | | |
| Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve | 6,998 | 1,076 | - | (8,074) | - | - | - |
| Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve) | (281) | - | - | 281 | - | - | - |
| Posting of HRA resources from revenue to the Major Repairs Reserve | - | 4,352 | (4,352) | - | - | - | - |
| Statutory provision for the repayment of debt (transfer to the Capital Adjustment Account) | 925 | - | - | - | - | 925 | (925) |
| Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account) | 178 | 354 | - | - | - | 532 | (532) |
| Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal | (4,005) | (5,144) | - | - | - | (9,149) | 9,149 |
| Contributions transferred to Revenue | (538) | - | - | - | 538 | - | - |
| Revaluation of Share holdings | (212) | - | - | - | - | (212) | 212 |
| **TOTAL ADJUSTMENTS BETWEEN REVENUE AND CAPITAL RESOURCES** | **3,065** | **638** | **(4,352)** | **(7,793)** | **538** | **(7,904)** | **7,904** |
| **ADJUSTMENTS TO CAPITAL RESOURCES** | | | | | | | |
| Use of Capital Receipts Reserve to finance capital expenditure | - | - | - | 7,787 | - | 7,787 | (7,787) |
| Use of Major Repairs Reserve to finance capital expenditure | - | - | 4,162 | - | - | 4,162 | (4,162) |
| Use of Grants and Contribution to finance capital expenditure | - | - | - | - | 3,013 | 3,013 | (3,013) |
| Cash payments in relation to deferred capital receipts | - | - | - | (1) | - | (1) | 1 |
| **TOTAL ADJUSTMENTS TO CAPITAL RESOURCES** | **-** | **-** | **4,162** | **7,786** | **3,013** | **14,961** | **(14,961)** |
| **Total Adjustments 2018/19** | **(4,134)** | **1,210** | **(190)** | **(7)** | **2,164** | **(957)** | **957** |

## 9. AUDIT FEES

The Council has incurred the following costs in relation to the audit of the Statement of Accounts:

| 2017/18 £000 | | 2018/19 £000 |
|---|---|---|
| 68 | Fees payable to BDO LLP with regard to external audit services carried out by the appointed auditor for the year | (2) |
| 13 | Fees payable in respect of other services provided by BDO LLP during the year | 22 |
| - | Fees payable to Deloitte LLP with regard to external audit services carried out by the appointed auditor for the year | 52 |
| **81** | | **72** |

The fees for other services payable in both 2017/18 and 2018/19 related to the certification of grant claims and returns.

## 10. MEMBERS' ALLOWANCES

Allowances and expenses paid to Eastbourne's 27 Councillors during the year amounted to:

| 2017/18 £000 | | 2018/19 £000 |
|---|---|---|
| 136 | Members' Allowances | 133 |
| 2 | Conference and Travelling Expenses | 3 |
| **138** | | **136** |

## 11. OFFICERS' REMUNERATION

### Senior Management Remuneration

| | | Salary, Fees and Allowances £ | Expenses Allowances £ | Pension Contribution £ | Total £ |
|---|---|---|---|---|---|
| Shared Chief Executive | 2018/19 | 136,306 | 3,354 | 24,120 | **163,780** |
| | 2017/18 | 137,645 | 3,850 | 22,928 | **164,423** |
| Deputy Chief Executive (to 11th November 2018) | 2018/19 | 65,375 | - | 11,539 | **76,913** |
| | 2017/18 | 101,396 | - | 17,897 | **119,293** |
| Chief Finance Officer (from 1st October 2018) | 2018/19 | 43,784 | - | 7,728 | **51,511** |
| | 2017/18 | - | - | - | **-** |
| Director of Service Delivery | 2018/19 | 78,747 | - | 13,899 | **92,646** |
| | 2017/18 | 95,950 | - | 16,935 | **112,885** |
| Director of Regeneration and Planning | 2018/19 | 97,869 | 2,187 | 17,660 | **117,716** |
| | 2017/18 | 95,950 | - | 16,935 | **112,885** |
| Director of Tourism and Enterprise | 2018/19 | 91,173 | - | 16,092 | **107,265** |
| | 2017/18 | 87,256 | - | 15,401 | **102,657** |
| Assistant Director of HR and Transformation | 2018/19 | 82,365 | - | 14,537 | **96,902** |
| | 2017/18 | 78,250 | - | 13,811 | **92,061** |
| Assistant Director of Corporate Governance | 2018/19 | 75,978 | - | 13,410 | **89,388** |
| | 2017/18 | 73,423 | - | 12,959 | **86,382** |

The Assistant Director of Legal and Democratic Services is also a member of the Corporate Management Team but is not included in the above table as she is an employee of Lewes District Council. The above figures are gross of any recharges to LDC and EHL.

Senior Management costs are apportioned between the two Councils as follows:

| | Eastbourne Borough Council | Lewes District Council | Eastbourne Homes Ltd |
|---|---|---|---|
| Shared Chief Executive | 50% | 50% | |
| Deputy Chief Executive | 40% | 40% | 20% |
| Chief Finance Officer | 40% | 40% | 20% |
| Director of Service Delivery | 50% | 50% | |
| Director of Regeneration and Planning | 25% | 50% | 25% |
| Director of Tourism and Enterprise | 80% | 20% | |
| Assistant Director of Corporate Governance | 90% | 10% | |

The Assistant Director of Human Resources and Transformation is included in the SLA for Human Resources between the Council and Lewes District Council.

**Remuneration Bands**

The Council's other employees (excluding those in the Corporate Management table above) include employees from Lewes District Council who transferred to Eastbourne Borough Council from February 2018. Other employees who received more than £50,000 remuneration for the year (excluding employer's pension contributions) were paid the following amounts:

| Remuneration Band | 2017/18<br>Number of Employees | 2018/19<br>Number of Employees |
|---|---|---|
| £50,000 - £54,999 | 15 (4) | 18 (5) |
| £55,000 - £59,999 | 8 (2) | 9 |
| £60,000 - £64,999 | 6 (2) | 3 (1) |
| £65,000 - £69,999 | 1 | 2 |
| £70,000 - £74,999 | 2 (2) | - |
| £80,000 - £84,999 | - | 2 (1) |
| £90,000 - £94,999 | 2 (2) | - |
| £110,000 - £114,999 | - | 1 (1) |
| **Total** | **34 (12)** | **35 (8)** |

The figures in brackets relate to the number of employees who left during that year.

The number of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below.

| | Number of compulsory redundancies | | Number of other departures agreed | | Total number of exit packages by cost band | | Total cost of exit packages in each band | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | £ | £ |
| **Exit package cost band (including special payments)** | 2017/18 | 2018/19 | 2017/18 | 2018/19 | 2017/18 | 2018/19 | 2017/18 | 2018/19 |
| £0 -£20,000 | 12 | 6 | 45 | 17 | 57 | 23 | 537,410 | 228,966 |
| £20,001 - £40,000 | 2 | 1 | 15 | 8 | 17 | 9 | 440,945 | 262,242 |
| £40,001 - £80,000 | - | - | 4 | 3 | 4 | 3 | 212,338 | 190,348 |
| **Total cost included in bandings** | **14** | **7** | **64** | **28** | **78** | **35** | **1,190,693** | **681,556** |

Included in the table above are exit payments made to employees which were either fully or partly recharged to Lewes District Council and Eastbourne Homes Ltd. In 2018/19 Lewes District Council were recharged £359,946 (£583,065 2017/18) for their share of exit packages and Eastbourne Homes Ltd were recharged £36,034 (£47,507 2017/18).

## 12. RELATED PARTIES

12.1 Definition

The term "related party" covers relationships between the Council and body or individual where one of the parties has the potential to control or influence the Council or be controlled or influenced by the Council.

12.2 Central Government

Central Government provides much of the Council's funding and determines its statutory framework. Details of transactions with Central Government are shown in the Comprehensive Income and Expenditure Statement, the Cash Flow Statement, and notes 15 (grants and contributions), 24 (debtors) and 25 (creditors).

12.3 East Sussex Pension Scheme

The Council participates in the East Sussex Pension Scheme, making annual contributions to the East Sussex Pension Fund as set out in Note 29. One Member is on the Pension Fund Investment Panel.

12.4 Eastbourne Homes Limited

The responsibility for the management of Eastbourne's council housing stock was transferred to Eastbourne Homes Ltd, an arm's length management company, on 1 April 2005. Eastbourne Homes Ltd is a company limited by guarantee without a share capital and is wholly owned by Eastbourne Borough Council. Its principal activities are to manage, maintain and improve the Council's housing stock.

The Council pays Eastbourne Homes Ltd a fee in accordance with the management agreement. In 2018/19 this fee was £7.261m, covering supervision and management and repairs. This compares with £7.261m paid in 2017/18. In addition, Eastbourne Homes Ltd obtains services from the Council under various Service Level Agreements. At the end of the year the Council owed Eastbourne Homes Ltd £889,000 (£1,550,000 at 31 March 2018), while Eastbourne Homes Ltd owed the Council £482,000 (£942,000 at 31 March 2018).

The company's accounts are consolidated into the Group Accounts. Copies of Eastbourne Homes Ltd.'s annual report and accounts can be obtained from their registered office at Town Hall, Grove Road, Eastbourne, BN21 4UG.

The Director of Regeneration & Planning for the Council also acts as Managing Director at Eastbourne Homes Ltd.

12.5 Eastbourne Leisure Trust

The Eastbourne Leisure Trust was set up to oversee the management and operation of the Sovereign Centre and Motcombe Pool, on which it holds a 15-year lease starting in 2004. The Trust is set up as an Independent Provident Society, without any local authority members. Members of staff at these centres are jointly employed by the Trust and the contractor, Serco. During the year Eastbourne Leisure Trust paid the Council £83,000 (2017/18 £83,000).

12.6 Members and senior officers

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2018/19 is shown in Note 10. Nine members are also members of East Sussex County Council. Grants totalling £205,000 (£67,000 in 2017/18) were paid to voluntary organisations in which 8 Members (7 Members in 2017/18) had positions on the governing body.

| | 2017/18 £000 | 2018/19 £000 |
|---|---|---|
| 3VA Voluntary Action Eastbourne | - | 34 |
| Age Concern Eastbourne | 5 | 5 |
| Citizens Advice Bureau | - | 115 |
| Eastbourne & Wealden YMCA | - | 10 |
| Eastbourne Old Town Community Association | 2 | - |
| Eastbourne Sea Cadets | 9 | - |
| Eastbourne Seniors Forum | - | 1 |
| Hampden Park Bowling Club | 2 | - |
| Hampden Park Community Association | 5 | 5 |
| Langney Community Centre | 10 | - |
| Memory Lane Eastbourne | - | 2 |
| Old Town Library | 12 | - |
| Salvation Army | - | 30 |
| The Trees Community Association | 22 | 3 |
| **Total** | **67** | **205** |

In all instances, the grants were made with proper consideration of declarations of interest. The relevant members did not take part in any discussion or decision relating to the grants. Details of Members interests are recorded in the Register of Members' Interests, open to public inspection at the Town Hall during office hours and also on the Council's website http://democracy.eastbourne.gov.uk/mgMemberIndexGroup.aspx?bcr=1&g=EastbourneCllrs&m=EastbourneCllrs

During 2018/19 works and services to the value of £87,000 (£74,000 in 2017/18) were commissioned from Jordan's Productions, a company in which one officer had an interest.

Details of payments to Members and officers are shown in notes 10 and 11.

12.7 CloudConnX

The Council is a minority (48% B class) shareholder in CloudConnX. The shares had only nominal value at the balance sheet date. In addition, as at 31 March 2019 the Council has provided a commercial loan of £357,000 (£357,000 in 2017/18). Interest is charged on the loan at 1.5% above base rate. The Council's Chief Executive has been appointed a Director of the company.

12.8 Eastbourne Housing Investment Company Ltd (EHIC)

EHIC is a wholly owned subsidiary of the Council. EHIC has been set up to acquire, improve and let residential property at market rents. The Council has provided 34 (16 in 2017/18) commercial loans to EHIC totalling £12,269,150 (£9,522,150 in 2017/18) of which £10,052,100 (£8,299,300 in 2017/18) has been drawn down, for the purchase of various properties, at an interest rate of 4.5%. A working capital facility loan of £250,000 (£250,000 in 2017/18) has been agreed, at an interest rate of 2% above Base Rate. As at 31 March 2019 £250,000 (£160,000 in 2017/18) of the working capital facility loan had been drawn down. At the end of the year the Council owed nothing to EHIC (£9,900 in 2017/18), while EHIC owed the Council £127,200 (£6,600 in 2017/18).

The company's accounts are consolidated into the Group Accounts. Copies of Eastbourne Housing Investment Co Ltd.'s annual report and accounts can be obtained from their registered office at 1 Grove Road, Eastbourne, BN21 4TW.

The Director of Regeneration & Planning and the Director of Service Delivery for the Council also act as Directors at Eastbourne Housing Investment Co Ltd.

12.9 Lewes District Council

The Council is engaging in a Joint Transformation Programme (JTP) with Lewes DC under which staff and services are being integrated. The Council now employs all of CMT and the majority of Lewes DC staff who were TUP'd to the Council during 2017/18 and costs are recharged to Lewes DC. Staff within Legal services remain employees of Lewes DC and services are provided to both Councils and costs recharged.

12.10 Aspiration Homes LLP

Aspiration Homes LLP (AH) is a limited liability Partnership owned equally by Eastbourne BC and Lewes DC. It was set up during 2016/17 for the purpose of developing housing. The Council has provided three commercial loans to AH totalling £4,001,000 (£1,700,000 2017/18) of which £965,000 (£15,961 2017/18) has been drawn down, for the purchase of property for development, at an interest rate of 4.5%. A working capital facility loan of £100,000 has been agreed, at an interest rate of 2% above Base Rate. As at 31 March 2019 £10,000 of the working capital facility loan had been drawn down.

The company's accounts are consolidated into the Group Accounts. Copies of Aspiration Homes LLP's annual report and accounts can be obtained from their registered office at 1 Grove Road, Eastbourne, BN21 4TW.

12.11 South East Environmental Services Limited

South East Environmental Services Limited (SEESL) is a wholly owned subsidiary of the Council. SEESL has been set up to provide waste and recycling services. At the end of the year the SEESL owed the Council £98,800.

12.12 Investment Company Eastbourne Limited

Investment Company Eastbourne Limited (ICE) is a wholly owned subsidiary of the Council. It was set up to enter into a deal with a private company in respect of a property in Leicester. There are no outstanding inter-company debts. See Group Accounts for further details.

## 13. LEASING

Operating leases – Council acting as lessor

The table below analyses future minimum lease income expiring during the periods shown below:

| **2017/18 Minimum Lease Income £000** | | **2018/19 Minimum Lease Income £000** |
|---|---|---|
| 2,471 | Within one year | 2,543 |
| 8,371 | Between two and five years | 8,067 |
| 42,260 | Later than five years | 40,749 |
| **53,102** | **Total** | **51,359** |

The lease income relates to various land and buildings owned by the Council and leased out on varying terms and conditions. The longest lease expires in 2111. The total rental income recognised in the Comprehensive Income and Expenditure Statement for 2018/19 was £3,068,000 (£3,368,000 in 2017/18). The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

## 14. OBLIGATIONS UNDER LONG TERM LEASES

The Sovereign Centre and Motcombe Pool are leased out, as set out above in Note 12.5, to Eastbourne Leisure Trust for a period of 15 years from 2004. The Leisure Trust employs SERCO Leisure to manage the centres on a day to day basis. The Council retains the ownership of the centres, and also retains responsibility for their maintenance and improvement. These functions are also contracted to SERCO Leisure under contracts expiring in 2019/20. The Council has entered into three long term credit sale agreements with SERCO to renovate and improve the centres and to purchase items of capital equipment. The table below sets out the movements in the Council's obligations up to the end of 2018/19.

| | Agreement 1 | Agreement 2 | Agreement 3 | Total |
|---|---|---|---|---|
| Starting Date | October 2004 | June 2008 | June 2009 | |
| Completion Date | May 2019 | April 2019 | April 2019 | |
| | **£000** | **£000** | **£000** | **£000** |
| **Total credit sales facility** | **2,614** | **350** | **250** | **3,214** |
| **Liability outstanding 31 March 2018** | **(341)** | **(48)** | **(39)** | **(428)** |
| Interest charge for 2018/19 | (26) | (2) | (2) | **(30)** |
| Gross repayments for 2018/19 | 315 | 46 | 38 | **399** |
| **Liability outstanding 31 March 2019** | **(52)** | **(4)** | **(3)** | **(59)** |

| 2017/18 Future Minimum Payments £000 | 2017/18 Future Lease Liabilities £000 | | 2018/19 Future Minimum Payments £000 | 2018/19 Future Lease Liabilities £000 |
|---|---|---|---|---|
| 399 | (370) | Within one year | 60 | (59) |
| 60 | (58) | Between two and five years | - | - |
| **459** | **(428)** | **Total** | **60** | **(59)** |

The Council has a long-term credit agreement with Sopra Steria, for the implementation of a programme of projects, including the Council's Agile and Future Model projects. The agreement started 1 January 2007 and expires 31 December 2021. Sopra Steria provide services and equipment which is being repaid over 15 years.

| | |
|---|---|
| Starting Date | 1 January 2007 |
| Completion Date | 31 December 2021 |
| | **£000** |
| **Total credit sales facility** | **2,651** |
| **Liability outstanding 31 March 2018** | **(342)** |
| Drawn down 2018/19 | (128) |
| Gross repayments for 2018/19 | 198 |
| **Liability outstanding 31 March 2019** | **(272)** |
| **Remaining facility 31 March 2019** | **285** |

| 2017/18 Future Minimum Payments £000 | 2017/18 Future Lease Liability £000 | | 2018/19 Future Minimum Payments £000 | 2018/19 Future Lease Liability £000 |
|---|---|---|---|---|
| 198 | (197) | Within one year | 204 | (203) |
| 577 | (145) | Between two and five years | 373 | (69) |
| **775** | **(342)** | **Total** | **577** | **(272)** |

Amounts payable within one year are included in short term creditors and amounts payable in more than one year are included in long term creditors.

## 15. GRANTS AND CONTRIBUTIONS RECEIVABLE

The table below outlines Government grants and other external contributions accounted for within the Comprehensive Income and Expenditure Statement.

| 2017/18 Grants £000 | 2017/18 Contribs. £000 | 2017/18 Total £000 | | 2018/19 Grants £000 | 2018/19 Contribs. £000 | 2018/19 Total £000 |
|---|---|---|---|---|---|---|
| | | | **Grants and contributions within Cost of Services** | | | |
| (46,275) | - | **(46,275)** | DWP Benefits grants | (38,785) | - | **(38,785)** |
| (788) | (2,783) | **(3,571)** | Other grants and contributions | (1,674) | (4,007) | **(5,681)** |
| **(47,063)** | **(2,783)** | **(49,846)** | **Total within Cost of Services** | **(40,459)** | **(4,007)** | **(44,466)** |
| | | | **Grants and contributions within Taxation and non-specific grant income** | | | |
| (944) | - | **(944)** | Revenue Support Grant | (446) | - | **(446)** |
| (1,030) | - | **(1,030)** | Section 31 Grant Small Business Rate Relief | (1,299) | - | **(1,299)** |
| (852) | - | **(852)** | New Homes Bonus | (340) | - | **(340)** |
| (147) | - | **(147)** | Localising C Tax Support Admin Subsidy | (140) | - | **(140)** |
| (1,860) | (6,475) | **(8,335)** | Grants and contributions towards capital expenditure | 49 | (2,703) | **(2,654)** |
| (159) | - | **(159)** | Other Grants | (110) | - | **(110)** |
| **(4,992)** | **(6,475)** | **(11,467)** | **Total within Taxation and non-specific grant income** | **(2,286)** | **(2,703)** | **(4,989)** |
| **(52,055)** | **(9,258)** | **(61,313)** | **Total Grants & Contributions** | **(42,745)** | **(6,710)** | **(49,455)** |

The Council has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver, if not spent. The balances at year end were £13,000 (£13,000 in 2017/18).

## 16. TRANSFER TO/ FROM EARMARKED RESERVES

Transfers from and (to) the General Fund and HRA to earmarked reserves are as follows:

| Reserve | Balance 1 April 2017 £000 | Movement 2017/18 £000 | Balance 31 March 2018 £000 | Movement 2018/19 £000 | Balance 31 March 2019 £000 |
|---|---|---|---|---|---|
| **General Fund** | | | | | |
| General Earmarked Reserve | (455) | (17) | (472) | (34) | (506) |
| Strategic Change Reserve | (7) | - | (7) | (191) | (198) |
| Capital Programme Reserve | (2,573) | 1,267 | (1,306) | 961 | (345) |
| Revenue Grants Reserve | (1,419) | (80) | (1,499) | 547 | (952) |
| Regeneration Reserve | (542) | 10 | (532) | 532 | - |
| Devonshire Park Review Reserve | (960) | (528) | (1,488) | 1,488 | - |
| SHEP GF Properties Major Works Reserve | - | (1) | (1) | - | (1) |
| **Total** | **(5,956)** | **651** | **(5,305)** | **3,303** | **(2,002)** |
| **HRA** | | | | | |
| HRA Leaseholders Major Works Reserve | (490) | (20) | (510) | (237) | (747) |
| Riverbourne House Leaseholders Reserve | (13) | 10 | (3) | (12) | (15) |
| Housing Regeneration and Investment | (2,517) | (366) | (2,883) | 354 | (2,529) |
| **Total** | **(3,020)** | **(376)** | **(3,396)** | **105** | **(3,291)** |
| **Total Earmarked Reserves** | **(8,976)** | **275** | **(8,701)** | **3,408** | **(5,293)** |

The purpose of the reserves is set out below:

General Reserve: this reserve is used where the Council carries forward under spent departmental budgets to the new financial year. This reserve will be reviewed and distributed between General Fund and Strategic Change Fund as appropriate, as part of the budget setting process.

Strategic Change: this reserve was set up to finance one off investments that are required for development or the release of ongoing efficiencies.

Capital Programme: this reserve is intended to be used for financing of one-off capital schemes.

Revenue Grants: this reserve is used to enable grants received in one financial year to be carried forward and used to finance revenue spending in future years.

Regeneration: this reserve was set up to support initiatives for growth.

Devonshire Park Review Reserve: this reserve has been set up to cover any revenue short falls for venues and services affected by the Devonshire Park Redevelopment Project.

SHEP GF Properties Major Works Reserve: this reserve was set up to create a Major Works Fund for Investment properties 51-53 Seaside.

HRA Leaseholders Major Works and Riverbourne House leaseholders: these reserves are for future maintenance.

Housing Regeneration and Investment Reserve: this reserve has been set up to receive any surpluses achieved over those required for the sustainability of the HRA Business Plan to be used for future investment in strategic housing related outcomes.

## 17. SUMMARY OF CAPITAL EXPENDITURE AND FINANCING

The Capital Financing Requirement represents the Council's net need to borrow to finance its capital investment, made up of all funding of capital from loans in previous years, less amounts set aside each year for the redemption of debt.

| 2017/18 £000 | 2017/18 £000 | | 2018/19 £000 | 2018/19 £000 |
|---|---|---|---|---|
| | **88,878** | **Opening Capital Financing Requirement** | | **122,636** |
| | | Capital Investment: | | |
| 3,952 | | Council dwellings | 4,675 | |
| 1,855 | | Other land and buildings | 1,213 | |
| 825 | | Vehicles plant furniture and equipment | 1,144 | |
| 315 | | Infrastructure | 288 | |
| 111 | | Community assets | - | |
| 17,653 | | Assets under construction | 30,632 | |
| 24,711 | | Total Property plant and equipment | 37,952 | |
| - | | Heritage Assets | - | |
| 19,058 | | Investment property | 695 | |
| 1,149 | | Intangible assets | 2,825 | |
| 1,360 | | Revenue expenditure financed from capital under statute (REFCUS) | 785 | |
| 2,676 | | Loans and Advances | 1,900 | |
| - | | Grants of 1-4-1 Right to Buy Receipts | 315 | |
| 85 | | Investment in shares and loans to Welbeing | 7 | |
| **49,039** | | **Total capital investment** | **44,482** | |
| | | Sources of finance: | | |
| (1,432) | | Capital receipts | (7,787) | |
| (1,023) | | Grants and contributions towards REFCUS | (782) | |
| (7,504) | | Other grants and contributions | (3,013) | |
| | | Sums set aside from Revenue: | | |
| (3,823) | | Major repairs reserve | (4,162) | |
| (1,279) | | Revenue provision for repayment of debt | (925) | |
| (220) | | Revenue Contribution to capital | (532) | |
| **(15,281)** | | **Capital financing** | **(17,201)** | |
| | **122,636** | **Closing Capital Financing Requirement** | | **149,917** |
| | | **Explanation of movements in year** | | |
| | 33,758 | Increase in underlying need to borrowing (unsupported by government financial assistance) | | 27,281 |
| | **33,758** | **Increase in Capital Financing Requirement** | | **27,281** |

The Capital Financing Requirement reflects various items in the Balance Sheet, as shown below:

| 31 March 2018 £000 | | 31 March 2019 £000 |
|---|---|---|
| 190,383 | Council Dwellings | 182,902 |
| 94,465 | Other Land and Buildings | 92,896 |
| 6,717 | Vehicles Plant Furniture and Equipment | 7,138 |
| 16,782 | Infrastructure | 15,945 |
| 3,568 | Community Assets | 3,568 |
| 24,364 | Assets Under Construction | 54,996 |
| 124 | Surplus Assets for Disposal | 124 |
| **336,403** | **Total Property Plant and Equipment** | **357,569** |
| 15,034 | Heritage Assets | 15,034 |
| 23,893 | Investment Property | 25,656 |
| 4,995 | Intangible Assets | 6,279 |

| 31 March 2018 | | 31 March 2019 |
|---|---|---|
| £000 | | £000 |
| 323 | Long Term Investments | 1,030 |
| 12,994 | Loans and Advances to Third Parties | 13,982 |
| (50,621) | Revaluation Reserve | (49,872) |
| (220,385) | Capital Adjustment Account | (219,761) |
| **122,636** | **Capital Financing Requirement** | **149,917** |

## 18. PROPERTY PLANT AND EQUIPMENT

### 18.1 Movements in 2018/19

The table below shows the movements in the various categories for the year:

| | Council Dwellings | Other Land & Buildings | Vehicles, Plant & Equip. | Infra-structure | Commun. | Assets under Const. | Surplus Props. | Total |
|---|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| **Cost or Valuation at 31 March 2018 as previously stated** | **198,444** | **97,947** | **10,286** | **33,820** | **4,131** | **24,364** | **124** | **369,116** |
| Restatement (see Note 1) | (8,137) | - | - | - | - | - | - | **(8,137)** |
| **Restated Cost or Valuation at 1 April 2018** | **190,307** | **97,947** | **10,286** | **33,820** | **4,131** | **24,364** | **124** | **360,979** |
| Additions | 4,675 | 1,213 | 1,144 | 288 | - | 30,632 | - | **37,952** |
| Revaluation increases recognised in the Revaluation Reserve | - | 2,563 | - | - | - | - | - | **2,563** |
| Revaluation increases recognised in the Surplus on the Provision of Services | 5,253 | (530) | - | - | - | - | - | **4,723** |
| De-recognition - Disposals | (5,384) | (3,274) | (493) | (300) | - | - | - | **(9,452)** |
| **At 31 March 2019** | **194,581** | **97,919** | **10,937** | **33,807** | **4,131** | **54,996** | **124** | **396,765** |
| | | | | | | | | |
| **Accumulated Depreciation and Impairment** | | | | | | | | |
| At 31 March 2018 as previously stated | (8,061) | (3,482) | (3,569) | (17,038) | (563) | - | - | **(32,713)** |
| Restatement | 210 | - | - | - | - | - | - | **210** |
| Restated at 1 April 2018 | **(7,851)** | **(3,482)** | **(3,569)** | **(17,038)** | **(563)** | **-** | **-** | **(32,503)** |
| Depreciation Charge | (4,337) | (2,781) | (723) | (837) | - | - | - | **(8,678)** |
| Depreciation written out to the Revaluation Reserve | - | 875 | - | - | - | - | - | **875** |
| De-recognition - disposal | 239 | 365 | 493 | 13 | - | | - | **1,110** |
| **At 31 March 2019** | **(11,949)** | **(5,023)** | **(3,799)** | **(17,862)** | **(563)** | **-** | **-** | **(39,196)** |
| | | | | | | | | |
| **Net Book Value** | | | | | | | | |
| At 31 March 2019 | 182,902 | 92,896 | 7,138 | 15,945 | 3,568 | 54,996 | 124 | **357,569** |
| At 31 March 2018 Restated | 182,456 | 94,465 | 6,717 | 16,782 | 3,568 | 24,364 | 124 | **328,476** |

**Movements in 2017/18:**

| | Council Dwellings | Other Land & Buildings | Vehicles, Plant & Equip. | Infra-structure | Commun. | Assets under Const. | Surplus Props. | Total |
|---|---|---|---|---|---|---|---|---|
| | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** |
| **Cost or Valuation at 31 March 2017 as previously stated** | **187,155** | **91,386** | **11,080** | **33,819** | **4,020** | **11,945** | **118** | **339,523** |
| Restatement (see Note 1) | (4,185) | - | - | - | - | - | - | **(4,185)** |
| **Restated Cost or Valuation at 1 April 2017** | **182,970** | **91,386** | **11,080** | **33,819** | **4,020** | **11,945** | **118** | **335,338** |
| Additions | 3,952 | 1,855 | 825 | 315 | 111 | 17,653 | - | **24,711** |
| Revaluation increases recognised in the Revaluation Reserve | - | 1,755 | - | - | - | - | 3 | **1,758** |
| Revaluation increases recognised in the Surplus on the Provision of Services | 6,730 | 344 | - | - | - | - | 3 | **7,077** |
| De-recognition - Disposals | (5,801) | (103) | (1,619) | (314) | - | - | - | **(7,837)** |
| Assets reclassified | 2,524 | 2,710 | - | - | - | (5,234) | - | **-** |
| **At 31 March 2018** | **190,375** | **97,947** | **10,286** | **33,820** | **4,131** | **24,364** | **124** | **361,047** |
| | | | | | | | | |
| **Accumulated Depreciation and Impairment** | | | | | | | | |
| **As at 31 March 2017 as previously stated** | **(3,944)** | **(1,707)** | **(4,468)** | **(16,200)** | **(563)** | **-** | **-** | **(26,882)** |
| Restatement | 142 | - | - | - | - | - | - | **142** |
| **Restated at 1 April 2017** | **(3,802)** | **(1,707)** | **(4,468)** | **(16,200)** | **(563)** | **-** | **-** | **(26,740)** |
| Depreciation Charge | (4,158) | (2,622) | (720) | (838) | - | - | - | **(8,338)** |
| Depreciation written out to the surplus on the Provision of Services | - | 842 | - | - | - | - | - | **842** |
| De-recognition - disposal | 41 | 5 | 1,619 | - | - | - | - | **1,665** |
| **At 31 March 2018** | **(7,919)** | **(3,482)** | **(3,569)** | **(17,038)** | **(563)** | **-** | **-** | **(32,571)** |
| | | | | | | | | |
| **Net Book Value** | | | | | | | | |
| At 31 March 2018 | 182,456 | 94,465 | 6,717 | 16,782 | 3,568 | 24,364 | 124 | **328,476** |
| At 31 March 2017 | 179,168 | 89,679 | 6,612 | 17,619 | 3,457 | 11,945 | 118 | **308,598** |

18.2 Valuation of Property

Three of the categories shown in the tables above (council dwellings, other land and buildings and surplus properties) are subject to periodic revaluation: all such assets are revalued at 5-year intervals. These were last valued as at 1 April 2016 by the Wilkes, Head & Eve. The next full revaluation, for all three categories of assets, is due to be carried out as at 1 April 2021.

An annual desk top revaluation review is carried out for all property to identify any material changes in value. As at 31 March 2019 the valuers advised an increase of 4% for council dwellings during 2018/19, excluding any consideration of capital expenditure. This has resulted in an upward revaluation of £5.3 million.

Following a review of capital expenditure to improve council dwellings, expenditure is now de-recognised in the year that it is incurred. De-recognition for expenditure in 2016-17, 2017-18 and 2018-19 totalling £12.54m has been shown in the accounts for 2018-19.

The valuers also advised the following changes which have resulted in a net increase of £2.0m:

- an increase of 4% for Other Land & Buildings valued at Depreciated Replacement Cost;

- an increase of 1.5% to 2.5% for Industrial Existing Use Value assets;
- a decrease of 0% to 1% for Office Existing Use Value;
- a decrease of 1.5% to 2.5% for Retail Existing Use Value.

| | Council Dwellings | Other Land & Buildings | Vehicles, Plant & Equip. | Infra structure | Commun. | Assets Under Construction | Surplus Props. | Total |
|---|---|---|---|---|---|---|---|---|
| | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** |
| Carried at Historical Cost | - | - | 7,138 | 15,945 | 3,568 | 54,996 | - | 81,647 |
| **Values at current value as at:** | | | | | | | | - |
| 31 March 2018 | - | - | - | - | - | - | 124 | 124 |
| 31 March 2019 | 182,902 | 92,896 | - | - | - | - | - | 275,798 |
| **Net Book Value** | **182,902** | **92,896** | **7,138** | **15,945** | **3,568** | **54,996** | **124** | **357,569** |

18.3 Depreciation

The following useful lives have been used in the calculation of depreciation:

Council dwellings: 60 years
Other land and buildings: 15 to 60 years
Vehicles Plant and Equipment: 3 to 25 years
Infrastructure: 10 to 40 years.

18.4 Capital Commitments

At 31 March 2019, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment to cost £14,164,000 as detailed in the table below. Similar commitments at 31 March 2018 were £34,818,000.

| | 2019/20 |
|---|---|
| | **£000** |
| JTP / IT | 740 |
| Devonshire Park Project | 11,726 |
| Improvement of Council Dwellings | 587 |
| New Build & Asset Improvements | 1,111 |
| **Total** | **14,164** |

Approximately £370,000 (£803,000 2017/18) of the cost of JTP/IT will be recharged to Lewes DC.

Loan drawdown facilities to the Council's subsidiary companies at 31 March 2019 total £6,156,000 (£2,997,000 2017/18).

## 19. HERITAGE ASSETS

Reconciliation of the carrying value of Heritage Assets held by the Council:

| | Historical Collection | Art Collection | Other | Buildings | Total |
|---|---|---|---|---|---|
| **Cost or Valuation** | **£000** | **£000** | **£000** | **£000** | **£000** |
| Balance at 1 April 2018 | 345 | 11,906 | 162 | 2,621 | **15,034** |
| **Balance at 31 March 2019** | **345** | **11,906** | **162** | **2,621** | **15,034** |

The equivalent figures for 2017/18 were the same.
The Art Collection was valued by professional external valuers in 2012/13. The Collection will be valued every 10 years and an annual review is carried out to ensure the value is not materially mis-stated. Heritage buildings were valued as at 1 April 2016 by an external professional valuer and will be revalued every 5 years. The historical collection has been valued with reference to the insurance value.

**Acquisitions Policy**

Towner, Eastbourne's contemporary art museum and centre for the visual arts in the South East, will continue to acquire objects in the following categories:

- Fine Art: paintings, watercolours, drawings, mixed media, photographs, prints and sculpture representative of the main developments in 19th and 20th century British art.
- Victorian Art: to complement the Towner Bequest.
- Works by important 20th century British artists, to enhance the exiting collection.
- Works and material by and relating to Eric Ravilious (1903-42).
- Works by South East regional artists.
- Topographical pictures relating to East Sussex and the Eastbourne area.
- European Art: to complement the existing collections, for example the Irene Law Bequest of 17th and 18th century Dutch and Flemish paintings and 18th century British art, The Lucy Carrington Wertheim Bequest of 20th century European paintings.
- Contemporary art by British and International artists complementing the existing collections.

Towner recognises its responsibility, in acquiring material, to ensure adequate conservation, documentation and proper use of such material and takes into account limitations on collecting imposed by such factors as inadequate staffing, storage and conservation resources. Acquisitions outside the current stated policy will only be made in very exceptional circumstances, and then only after proper consideration by the governing body of the museum itself, having regard to the interests of other museums.

**Disposals Policy**
The Council accepts the principle that there is a strong presumption against the disposal of any items in the Towner's collections. In those cases where Towner is free to dispose of an item it is agreed that any decision to sell or dispose of material from the collections should be taken only after due consideration. Once a decision to dispose of an item has been taken, priority will be given to retaining the item within the public domain and with this in view it will be offered first, by exchange, gift or sale to Registered museums before disposal to other interested individuals or organisations is considered.

Further information is available in Eastbourne Local History Museum and Towner's Acquisitions and Disposals Policy available from Towner.

**HERITAGE ASSETS: FIVE YEAR SUMMARY OF TRANSACTIONS**

There have been no transactions during the past 5 years.

## 20. INVESTMENT PROPERTIES

In 2018/19 the Council received £1,736,000 as rental income from investment properties, compared to £1,873,000 received in 2017/18. Investment properties are held for the purpose of generating income. There are no restrictions on the Council's ability to realise the value inherent in its investment property or of the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligation to purchase, construct or develop investment property or repairs, maintenance or enhancement.

The table below shows movements in the fair value for Investment Properties.

| 2017/18 £000 | | 2018/19 £000 |
|---|---|---|
| 5,627 | Balance at 1 April | 23,893 |
| 19,067 | Additions | 695 |
| (9) | Expenditure on existing properties | - |
| (792) | Net gains/losses from fair value adjustments | 1,068 |
| **23,893** | **Balance at 31 March** | **25,656** |

**Fair Value Hierarchy**
All the Council's investment properties have been value assessed as Level 2 on the fair value hierarchy for valuation purposes (see Note 2.10 Accounting Policy for an explanation of the fair value levels).

**Valuation Techniques Used to Determine Level 2 Fair Values for Investment Property**
The current value of investment property has been measured using a market approach, which takes into account quoted prices for similar assets in active markets, existing lease terms and rentals, research into market evidence including market rentals and yields, the covenant strength for existing tenants, and data and market knowledge gained in managing the Council's Investment Asset portfolio. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised as level 2 on the fair value hierarchy.

**Highest and Best Use**
In estimating the fair value of the Council's investment properties, the highest and best use is their current use.

**Valuation Process for Investment Properties**
The Council's investment property has been valued as at 31 March 2019 by Wilks Head & Eve in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

## 21 INTANGIBLE ASSETS

The Council accounts for its software as intangible assets to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets also cover the initial purchased licences on implementation.

All software is given a finite useful life based on assessments of the period that the software is expected to be of use to the Council. The useful lives assigned to the major software suites used by the Council range between three and ten years.

The annual movements in the balance sheet figures for intangible assets are shown below:

| | **2017/18** | | | | **2018/19** | |
|---|---|---|---|---|---|---|
| **Gross** | **Amortised** | **Net Total** | | **Gross** | **Amortised** | **Net Total** |
| **£000** | **£000** | **£000** | | **£000** | **£000** | **£000** |
| 7,264 | (2,786) | 4,478 | **Balance 1 April** | 8,413 | (3,418) | **4,995** |
| | | | Written down to services: | | | |
| - | (604) | (604) | Corporate Services | - | (707) | **(707)** |
| - | (2) | (2) | Direct Services | - | - | **-** |
| - | (26) | (26) | Housing Revenue Account | - | (26) | **(26)** |
| - | (632) | (632) | | - | (733) | **(733)** |
| 1,149 | - | 1,149 | Added during year | 2,825 | - | **2,825** |
| - | - | - | Written out on completion of expected life | (2,238) | 1,430 | **(808)** |
| 1,149 | (632) | 517 | Net transactions during the year | 587 | 697 | **1,284** |
| **8,413** | **(3,418)** | **4,995** | **Balance at 31 March** | **9,000** | **(2,721)** | **6,279** |

## 22. FINANCIAL INSTRUMENTS

Financial instruments are recognised on the Balance Sheet when the Council becomes party to the contractual provisions of a financial instrument. They are classified based on the business model for holding the instruments and their expected cash flow characteristics.

**Financial Liabilities**
Financial liabilities are initially measured at fair value and subsequently measured at amortised cost. For the Council's borrowing this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest).

Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument.

**Financial Assets**
To meet new Code requirements, financial assets are now classified into one of three categories:

- Financial assets held at amortised cost. These represent loans and loan-type arrangements where repayments or interest and principal take place on set dates and at specified amounts. The amount presented in the Balance Sheet represents the outstanding principal received plus accrued interest. Interest credited to the CIES is the amount receivable as per the loan agreement.
- Fair Value Through Other Comprehensive Income (FVOCI) – These assets are measured and carried at fair value. All gains and losses due to changes in fair value (both realised and unrealised) are accounted for through a reserve account, with the balance debited or credited to the CIES when the asset is disposed of.
- Fair Value Through Profit and Loss (FVTPL). These assets are measured and carried at fair value. All gains and losses due to changes in fair value (both realised and unrealised) are recognised in the CIES as they occur.

Allowances for impairment losses have been calculated for amortised cost assets, applying the expected credit losses model. Changes in loss allowances (including balances outstanding at the date of de-recognition of an asset) are debited/credited to the Financing and Investment Income and Expenditure line in the CIES.

Changes in the value of assets carried at fair value are debited/credited to the Financing and Investment Income and Expenditure line in the CIES as they arise.

22.1 The following categories of financial instruments are carried in the Balance Sheet:

| | Long-term | | Current | |
|---|---|---|---|---|
| | 31 March 2018 £000 | 31 March 2019 £000 | 31 March 2018 £000 | 31 March 2019 £000 |
| **Cash & Cash Equivalents** | | | | |
| Amortised Cost | - | - | 3,609 | 2,242 |
| **Debtors** | | | | |
| Amortised Cost | 13,668 | 14,296 | 7,380 | 10,505 |
| Fair Value | - | 12,599 | - | 109 |
| **Total Financial Assets** | **13,668** | **26,895** | **10,989** | **12,856** |
| **Borrowings** | | | | |
| Financial liabilities at amortised cost | (82,050) | (96,617) | (23,374) | (27,447) |
| **Creditors** | | | | |
| Financial liabilities at amortised cost | (204) | (69) | (6,934) | (12,091) |
| Fair Value | - | (17,379) | - | - |
| **Total Financial Liabilities** | **(82,254)** | **(114,065)** | **(30,308)** | **(39,538)** |

22.2 Income, expense, gains and losses

The table below sets out the interest and investment receivable and payable for the year related to financial assets and liabilities, reconciled to the amounts included in the Comprehensive Income and Expenditure Statement.

| 2017/18 £000 | | 2018/19 £000 |
|---|---|---|
| (583) | Interest on financial assets: loans and receivables | (542) |
| (67) | Other interest | (35) |
| **(650)** | **Total Interest Receivable** | **(577)** |
| 2,739 | Interest on financial liabilities measured at amortised cost | 3,172 |
| 25 | Other interest payable | 62 |
| **2,764** | **Total Interest Payable** | **3,234** |

22.3 Fair Value of financial assets and liabilities that are not measured at fair value for which fair value disclosures are required:

| | Book Value | Quoted prices in active markets for identical assets (Level1) | Other significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total |
|---|---|---|---|---|---|
| | **£000** | **£000** | **£000** | **£000** | **£000** |
| Cash in bank call accounts | 2,242 | 2,242 | - | - | 2,242 |
| Trade accounts receivable | 10,505 | 10,505 | - | - | 10,505 |
| Other Debtors | 109 | | 109 | | 109 |
| Long Term Debtors | 26,895 | 14,296 | 12,599 | - | 26,895 |
| **Total Financial Assets** | **39,751** | **27,043** | **27,708** | **-** | **39,751** |
| Public Works Loan Board | (87,117) | - | (122,560) | - | (122,560) |
| Loan Stock | (7,500) | - | (8,440) | - | (8,440) |
| Market Debt | (2,000) | - | (2,036) | - | (2,036) |
| **Long Term Borrowing** | **(96,617)** | **-** | **(133,036)** | **-** | **(133,036)** |
| **Long Term Creditors** | **(69)** | **(69)** | **-** | **-** | **(69)** |
| **Other Long Term Liabilities** | **(17,379)** | **-** | **(17,379)** | **-** | **(17,379)** |
| Market Debt | (27,000) | - | (27,133) | - | (27,133) |
| Add accrued interest | (432) | (432) | - | - | (432) |
| Mayor's Poor Fund | (15) | (15) | - | - | (15) |
| **Short Term Borrowing** | **(27,447)** | **(447)** | **(27,133)** | **-** | **(27,580)** |
| Credit sales agreement | (59) | - | (59) | - | (59) |
| Other Trade Creditors | (12,032) | (12,032) | - | - | (12,032) |
| **Short Term Creditors** | **(12,091)** | **(12,032)** | **(59)** | **-** | **(12,091)** |
| **Total Financial Liabilities** | **(153,603)** | **(12,548)** | **(177,607)** | **-** | **(190,155)** |

The comparative figures for 31 March 2018 are in the table below.

| | Book Value | Quoted prices in active markets for identical assets (Level1) | Other significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total |
|---|---|---|---|---|---|
| | **£000** | **£000** | **£000** | **£000** | **£000** |
| Cash in bank call accounts | 3,609 | 3,609 | - | - | 3,609 |
| Trade accounts receivable | 7,380 | 7,380 | - | - | 7,380 |
| Long Term Debtors | 13,668 | 13,668 | - | - | 13,668 |
| **Total Financial Assets** | **24,657** | **24,657** | **-** | **-** | **24,657** |
| Public Works Loan Board | (67,550) | - | (99,059) | - | (99,059) |
| Loan Stock | (7,500) | - | (9,033) | - | (9,033) |
| Market Debt | (7,000) | - | (7,065) | - | (7,065) |
| **Long Term Borrowing** | **(82,050)** | **-** | **(115,157)** | **-** | **(115,157)** |
| Credit Sales Agreement | (59) | - | (264) | - | (264) |
| Other Long Term Creditors | (145) | (145) | - | - | (145) |
| **Long Term Creditors** | **(204)** | **(145)** | **(264)** | **-** | **(409)** |
| Market Debt | (23,000) | - | (23,075) | - | (23,075) |
| Add accrued interest | (359) | (359) | - | - | (359) |
| Mayor's Poor Fund | (15) | (15) | - | - | (15) |
| **Short Term Borrowing** | **(23,374)** | **(374)** | **(23,075)** | **-** | **(23,449)** |
| Credit sales agreement | (370) | - | (370) | - | (370) |
| Other Trade Creditors | (6,564) | (6,564) | - | - | (6,564) |
| **Short Term Creditors** | **(6,934)** | **(6,564)** | **(370)** | **-** | **(6,934)** |
| **Total Financial Liabilities** | **(112,562)** | **(7,083)** | **(138,866)** | **-** | **(145,949)** |

The fair value of Public Works Loan Board (PWLB) is higher than the book value because it is at an interest rate which is higher than the prevailing rates at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2019) arising from a commitment to pay interest to the PWLB above current market rates. The outstanding loans were taken at various dates between April 1995 and March 2019 at varying fixed interest rates between 1.70% and 8.875% (average rate 3.02%) for various terms. At the time some of the loans were arranged, interest rates were much higher, and these loans were taken to lock into a relatively low interest rate. In the current economic climate interest rates are at historically low levels and consequently there is a difference of £35,443,000 between the book value and market value for PWLB.

The fair value of loan stock is higher than the book value because it is at an interest rate which is higher than the prevailing rates at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2019) arising from a commitment to pay interest to the lender above current market rates. The loan was originally arranged in 1995 at a fixed interest rate of 8.75% for 25 years. At the time the loan was arranged interest rates were much higher and this loan was taken to lock into a relatively low interest rate. In the current economic climate interest rates are at historically low levels and consequently there is a difference £940,000 between the book value and market value for loan stock.

22.4 Valuation techniques applied to obtain fair value

All financial liabilities and financial assets represented by loans and receivables are carried on the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments (Level 2 Inputs), using the following assumptions:

- For loans from the PWLB payable, premature repayment rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures;
- For non-PWLB loans payable, prevailing market rates have been applied to provide the fair value under PWLB debt redemption procedures;

- For financial assets, trade accounts receivable and long-term debtors are reviewed to estimate the value at Level 1 based on past experience of bad debts. Cash in call accounts is held at book value.

The fair values valuations have been provided by the Council's Treasury Management advisors, Capita. This uses the Net Present Value (NPV) approach, which provides an estimate of the value of payments in the future in today's terms. This is a widely accepted valuation technique commonly used by the private sector. The discount rate used in the NPV calculation should be equal to the current rate in relation to the same instrument from a comparable lender. This will be the rate applicable in the market on the date of valuation, for an instrument with the same duration i.e. equal to the outstanding period from valuation date to maturity. The structure and terms of the comparable instrument should be the same, although for complex structures it is sometimes difficult to obtain the rate for an instrument with identical features in an active market. In such cases, Capita has used the prevailing rate of a similar instrument with a published market rate, as the discount factor.

The purpose of the fair value disclosure is primarily to provide a comparison with the carrying value. Since this will include accrued interest as at the Balance Sheet date, the calculations also include accrued interest in the fair value calculation. This figure is calculated up to and including the valuation date.

The rates quoted in this valuation were obtained by Capita from the market on 31 March, using bid prices where applicable.

## 23. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Council's activities expose it to a variety of financial risks:

- credit risk – the possibility that other parties might fail to pay amounts due to the Council;
- liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments;
- market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates and stock market movements.

The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a central treasury team, under policies approved by the Council in the Annual Treasury Management Strategy. The Council provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash.

**Credit risk**

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers.

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria provided by the Council's Treasury Management advisors (Capita) creditworthiness model. The model uses a sophisticated modelling approach which uses credit ratings from all three ratings agencies overlaid with credit watches and outlooks, Credit Default Swap spreads and sovereign ratings. The Annual Investment Strategy also imposes a maximum sum of £5 million to be invested with any financial institution located within each category.

A copy of the Annual Investment Strategy is available on the Eastbourne Borough Council website.

The Council has invested funds in, CloudConnX (£357,000) and Sea Change Sussex (£2,521,000) totalling £2,878,000. The risk of these companies failing to meet their commitments is minimised by maintaining representation on the board of Welbeing and CloudConnX. The loan to CloudConnX is supported by a fixed and floating charge over the assets. The loan to Sea Change Sussex loan is fully secured by a charge over land.

The Council has provided various commercial loan facilities to Eastbourne Housing Investment Company Ltd (EHIC) a wholly owned subsidiary of the Council, totalling £12,519,150:

- £12,269,150 of which £10,052,100 has been drawn down, for the purchase and refurbishment of properties, at an interest rate of 4.5%. The loans are secured by a first charge on the properties purchased;

- £250,000 working capital facility, unsecured at an interest rate of 2% above Base Rate, of which £250,000 was drawn down as at 31 March 2019.

The Council has provided various commercial loan facilities to Aspiration Homes Ltd, a partnership jointly owned by the Council and Lewes District Council, totalling £4,101,000:

- £4,001,000 of which £965,000 has been drawn down, for the development of new properties, at an interest rate of 4.5%. The loans are secured by a first charge on the properties purchased;
- £100,000 working capital facility, unsecured at an interest rate of 2% above Base Rate, of which £10,000 was drawn down as at 31 March 2019.

The following analysis summaries the Council's potential maximum exposure to risk on other financial assets:

| | **Amount as at 31 March 2019** | **Historic experience of default** | **Estimated maximum exposure to default at 31 March 2019** | **Estimated maximum exposure to default 31 March 2018** |
|---|---|---|---|---|
| | **£000** | | **£000** | **£000** |
| | **A** | **B** | **(AxB)** | |
| Customers | 11,524 | 1% | 115 | 80 |

The council does not generally allow credit for customers, such that the balance of debts past due but not impaired can be analysed by date as follows:

| **Aged debt analysis** | **31 March 2018** | **31 March 2019** |
|---|---|---|
| | £000 | £000 |
| Less than three months | 6,641 | 9,273 |
| Three to four months | 129 | 162 |
| Four months to one year | 419 | 999 |
| More than one year | 788 | 1,089 |
| **Total** | **7,977** | **11,524** |

**Liquidity risk**

The Council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the Council has ready access to borrowings from the money markets and the Public Works Loans Board. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Council will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The Council sets limits on the proportion of its fixed rate borrowing during specified periods, shown in the table below, together with the maturity analysis of financial liabilities.

| **Banding** | **31 March 2018** | | **31 March 2019** | | **Limits in each banding** |
|---|---|---|---|---|---|
| | **£000** | **%** | **£000** | **%** | |
| Less than one year | 23,058 | 22% | 28,074 | 23% | 75% |
| Between one and two years | 5,145 | 5% | 9,404 | 8% | 75% |
| Between two and five years | 14,022 | 13% | 8,981 | 7% | 75% |
| Five to ten years | 1,522 | 1% | 6,889 | 6% | 100% |
| More than ten years | 61,507 | 58% | 70,338 | 57% | 100% |
| **Total** | **105,254** | **100%** | **123,686** | **100%** | |

All trade and other payables are due to be paid in less than one year.

**Market risk**

Interest rate risk

The Council is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council. For instance, a rise in interest rates would have the following effects:

- borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise;
- borrowings at fixed rates – the fair value of the liabilities will fall;
- investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise;
- investments at fixed rates – the fair value of the assets will fall.

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Comprehensive Income and Expenditure Statement. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Comprehensive Income and Expenditure Statement and affect the General Fund Balance pound for pound.

The Council has a number of strategies for managing interest rate risk. Policy is to aim to keep a maximum of 25% of its borrowings in variable rate loans. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses.

According to this assessment strategy, at 31 March 2019, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

| | **£000** |
|---|---|
| Increase in interest payable on variable rate borrowings | 161 |
| Increase in interest receivable on variable rate investments | (64) |
| Impact on Surplus or Deficit on the Provision of Services | **97** |
| Decrease in fair value of fixed rate borrowings liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure) | (24,716) |

The impact of a 1% fall in interest rates would be as above but with the movements being reversed.

**Price risk**

The Council does not generally invest in equity shares but during 2018/19 did have shareholdings to the value of £323,000 (£323,000 in 2017/18) in Greencoat House Ltd (Welbeing). The shareholding was sold on 31 May 2018 and the settlement included a capital receipt (£8.6m) and shares in Doro valued at £1.24m which were impaired to £1.03m as at 31 March 2019. The Council is consequently exposed to losses arising from movements in the prices of the shares.

**Foreign exchange risk**

The Council has a shareholding in Doro in Swedish Krona as part of the settlement in the sale of Greencoat House Ltd (Welbeing). There is exposure to loss and gain arising from movements in exchange rates.

## 24. DEBTORS

Short Term debtors outstanding as at 31 March are:

| **31 March 2018 £000** | | **31 March 2019 £000** |
|---|---|---|
| 927 | Trade Receivables | 867 |
| 520 | Prepayments | 428 |
| 3,759 | Debtors for Local Taxation | 5,135 |
| 13,536 | Other Receivable Amounts | 13,073 |
| **18,742** | **Total** | **19,503** |

Long-term debtors outstanding as at 31 March are:

| 31 March 2018 £000 | | 31 March 2019 £000 |
|---|---|---|
| 13,668 | Other Receivable Amounts | 26,895 |
| **13,668** | **Total** | **26,895** |

Under long term debtors for public corporations and other trading organisation the Council has investment of:

- £357,000 (2017/18 £357,000) in a company that will be providing telecommunication services primarily to the business sector in the locality. The Council currently has a charge over the assets of the company.
- £850,000 loan funding in 2014/15 provided in partnership with East Sussex County Council to East Sussex Energy Infrastructure and Development Ltd (trading as Sea Change Sussex) for the purchase of a site at Sovereign Harbour, final repayment is due in 2024. Capitalised interest has been added to this loan bringing the total outstanding to £961,007.
- £1,400,000 loan funding in 2015/16 to East Sussex Energy Infrastructure and Development Ltd (trading as Sea Change Sussex) for the development of the Innovation Mall (Pacific House) at Sovereign Harbour, final repayment is due in 2024. Capitalised interest has been added bringing the total outstanding to £1,559,869.
- £12,519,150 loan facility was agreed with Eastbourne Housing Investment Company, a wholly owned subsidiary of the council for the purchase and redevelopment of various properties. As at 31 March 2019 a sum of £10,302,100 was drawn down. These loans are due for repayment on a variety of dates, the last due date being in 2059.
- £4,101,000 loan facility was agreed with Aspiration Homes LLP, a partnership wholly owned by The Council and Lewes District Council for the purchase and redevelopment of various properties. As at 31 March 2019 a sum of £975,000 was drawn down. This loan is due for repayment in 2058. These loans are due for repayment on a variety of dates, the last due date being in 2059.
- £12,599,007 long term contract receivable (plus £109,167 short term receivable) relating to a guarantee arrangement provided to IIL Ltd in respect of an investment property in Leicester as detailed in Notes 4 and 5.

## 25. CREDITORS

Short term creditors between different groupings of creditor as at 31 March are:

| 31 March 2018 £000 | | 31 March 2019 £000 |
|---|---|---|
| (5,089) | Trade payables | (10,641) |
| (5,781) | Other payables | (9,501) |
| **(10,870)** | **Total** | **(20,142)** |

Public corporations and trading organisations include all commercial trading organisations in both the public and private sectors

Long term creditors between different groupings of creditor as at 31 March are:

| 31 March 2018 £000 | | 31 March 2019 £000 |
|---|---|---|
| (204) | Other payables | (69) |
| **(204)** | **Total** | **(69)** |

Long Term Creditors in the balance sheet represent obligations extending beyond one year including:

- Three agreements between the Council and SERCO to renovate and improve two leisure centres (the Sovereign Centre and Motcombe Pool) and to purchase items of capital equipment. These two centres are leased to Eastbourne Leisure Trust (see Note 14), who employ SERCO to run the centres, while the Council, which retains the responsibility to maintain and improve the centres, employs SERCO to carry out these functions on its behalf.
- An agreement between the Council and Steria to provide IT services and purchase items of capital equipment.

**Other Long-Term Liabilities**

- £16,211,076 liability for a rental guarantee and £1,167,873 liability for a loan guarantee provided to IIL Ltd, a total of £17,378,949, in respect of an investment property in Leicester as detailed in Notes 4 and 5.

## 26. PROVISIONS

Provisions represent amounts set aside to meet potential future liabilities. Provisions as at 31 March 2019 are:

| | Balance 1 April 18 £000 | Additions £000 | Amounts used £000 | Balance 31 March 19 £000 |
|---|---|---|---|---|
| Business Rate Appeals | (489) | (341) | 216 | (614) |
| **Total** | **(489)** | **(341)** | **216** | **(614)** |

Business Rates Appeals is to provide for the settlement of rateable value appeals made to the valuation office.

## 27. USABLE RESERVES

The reasons for maintaining each reserve are set out in detail in Note 2.19, and the annual movements for usable reserves are shown in the Movement in Reserves Statement. Details of Earmarked Reserves are shown at note 16.

## 28. UNUSABLE RESERVES

The table below sets out details of the movements and balances on individual unusable reserves: the "Total" figures are those included in the "Unusable Reserves" column of the Movement in Reserves Statement.

| 1 April 2017 Restated £000 | 31 March 2018 Restated £000 | | 31 March 2019 £000 |
|---|---|---|---|
| 7 | 2 | Deferred Capital Receipts Reserve | 2 |
| (761) | (1,244) | Collection Fund Adjustment Account | (858) |
| 49,721 | 50,620 | Revaluation Reserve | 49,872 |
| 210,115 | 212,459 | Capital Adjustment Account | 219,761 |
| (43,372) | (45,560) | Pension Reserve | (56,167) |
| (46) | (50) | Accumulated Absence Account | (44) |
| **215,664** | **216,227** | **Total Unusable reserves** | **212,566** |

**Deferred Capital Receipts Reserve**

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of noncurrent assets but for which cash settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

| 2017/18 £000 | | 2018/19 £000 |
|---|---|---|
| **7** | **Balance at 1 April** | **2** |
| | Transfer of deferred sales proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | |
| (5) | Transfer to the Capital Receipts Reserve upon receipt of cash | - |
| **2** | **Balance at 31 March** | **2** |

## Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax and non-domestic rates income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers and business rates payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

| 2017/18 £000 | | 2018/19 £000 |
|---|---|---|
| **(761)** | **Balance at 1 April** | **(1,244)** |
| (483) | Amount by which council tax and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rates income calculated for the year in accordance with statutory requirements | 386 |
| **(1,244)** | **Balance at 31 March** | **(858)** |

## Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment and Heritage Assets. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

| 2017/18 £000 | | 2018/19 £000 | 2018/19 £000 |
|---|---|---|---|
| **49,721** | **Balance at 1 April** | | **50,620** |
| 1,758 | Upward revaluation of assets | 2,563 | |
| **1,758** | Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services | | **2,563** |
| (842) | Difference between fair value depreciation and historical cost depreciation | (875) | |
| (17) | Accumulated gains on assets sold or scrapped | (2,436) | |
| **(859)** | Amount written off to the Capital Adjustment Account | | **(3,311)** |
| **50,620** | **Balance at 31 March** | | **49,872** |

## Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert current value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

| 2017/18 £000 | | 2018/19 £000 | 2018/19 £000 |
|---|---|---|---|
| **210,155** | **Balance at 31 March as previously stated** | | |
| (4,083) | Restatement (see Note 1) | | |
| **206,072** | **Restated Balance at 1 April** | | **212,459** |
| | **Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:** | | |
| (418) | Charges for depreciation and impairment of non-current assets | (3,081) | |
| (632) | Amortisation of intangible assets | (733) | |
| (1,360) | Revenue expenditure funded from capital under statute | (1,102) | |
| (6,534) | Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | (11,204) | |
| **(8,944)** | | | **(16,120)** |
| 842 | Adjusting amounts written out of the Revaluation Reserve | | 3,311 |
| **(8,102)** | **Net written out amount of the cost of non-current assets consumed in the year** | | **(12,809)** |
| | **Capital financing applied in the year:** | | |
| 1,432 | Use of the Capital Receipts Reserve to finance new capital expenditure | 9,842 | |
| 3,823 | Use of the Major Repairs Reserve to finance new capital expenditure | 4,162 | |
| 1,023 | Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing | 782 | |
| 7,504 | Application of grants to capital financing from the Capital Grants Unapplied Account | 3,013 | |
| 1,279 | Statutory provision for the financing of capital investment charged against the General Fund and HRA balances | 925 | |
| 220 | Capital expenditure charged against the General Fund and HRA balances | 532 | |
| **15,281** | | | **19,256** |
| (792) | Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement | | 1,067 |
| - | Movements in the market value of Investments debited or credited to the Comprehensive Income and Expenditure Statement | | (212) |
| **212,459** | **Balance at 31 March** | | **219,761** |

### Pension Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer’s contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

| 2017/18 £000 | | 2018/19 £000 |
|---|---|---|
| **(43,372)** | **Balance at 1 April** | **(45,560)** |
| 3,868 | Re-measurement of the net defined benefit liability/(asset) | (5,267) |
| (8,669) | Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement | (9,480) |
| 2,613 | Employer's pensions contributions and direct payments to pensioners payable in the year | 4,140 |
| **(45,560)** | **Balance at 31 March** | **(56,167)** |

**Accumulated Absences Account**

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Accounts.

| 2017/18 £000 | | 2018/19 £000 |
|---|---|---|
| **(46)** | **Balance at 1 April** | **(50)** |
| 46 | Settlement or cancellation of accrual made at the end of the preceding year | 50 |
| (50) | Amounts accrued at the end of the current year | (44) |
| **(50)** | **Balance at 31 March** | **(44)** |

## 29. POST EMPLOYMENT BENEFITS

29.1 Participation in defined benefit pension plan

As part of the terms and conditions of employment of its employees, the Council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments (for those benefits) and to disclose them at the time that employees earn their future entitlement.

The Council participates in two post-employment schemes:

- The Local Government Pension Scheme, administered locally by East Sussex County Council. This is a funded defined final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

- Arrangements for the award of discretionary post-retirement benefits upon early retirement. This is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pension liabilities, and cash has to be generated to meet the actual pension payments as they eventually fall due. The Council also has liabilities for discretionary payments for added years, etc. These are charged directly to the accounts of the Council, as they are not a charge upon the Pension Fund.

The East Sussex Pension Scheme is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the pensions committee of East Sussex County Council. Policy is determined in accordance with the Pensions Funds Regulations. The investment managers of the fund are appointed by the committee.

The principal risks to the Council of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (i.e. large-scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund and Housing Revenue Account the amounts required by statute as described in the accounting policies note 2.6.

29.2 Transactions relating to post-employment benefits

We recognise the cost of retirement benefits in the cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However the charge we are required to make against Council Tax is based on the contributions payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund and Housing Revenue Account via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

| 2017/18 £000 | | 2018/19 £000 |
|---|---|---|
| | **Service Cost comprising:** | |
| 6,939 | Current Service Costs | 7,235 |
| 580 | Past Service Costs | 1,008 |
| | **Financing & Investment Income & Expenditure** | |
| 1,150 | Net Interest Expense | 1,237 |
| **8,669** | **Total Post-employment Benefits charged to the Surplus or Deficit on the Provision of Services** | **9,480** |
| | **Other Post-employment Benefits charged to the Comprehensive Income & Expenditure Statement** | |
| 129 | Return on Plan Assets (excluding the amount included in the net interest expense) | (7,264) |
| (3,728) | Actuarial (Gains) and losses arising on changes in financial assumptions | 12,498 |
| (269) | Other | 33 |
| **(3,868)** | **Other Comprehensive Income & Expenditure** | **5,267** |
| **4,801** | **Total Post-employment Benefits charged to the Comprehensive Income & Expenditure Statement** | **14,747** |
| | **Movement in Reserves Statement** | |
| 8,669 | Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post-employment benefits in accordance with the Code | 9,480 |
| (2,613) | Actual amount charged to the General Fund Balance for pensions in the year | (4,140) |
| **6,056** | **Net adjustment in Movement in Reserves Statement** | **5,340** |

29.3 Pensions Assets and Liabilities recognised in the balance Sheet

The amount included in the Balance Sheet for the Council's obligation in respect of its defined plans is as follows:

| 31 March 2018 £000 | | 31 March 2019 £000 |
|---|---|---|
| 153,411 | Fair value of employer assets | 164,979 |
| (194,186) | Present value of funded liabilities | (216,499) |
| (4,785) | Present value of unfunded liabilities | (4,647) |
| **(45,560)** | **Net liability arising from defined benefit obligation** | **(56,167)** |

29.4 Reconciliation of the Movements in the Fair Value of the Scheme Assets

| 2017/18 £000 | | 2018/19 £000 |
|---|---|---|
| 142,465 | Opening fair value of assets | 153,411 |
| 3,681 | Interest income | 3,990 |
| | **Re-measurement gain/(loss):** | |
| (129) | The return on plan assets, excluding the amount included in the net interest expense | 7,264 |
| 3,579 | Contributions from employer - Funded | 3,808 |
| 342 | Contributions from employer - Unfunded | 332 |
| 1,146 | Contributions from employees into the scheme | 1,211 |
| (4,587) | Benefits paid - Funded | (4,705) |
| (342) | Benefits paid - Unfunded | (332) |
| 7,256 | Effect of business combinations and disposals | - |
| **153,411** | **Closing fair value of scheme assets** | **164,979** |

29.5 Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)

| 2017/18 £000 | | 2018/19 £000 |
|---|---|---|
| (185,837) | Opening balance at 1 April | (198,971) |
| (6,939) | Current service costs | (7,235) |
| (4,831) | Interest costs | (5,227) |
| (1,146) | Contributions from scheme participants | (1,211) |
| (8,564) | Effect of business combinations and disposals | - |
| | **Re-measurement (gains) and losses:** | |
| 3,728 | Actuarial gains/(losses) arising from changes in financial assumptions | (12,498) |
| 269 | Other | (33) |
| (580) | Past service costs | (1,008) |
| 4,587 | Benefits paid - funded | 4,705 |
| 342 | Benefits paid - unfunded | 332 |
| **(198,971)** | **Closing Balance at 31 March** | **(221,146)** |

29.6 Local Government Pension Scheme Assets comprised:

| 31 March 2018 Quoted prices in active markets | 31 March 2018 Quoted prices not in active markets | 31 March 2018 Total | 31 March 2018 % of Total Assets | | 31 March 2019 Quoted prices in active markets | 31 March 2019 Quoted prices not in active markets | 31 March 2019 Total | 31 March 2019 % of Total Assets |
|---|---|---|---|---|---|---|---|---|
| £000 | £000 | £000 | | | £000 | £000 | £000 | |
| | | | | **Equity Securities:** | | | | |
| 2,858 | - | 2,858 | 2% | Consumer | 1,963 | - | 1,963 | 1% |
| 1,513 | - | 1,513 | 1% | Manufacturing | 1,350 | - | 1,350 | 1% |
| 258 | - | 258 | 0% | Energy and utilities | 390 | - | 390 | 0% |
| 4,640 | - | 4,640 | 3% | Financial Institutions | 1,839 | - | 1,839 | 1% |
| 2,627 | - | 2,627 | 2% | Health and care | 299 | - | 299 | 0% |
| 2,186 | - | 2,186 | 1% | Information technology | - | - | - | 0% |
| 306 | 520 | 826 | 1% | Other | 322 | - | 322 | 0% |
| **14,388** | **520** | **14,908** | **10%** | **Sub-total equity** | **6,163** | **-** | **6,163** | **3%** |
| | | | | **Debt Securities:** | | | | |
| - | 4,251 | 4,251 | 3% | UK Government | - | 3,993 | 3,993 | 3% |
| 274 | - | 274 | 0% | Other | - | 3,055 | 3,055 | 2% |
| **274** | **4,251** | **4,525** | **3%** | **Sub-total Debt Securities** | **-** | **7,048** | **7,048** | **5%** |
| | | | | **Private equity:** | | | | |
| **-** | **8,779** | **8,779** | **6%** | All | **-** | **10,146** | **10,146** | **6%** |
| | | | | **Real Estate:** | | | | |
| - | 14,711 | 14,711 | 10% | UK Property | - | 15,453 | 15,453 | 9% |
| **-** | **14,711** | **14,711** | **10%** | **Sub-total Real Estate** | **-** | **15,453** | **15,453** | **9%** |
| | | | | **Investment Funds & Unit Trusts:** | | | | |
| 19 | 84,473 | 84,492 | 54% | Equities | - | 91,069 | 91,069 | 55% |
| - | 17,698 | 17,698 | 12% | Bonds | - | 27,148 | 27,148 | 17% |
| - | 154 | 154 | 0% | Hedge Funds | - | 107 | 107 | 0% |
| 227 | - | 227 | 0% | Commodities | 279 | - | 279 | 0% |
| - | 1,696 | 1,696 | 1% | Infrastructure | - | 978 | 978 | 1% |
| - | 167 | 167 | 0% | Other | - | 34 | 34 | 0% |
| **246** | **104,188** | **104,434** | **67%** | **Sub-total Investment Funds & Unit Trusts** | **279** | **119,336** | **119,615** | **73%** |
| | | | | **Derivatives:** | | | | |
| - | 32 | 32 | 0% | Foreign Exchange | - | (19) | (19) | 0% |
| **-** | **32** | **32** | **0%** | **Sub-total Derivatives** | **-** | **(19)** | **(19)** | **0%** |
| | | | | **Cash & Cash Equivalents** | | | | |
| **3,869** | **2,153** | **6,023** | **4%** | All | **6,579** | **(5)** | **6,574** | **4%** |
| **18,777** | **134,634** | **153,411** | **100%** | **Total** | **13,020** | **151,959** | **164,979** | **100%** |

The breakdown of assets in monetary terms in the table above have been shown to the nearest £1,000. The additional precision in the presentation of the figures has been included, but the sum of the values rounded to the nearest £1,000 (or 1%) may not equal the total value due to rounding.

29.7 Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions on mortality rates, salary levels, etc. The liabilities have been assessed by Hymans Robertson, an independent firm of actuaries, being based on the latest full valuation of the scheme as at 31 March 2016. The main assumptions used in their calculations are:

The significant assumptions used by the actuary have been:

| 2017/18 | | 2018/19 |
|---|---|---|
| | **Mortality assumptions:** | |
| | Longevity at 65 for current pensioners: | |
| 22.1 | Men | 22.1 |
| 24.4 | Women | 24.4 |
| | Longevity at 65 for future pensioners: | |
| 23.8 | Men | 23.8 |
| 26.3 | Women | 26.3 |
| 2.4% | Rate of inflation | 2.5% |
| 2.8% | Rate of increase in salaries | 2.9% |
| 2.4% | Rate of Increase in Pensions | 2.5% |
| 2.6% | Rate for discounting scheme liabilities | 2.4% |
| 50% | Take-up of option to convert annual pension into retirement lump sum for pre-April 2008 service | 50% |
| 75% | Take-up of option to convert annual pension into retirement lump sum for post-April 2008 service | 75% |

The estimation of the defined benefit obligation is sensitive to the actuarial assumption set out in the table above. (See also Note 5) The sensitivity analyses below have been determined based on reasonably possible changes to the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

| | Approximate % Increase to Employer Liability | Approximate monetary amount (£000) |
|---|---|---|
| 0.5% decrease in Real Discount Rate | 10% | 22,923 |
| 1 year increase in member life expectancy | 3-5% | 6,877 – 11,462 |
| 0.5% increase in the Salary Increase Rate | 2% | 3,398 |
| 0.5% Increase in the Pension Increase Rate | 9% | 19,133 |

29.8 Impact on the Council's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The County Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 20 years. Funding levels are monitored on an annual basis. The triennial valuation due at 31 March 2019 has been completed.

The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales may not provide benefits in relation to service after 31 March 2017. The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants.

The Council anticipates paying £3,724,000 expected contributions to the scheme in 2019/20.

The weighted average duration of the defined benefit obligation for scheme members is shown below. The durations shown are for funded obligations only and are as they stood at the most recent formal valuation as at 31 March 2016.

| | Liability Split (£000) as at 31 March 2019 | Liability Split (%) as at 31 March 2019 | Weighted Average Duration |
|---|---|---|---|
| Active Members | 108,974 | 50.3% | 24.2 |
| Deferred Members | 40,780 | 18.8% | 21.5 |
| Pensioner Members | 66,745 | 30.8% | 10.7 |
| **Total** | **216,499** | **100%** | **16.0** |

## 30. CASH AND CASH EQUIVALENTS

The surplus on the provision of services has been adjusted for the following noncash movements:

| 2017/18 Restated £000 | | 2018/19 £000 |
|---|---|---|
| (7,496) | Depreciation | (7,804) |
| 8,624 | Impairment and (reversal) of impairment and valuation movements | 4,723 |
| (632) | Amortisation | (733) |
| (24) | Increase in impairment for bad debts | - |
| (51) | Increase / (Decrease) in creditors | (6,333) |
| 5,191 | (Increase) / Decrease in Debtors | 12,520 |
| 32 | (Increase) / Decrease in Inventories | (7) |
| (6,056) | Movement in pension liability | (5,340) |
| (3,884) | Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised | (11,204) |
| (2,897) | Other non-cash items charged to the net surplus or deficit on the provision of services (including Financial Guarantee) | (16,649) |
| **(7,193)** | **Adjustment for Non-Cash Movements included in the provision of services** | **(30,827)** |

The surplus on the provision of services has been adjusted for the following items that are investing and financing activities:

| £000 | | £000 |
|---|---|---|
| - | Proceeds from short and long term investments | 8,651 |
| 1,418 | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | 1,478 |
| 11,027 | Other items for which the cash effects are investing or financing activities | 2,952 |
| **12,445** | **Adjustment for items that are investing and financing activities** | **13,081** |

| £000 | Investing Activities | £000 |
|---|---|---|
| 44,093 | Purchase of property, plant and equipment, investment property and intangible assets | 38,595 |
| - | Purchase of short-term and long-term investments | 4,742 |
| 2,861 | Other payments for investing activities | 3,397 |
| (4,085) | Proceeds from sales of property, plant and equipment, investment property and intangible assets | (1,478) |
| - | Proceeds from short and long term investments | (8,651) |
| (10,108) | Other receipts from investing activities | (3,988) |
| **32,761** | **Net cash flows from investing activities** | **32,617** |

| £000 | Financing Activities | £000 |
|---|---|---|
| (74,890) | Cash receipts of short and long-term borrowing | (63,000) |
| 2,018 | Other receipts from financing activities | 840 |
| 34,890 | Repayment of short and long-term borrowing | 44,433 |
| **(37,982)** | **Net cash flows from financing activities** | **(17,727)** |

| **Reconciliation of Liabilities arising from Financing Activities** | **1 April 2018** | **Financing Cash Flows** | **Non-Cash Changes** | **31 March 2019** |
|---|---|---|---|---|
| | **£000** | **£000** | **£000** | **£000** |
| Long Term Borrowings | (82,050) | (14,567) | - | (96,617) |
| Short Term Borrowings | (23,374) | (4,000) | (73) | (27,447) |
| **Net cash outflow from financing activities** | **(105,424)** | **(18,567)** | **(73)** | **(124,064)** |

## 31. CONTINGENT ASSETS AND LIABILITIES

### Contingent Liabilities

**Municipal Insurance Limited**
The Council's former insurers were Municipal Mutual Insurance Limited (MMI) until the company ceased to provide new cover in 1994. A Scheme of Arrangements was set up with the aim of funding any claims that were outstanding at that time. The scheme allows for a claw back of payments already made under the scheme if the outstanding claims cannot be fully funded by the company. The maximum possible claw back for the Council was set at £470,000. The Directors of MMI 'triggered' the Scheme of Arrangement under Section 425 of the Companies Act 1985 (now Section 899 of the Companies Act 2006) on 13 November 2012. Ernst & Young are now responsible for the management of the MMI business, affairs and assets. Ernst & Young have carried out a review of MMI assets and liabilities. A payment of £70,437 was made during 2013/14 and £46,958 during 2015/16 by the Council and the balance of £353,000 will continue to be a contingent liability.

**Towner Trust**
On 1st July 2014, 16 staff employed by the council who were members of the LGPS were TUPEd to the Towner Trust. The council retains a liability of any deficit that may arise in the future from the pension liability of the Towner Trust. The value of any future liability cannot be accurately determined.

**Eastbourne Borough Football Club (EBFC)**
As freeholder of the EBFC football pitch, the Council has provided a guarantee for EBFC in respect of a finance agreement to improve the football pitch. The maximum liability is £500,000.

**Bedfordwell Road**

The Council purchased land at Bedfordwell Road on 24 March 2018. Overage, capped at £1m, may be payable under certain circumstances.

### Contingent Assets

**Overpaid VAT**
A number of Councils are in the process of legal action against Royal Mail and HM Revenue and Customs to recover VAT on postal services. The Council has claims amounting to £804,000 for VAT on Postal Services. The case is currently subject to legal decision.

## 32. POST BALANCE SHEET EVENTS

### Key Considerations in relation to COVID-19

In March 2020, the UK was placed in lock-down in an unprecedented step to limit the spread of the Coronavirus which was sweeping Europe. Many businesses were closed, and the Government provided initial financial support in the order of £123 billion in loans, grants, and business rates relief. In April 2020, the Budget Deficit increased by £62 billion to part fund these initiatives, amid warnings from the Bank of England of the worst recession since the 18th Century.
In response to the COVID-19 outbreak, The Ministry of Housing Communities and Local Government was clear that any council who made an immediate response to the COVID19 outbreak would be financially supported in their decision making by the government. In addition, the government has been making a series of ongoing policy announcements, which has meant that local authorities have had to respond quickly to new announcements and understand the financial implications arising.

The Council has played a significant role in responding to Covid19, in supporting businesses and the most vulnerable in our communities as well as running essential services. The financial impact of Covid19 has been an evolving picture and this will continue into 2021/22. The Council is forecasting additional costs in 2020/21 in the region of £3.7m including homelessness prevention, unachieved savings, redeployment costs, support for the Leisure services, additional PPE, community grants and cleaning costs.

The Council's income streams have been affected, with projected losses in the region of £10m including admissions, sales, trade waste, car parking, planning income, and rental income. The Government has provided support to local authorities through £4.6bn, new burdens funding, and income compensation support (75p compensation in every 95p of income loss from fees and charges).

The financial impact of Covid19 continue to be difficult to predict, income streams have been reviewed and revised where appropriate. Conversely, if businesses and households continue to experience lower incomes then lower Council Tax, Business Rates and other income to the Council will remain below those anticipated in the Budget. These longer-term risks emphasise the importance of additional government financial support to local authorities as a consequence of the pandemic and the extra vital work we are carrying out in supporting vulnerable households and local businesses. These matters will be monitored closely and modelled with regular updates to members.

### MHCLG financial support and capitalisation directive

In August 2020, it became very clear that a July recovery and bounce back was no longer an option and the Council's Chief Finance Officer initiated a formal notification process with MHCLG asking for financial support or capitalisation directive.

On 2nd February 2021, Luke Hall, MP and Minister of State for Regional Growth and Local Government in a letter addressed to Cllr Tutt, Leader of the Council, approved a total capitalisation direction to fund revenue expenditure not exceeding £6.8m, for the financial year 2020/21 and up to £6m for 2021/22.

The letter included:
*With respect to the financial year of 2020/21, the Secretary of State is content to approve a total capitalisation direction to fund revenue expenditure not exceeding £6.8m, subject to conditions. The conditions would be set out in the capitalisation direction when issued. With respect to the financial year of 202*1/22, the Secretary of State is minded to approve a capitalisation direction of a total not exceeding £6m. Again, such a direction may be subject to conditions, which would be set out in the capitalisation direction when issued.

## HOUSING REVENUE ACCOUNT (HRA)

| 2017/18 Restated £000 | | 2018/19 £000 |
|---|---|---|
| | **Income** | |
| (14,011) | Dwelling Rents | (14,174) |
| (378) | Non-Dwelling Rents | (42) |
| (1,213) | Charges for Services and Facilities | (1,504) |
| (661) | Contributions Towards Expenditure | (444) |
| **(16,263)** | **Total Income** | **(16,164)** |
| | **Expenditure** | |
| 941 | Repairs and Maintenance | 732 |
| 7,898 | Supervision and Management | 7,955 |
| 333 | Rents, rates, taxes and other charges | 422 |
| (2,530) | Depreciation, Amortisation and Impairment Reversals of Non Current Assets | (874) |
| 14 | Movement in the allowance for bad debts | 66 |
| 28 | Debt Management Costs | 20 |
| **6,684** | **Total Expenditure** | **8,321** |
| **(9,579)** | **Net Income for HRA Services as included in the whole authority Income and Expenditure Statement** | **(7,843)** |
| 65 | HRA services share of Corporate and Democratic Core | 68 |
| **(9,514)** | **Net Income for HRA Services** | **(7,775)** |
| 2,067 | (Gain)/loss on sale of HRA assets | 4,068 |
| 1,856 | Interest Payable and Similar Charges | 1,918 |
| (25) | Interest and Investment Income | (62) |
| (236) | Capital Grants and Contributions Received | (13) |
| **(5,852)** | **Surplus for the Year** | **(1,864)** |

## MOVEMENT ON THE HRA STATEMENT

| 2017/18 Re-stated £000 | 2017/18 Re-stated £000 | | 2018/19 £000 | 2018/19 £000 |
|---|---|---|---|---|
| | **(4,366)** | **Housing Revenue Account opening balance** | | **(5,188)** |
| **(5,852)** | | **(Surplus)/Deficit on HRA Income and Expenditure Statement** | **(1,864)** | |
| | | **Adjustments between accounting and funding basis:** | | |
| 134 | | Capital expenditure financed by the HRA | 354 | |
| 236 | | Capital Grants and Contributions received | 13 | |
| (6,138) | | Reverse non-current assets written off on disposal | (5,144) | |
| 4,071 | | Proceeds from sales of non-current assets | 1,076 | |
| 2,177 | | Transfer from Capital Adjustment Account | 4,912 | |
| 4,174 | | Transfer to Major Repairs Reserve | - | |
| **(1,198)** | | | **(653)** | |
| 376 | | Transfers (to)/from earmarked reserves | (106) | |
| | (822) | Increase in year on HRA | | (759) |
| | **(5,188)** | **Housing Revenue Account closing balance** | | **(5,947)** |

The Housing Revenue Account (HRA) records revenue income and expenditure relating to the Council's own housing stock. The account is "ring fenced" as there are statutory controls over the transfers which can be made between the HRA and the Council's General Fund. It shows the major elements of housing revenue expenditure - maintenance, administration and capital financing costs - and how these are met by rents and other income.

The Council has transferred responsibility for the management of its housing stock to Eastbourne Homes Ltd, as outlined in Note 12.4 above.

## NOTES TO THE HOUSING REVENUE ACCOUNT

### 1. HOUSING STOCK

The Council's housing stock consisted of:

| 31 March 2018 | | 31 March 2019 |
|---|---|---|
| | Houses and Bungalows | |
| 16 | - one bedroom | 16 |
| 526 | - two bedrooms | 522 |
| 1,116 | - three bedrooms | 1113 |
| 51 | - four or more bedrooms | 51 |
| **1,709** | **Total Houses and Bungalows** | **1,702** |
| | Flats | |
| 1,029 | - one bedroom | 1,031 |
| 538 | - two bedrooms | 537 |
| 5 | - three or more bedrooms | 4 |
| 129 | - bed-sits | 129 |
| **1,701** | **Total Flats** | **1,701** |
| **3,410** | **All Dwellings** | **3,403** |

In addition, the Council has shared ownership arrangements covering 19.5 full property equivalents (19.5 at 31 March 2018). The Council no longer has any properties under short-term property leases.

The Council's Balance Sheet includes the following HRA assets:

| | 31 March 2018 £000 | 31 March 2019 £000 |
|---|---|---|
| Dwellings | 181,319 | 181,803 |
| Other Land and Buildings | 1,137 | 1,099 |
| **Total** | **182,456** | **182,902** |

### 2. VACANT POSSESSION VALUE OF DWELLINGS

The Council's stock of council dwellings was re-valued by Wilkes, Head & Eve as at 1 April 2016, which resulted in a market vacant possession value of the housing stock at 1 April 2016 of £537m, and after disposals the value is £523m as at 1 April 2016. The stocks as at 31 March 2019 include 17 new build units which are not included in the valuation as at 1 April 2016 and cost £2.5m to build. The vacant possession of garages is £2.6m (68 garages sold). The 2018/19 regional adjustment factor used for dwellings at 'social rent' is 67% thereby reducing the balance sheet value of these dwellings to 33% of their open market value (68% and 32% in 2015/16).The Government considers that the difference between this figure and the Balance Sheet figure shown above represents the economic cost to Government of providing council housing at less than open market rents.

### 3. MAJOR REPAIRS RESERVE (MRR)

This reserve was established by the Local Authorities (Capital Finance and Accounts) Regulations 2000. An amount equal to the total depreciation for the year for HRA properties is transferred to the reserve from the Capital Adjustment Account; where capital expenditure is funded from the MRR the MRR is debited and the Capital Adjustment Account credited.

| 2017/18 | | 2018/19 |
|---|---|---|
| £000 | | £000 |
| (514) | Balance as at 1 April | (865) |
| 3,823 | Financing of Capital Expenditure | 4,162 |
| (4,174) | Depreciation | (4,352) |
| **(865)** | **Balance as at 31 March** | **(1,055)** |

## 4. CAPITAL EXPENDITURE AND FINANCING

The table below summarises the total capital expenditure for the year, and the sources of finance.

| 2017/18 | | 2018/19 |
|---|---|---|
| **£000** | | **£000** |
| **6,627** | **Total Capital Expenditure** | **5,099** |
| | Funding: | |
| 949 | Borrowing | - |
| 264 | Government Grant | - |
| 784 | Capital Receipts | 158 |
| 3,823 | Major Repairs Reserve | 4,162 |
| 147 | Earmarked Reserves | 357 |
| 85 | S106 Contributions | - |
| 575 | Other Contributions | 422 |
| **6,627** | **Total Funding** | **5,099** |

## 5. CAPITAL RECEIPTS FROM ASSET DISPOSALS

| 2017/18 | | 2018/19 |
|---|---|---|
| **£000** | | **£000** |
| 2,885 | Right to Buy Sales of Houses and Flats | 1,064 |
| 1,160 | Other Sales | 13 |
| 26 | Repayment of Right to Buy Discount | - |
| **4,071** | | **1,077** |

## 6. DEPRECIATION

| 2017/18 | | 2018/19 |
|---|---|---|
| **£000** | | **£000** |
| 4,158 | Dwellings | 4,336 |
| 16 | Other Land and Buildings | 16 |
| **4,174** | **Total HRA Assets** | **4,352** |

## 7. REVALUATION OF HRA STOCK

A full revaluation of HRA stock was carried out by Wilks Head & Eve as at 1 April 2016 which resulted in an increase in value of £36m. Further market changes and investment in council dwellings have occurred since and the current market value of HRA stock is disclosed in Note 1 above. An annual desk top revaluation review is carried out for all property to identify any material changes in value. As at 31 March 2019 the valuers advised an increase of 4% for council dwellings during 2018/19, excluding any consideration of capital expenditure. This has resulted in an upward revaluation of £5.3 million. Following a review of capital expenditure to improve council dwellings, expenditure is now de-recognised in the year that it is incurred. De-recognition for expenditure in 2016-17 and 2017-18 totalling £7.93m has been included as a prior period adjustment to the accounts (see Council Dwellings in Note 18 Property, Plant and Equipment).

## 8. RENT ARREARS

Rent arrears at 31 March 2019 amounted to £909,000 compared with £553,000 at 31 March 2018. These sums include the overpayment of Housing Benefit prior to 2004/05 and former tenants' arrears. During 2018/19 former tenant arrears of £42,000 were written off (£39,000 in 2017/18).

The Council has an impairment allowance for doubtful debts of £209,000 at 31 March 2019 (£144,000 at 31 March 2018).

## COLLECTION FUND REVENUE ACCOUNT

| 2017/18 Total £000 | | 2018/19 Business Rates £000 | 2018/19 Council Tax £000 | 2018/19 Total £000 |
|---|---|---|---|---|
| | **Income** | | | |
| 61,998 | Income collectable from Council Tax | - | 65,837 | 65,837 |
| 33,321 | Income collectable from Non-Domestic Rates | 34,526 | - | 34,526 |
| 556 | Transitional Relief | 574 | - | 574 |
| | **Contribution towards previous year's Collection Fund Deficit** | | | |
| 427 | Central Government | 1,485 | - | 1,485 |
| 77 | East Sussex County Council | 267 | - | 267 |
| 341 | Eastbourne Borough Council | 1,188 | - | 1,188 |
| 9 | East Sussex Fire Authority | 30 | - | 30 |
| **96,729** | **Total Fund Income** | **38,070** | **65,837** | **103,907** |
| | **Expenditure** | | | |
| | **Precepts, Demands and Shares** | | | |
| 17,865 | Central Government | 18,157 | - | 18,157 |
| 47,804 | East Sussex County Council | 3,268 | 47,859 | 51,127 |
| 22,193 | Eastbourne Borough Council | 14,525 | 8,234 | 22,759 |
| 5,221 | Sussex Police Authority | - | 5,700 | 5,700 |
| 3,356 | East Sussex Fire Authority | 363 | 3,126 | 3,489 |
| **96,439** | | **36,313** | **64,919** | **101,232** |
| 126 | Business Rates Costs of Collection | 129 | - | 129 |
| | **Charges to Collection Fund** | | | |
| 2,624 | Allowance for Appeals | 853 | - | 853 |
| (2,807) | Backdated changes in Rateable Values | (540) | - | (540) |
| 359 | Write-offs of uncollectable amounts | 37 | 149 | 186 |
| 321 | Allowance for impairment of doubtful debts | 15 | 299 | 314 |
| **497** | | **365** | **448** | **813** |
| | **Apportionment of previous year's Collection Fund Surplus** | | | |
| 713 | East Sussex County Council | - | 1,012 | 1,012 |
| 130 | Eastbourne Borough Council | - | 179 | 179 |
| 85 | Sussex Police Authority | - | 118 | 118 |
| 50 | East Sussex Fire Authority | - | 68 | 68 |
| **978** | | **-** | **1,377** | **1,377** |
| **98,040** | **Total Fund Expenditure** | **36,807** | **66,744** | **103,551** |
| **1,311** | **Movement on Fund Balance** | **(1,263)** | **907** | **(356)** |
| | **COLLECTION FUND BALANCE** | | | |
| 943 | **Balance at 1st April** | 3,521 | (1,267) | 2,254 |
| 1,311 | (Surplus)/Deficit for the year | (1,263) | 907 | (356) |
| **2,254** | **Balance as at 31st March** | **2,258** | **(360)** | **1,898** |

## NOTES TO THE COLLECTION FUND

### 1. INCOME FROM COUNCIL TAX

**Amounts receivable from Council Taxpayers:**

| | | 2018/19 £000 |
|---|---|---|
| **Gross amount of Council Tax** | | 83,686 |
| Less: | Council Tax Support Scheme | (7,679) |
| | Discounts | (7,831) |
| | Exemptions | (2,245) |
| | Disabled Relief | (94) |
| **Net Yield from Council Tax** | | **65,837** |

**Council Tax Base**

The Council's tax base (i.e. the number of chargeable dwellings in each valuation band (adjusted for dwellings where discounts apply) converted to an equivalent number of band D dwellings), was calculated as follows:

| Band | Chargeable Dwellings | Est Taxable Properties | Ratio to Band D | Band D Equiv | Yield £000 |
|---|---|---|---|---|---|
| A Dis Red | 13 | 7 | 5/9 | 4 | 8 |
| A | 8,297 | 4,926 | 6/9 | 3,284 | 6,206 |
| B | 12,816 | 9,522 | 7/9 | 7,406 | 13,995 |
| C | 10,573 | 8,601 | 8/9 | 7,645 | 14,447 |
| D | 8,447 | 7,367 | 9/9 | 7,367 | 13,921 |
| E | 4,455 | 4,056 | 11/9 | 4,957 | 9,367 |
| F | 1,998 | 1,862 | 13/9 | 2,690 | 5,083 |
| G | 1,096 | 1,016 | 15/9 | 1,693 | 3,199 |
| H | 54 | 50 | 18/9 | 100 | 189 |
| | **47,749** | **37,407** | | **35,146** | **66,415** |
| Less average 2.5% reduction to allow for collection losses etc. | | | | (879) | (1,662) |
| **Council Tax Base** | | | | **34,267** | **64,753** |

The estimated and actual tax base figures can vary due to the various effects of banding appeals, new properties, demolished properties and entitlements to discounts.

**Comparison of Actual versus Theoretical Gross Yields:**

| | | |
|---|---|---|
| Tax base (as above) | A | 34,266.6 |
| Band D Council Tax 2018/19 (Budget report) | B | £1,889.69 |
| Theoretical gross yield | A x B | £64,753,195 |
| Actual gross yield (as above) | C | £65,836,949 |
| Theoretical gross yield - actual gross yield | (A x B) – C | (£1,083,754) |

### 2. INCOME FROM BUSINESS RATE PAYERS

The Council collects Non-Domestic Rates for its area based on local rateable values provided by the Valuation Office Agency multiplied by a uniform business rate set nationally by Central Government. The table below shows the total rateable value and multipliers.

| | | 2017/18 | 2018/19 |
|---|---|---|---|
| Total non-domestic rateable value | **£m** | 90.4 | 91.2 |
| Multiplier | **p** | 47.9 | 49.3 |
| Multiplier (Small businesses) | **p** | 46.6 | 48.0 |
| Product | **£m** | 60.5 | 33.3 |

The gross yield before adjustments represents potential income at a point in time, i.e. the financial year end, and differs from bills issued during the year due to relief for empty properties, transitional relief, charity relief, and changes in rateable value and property base movements.

The business rates share payable in 2018/19 was estimated before the start of the financial year as £36.3m. These sums have been paid into 2018/19 and charged to the collection fund in year. This council's share is £14.5m.

## 3. PRECEPTS AND DEMANDS ON THE COLLECTION FUND

| **Authority** | **COUNCIL TAX** Precept | Distribution of prior years deficit | Total | **NON-DOMESTIC BUSINESS RATES** Share | Distribution of prior years surplus | Total |
|---|---|---|---|---|---|---|
| | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** |
| Eastbourne Borough Council | 8,234 | 179 | 8,413 | 14,525 | (1,188) | 13,337 |
| Central Government | - | - | - | 18,157 | (1,485) | 16,672 |
| East Sussex County Council | 47,859 | 1,012 | 48,871 | 3,268 | (267) | 3,001 |
| Sussex Police | 5,700 | 118 | 5,818 | - | - | - |
| East Sussex Fire Authority | 3,126 | 68 | 3,194 | 363 | (30) | 333 |
| **Total** | **64,919** | **1,377** | **66,296** | **36,313** | **(2,970)** | **33,343** |

When the retained business rates income scheme was introduced, Central Government set a baseline funding level for each authority identifying the expected level of retained business rates and a top up or tariff amount to ensure that all authorities receive the baseline amount. Tariffs due from authorities payable to Central Government are used to finance the top-ups to those authorities who do not achieve their targeted baseline funding. Any sums above the baseline funding are subject to a levy payment, for this Council this is 50%. The amounts for this Council are as follows:

| | **2017/18 £000** | **2018/19 £000** |
|---|---|---|
| Actual Business Rate income due | 13,517 | 14,909 |
| Tariff payment | (10,330) | (10,693) |
| | **3,187** | **4,216** |
| Baseline Funding | (3,419) | (3,513) |
| **Amount above (below) baseline** | **(232)** | **703** |

## 4. COLLECTION FUND BALANCE

The table below shows the balances on the Collection Fund and how they relate to each precepting authority:

| | **COUNCIL TAX** 31 March 18 £000 | 31 March 19 £000 | **BUSINESS RATES** 31 March 18 £000 | 31 March 19 £000 |
|---|---|---|---|---|
| Eastbourne Borough Council | (165) | (46) | 1,409 | 903 |
| Central Government | - | - | 1,761 | 1,129 |
| East Sussex County Council | (930) | (265) | 316 | 202 |
| Sussex Police Authority | (109) | (31) | - | - |
| East Sussex Fire Authority | (63) | (17) | 35 | 23 |
| **Surplus (Deficit)** | **(1,267)** | **(359)** | **3,521** | **2,257** |

The preceptors' share of the deficit on the Collection Fund is shown in the Council's balance sheet as part of the debtor's figures. This Council's share is included on the balance sheet under Collection Fund adjustment account.

## GROUP ACCOUNTS

### Introduction

The purpose of the main accounting statements is as set out in the accounting statements above for the Council alone. The accounting Code of Practice requires the same disclosures to be made for group accounts as for the Council's own accounts. Where notes have not been included in the group accounts, the impact is not considered to be material.

### Eastbourne Homes Ltd and Eastbourne Housing Investment Company Ltd

As set out in Note 12.4 and 12.8 above, Eastbourne Homes Ltd (EHL and Eastbourne Housing Investment Company Ltd (EHIC) are wholly owned subsidiaries of the Council, and group accounts are therefore prepared to combine the accounts of the Council and the two companies. Transactions and indebtedness between the Council and the companies have been eliminated in the preparation of these accounts.

### South East Independent Living Ltd

South East Independent Living Ltd (SEILL), is a private limited company, was incorporated on 30 September 2013. This company is wholly owned by EHL and their accounts have been incorporated with the accounts of EHL. The principal activity of SEILL is the delivery of a short-term housing floating support service for people of 65 and over who live in Eastbourne, Lewes or Wealden district.

### South East Environmental Services Limited

South East Environmental Services Limited (SEESL), a private limited company, was incorporated 31st August 2018. It is a wholly owned by the Council and has been set up to provide waste and recycling services. The accounts of SEESL have not been included in the Group accounts as the impact is not considered as material.

### Aspiration Homes LLP

Aspiration Homes LLP (AH) is a limited liability partnership incorporated 30 June 2017 and commenced trading 21 December 2017. There is an Executive Committee made up of 6 members (3 EBC and 3 LDC). AH is jointly owned by Eastbourne BC and Lewes DC with joint control. It has therefore been consolidated into the group accounts as a joint venture under the equity method with each authority including their share of rights to the net assets of the company.

### Investment Company Eastbourne Ltd and Infrastructure Investments Leicester Ltd

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

The timing and amount of any payments arising from both the loan guarantee and the rental guarantee are uncertain, as they could result from a number of default or income shortfall events. However, this supports the Council income generation activities to help provide services and improve their financial position.

IIL owns and operates the Property, known as St George's Tower, which is a large and predominately commercial building in Leicester. IIL also acts as a landlord and leases the building to a number of tenants, which include a hotel, a gym, student facilities and commercial offices. IIL is a privately-owned company, which was incorporated and is registered in England.

IIL refinanced its previous loans from Investec Bank and Leicester City Council with a £48m, 30-year loan provided by Canada Life (the Loan) in respect of the Property (the Scheme). As part of the refinancing arrangements, Eastbourne Borough Council (the Council) was approached by the Shareholders to provide a guarantee in respect of the Loan via a special purpose vehicle, ICE, which is a wholly owned subsidiary of the Council. ICE acts as the principal guarantor, with the Council being the ultimate guarantor (the Guarantee).

In return for providing the Guarantee, ICE received from IIL a £5.5m initial guarantee fee upfront and will receive a £0.3m annual guarantee fee (which is indexed annually on RPI but up to a 4.4% cap). ICE paid a £2m initial guarantee fee to the Council and pays the annual guarantee fee on to the Council. The Council (as ultimate guarantor), ICE and IIL entered into a Development and Asset Management Agreement (DAMA) which outlines the responsibilities of each party with respect to the management of the Property and the guarantee fees attributable to ICE. Under the DAMA, ICE will receive the guarantee fee before any payment of the asset management fee.

As part of the Guarantee arrangement, ICE purchased a share option from the IIL's for a sum of £3.5m, whereby ICE is entitled to acquire, at any time (irrespective of whether the loan is in default), 49.5% of the issued share capital of IIL for £1, and to receive 100% of the shares of the company, or the property, in the event of a default on the loan. At the end of the loan term, and assuming no default event occurs, the property will be jointly marketed and sold. ICE is entitled to a preferential priority waterfall on the sale, after 30 years, i.e., first £35m to go to ICE, the balance up to £70m is to the remaining shareholders of IIL and any amount over £70m will be split equally across all shareholders of IIL.

The timing and amount of any payments arising from both the loan guarantee and the rental guarantee are uncertain, as they could result from a number of default or income shortfall events. However, a default event would also give rise to an entitlement to receive 100% of the shares of IIL or the Property. As at 31st March 2019 there were no conditions or events which would trigger any liability.

IIL is accounted for as a joint venture under the equity method in the Group Accounts. The £3.5m investment in the joint venture was recognised at cost in May 2018. The investment has subsequently been adjusted to £3.436m for the Council's 49.5% share of IIL's post acquisition losses for the period May 2018 to March 2019.

The loan guarantee and rental guarantee are shown as Other Long-Term Liabilities in Note 25. The contract receivable in respect of the transaction is shown in Note 24 within Long-Term Debtors. The first instalment of the annual income fee is due in 2019/20. In accounting for the transaction, the Council has made a number of critical judgements and estimates which are disclosed in Notes 4 and 5.

**Greencoat House Ltd**

The Council's interest in Greencoat House Ltd were sold during 2018-19.

**CloudConnX**

The Council owns 48% of the B shares in CloudConnX and has significant influence, but not control. The accounts of CloudConnX have not been included in the Group accounts as the effect is immaterial.

**Eastbourne Downs Water Company Ltd**

EDWC, a private limited company, was incorporated 24 August 2016. The company is wholly owned by Eastbourne Borough Council. There have been no transactions during the period to 31 March 2019 and the company is currently dormant. The principal activity of EDWC will be to supply water to Downland Farms. The company is exempt from the requirement to prepare individual accounts under section 394A, or to file individual accounts under 448A of the Companies Act 2006.

## GROUP MOVEMENT IN RESERVES STATEMENT

| | EBC Usable Reserves | EBC Unusable Reserves | Total EBC Reserves | Share of Reserves of Subsidiaries and Joint Vantures | Total Group Reserves |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| **Balance at 31 March 2017 as previously stated** | **(27,290)** | **(215,664)** | **(242,954)** | **(486)** | **(243,440)** |
| Restatement (see Note) | **-** | 4,043 | 4,043 | **-** | **4,043** |
| **Restated Balance at 1 April 2017** | **(27,290)** | **(211,621)** | **(238,911)** | **(486)** | **(239,397)** |
| **Movement in Reserves 2017/18** | | | | | |
| Total Comprehensive Expenditure and Income | (1,783) | (1,741) | (3,524) | (794) | **(4,318)** |
| Adjustments between accounting basis & funding basis under regulation (note 8) | (1,019) | 1,019 | **-** | - | **-** |
| Transfers (to)/from Earmarked Reserves | - | - | **-** | - | **-** |
| **(Increase) / Decrease in Year** | **(2,802)** | **(722)** | **(3,524)** | **(794)** | **(4,318)** |
| **Balance at 31 March 2018 as previously stated** | **(30,092)** | **(224,154)** | **(254,246)** | **(1,280)** | **(255,526)** |
| Restatement (see Note) | **-** | 7,927 | **7,927** | (349) | **7,578** |
| **Restated Balance at 31 March 2018** | **(30,092)** | **(216,227)** | **(246,319)** | **(1,629)** | **(247,948)** |
| **Movement in Reserves 2018/19** | | | | | |
| Total Comprehensive Expenditure and Income | 4,224 | 2,704 | 6,928 | (1,049) | **5,879** |
| Adjustments between accounting basis & funding basis under regulation (note 8) | (957) | 957 | **-** | - | **-** |
| Transfers (to)/from Earmarked Reserves | **-** | - | **-** | - | **-** |
| **(Increase) / Decrease in Year** | **3,267** | **3,661** | **6,928** | **(1,049)** | **5,879** |
| **Balance at 31 March 2019** | **(26,825)** | **(212,566)** | **(239,391)** | **(2,678)** | **(242,069)** |

**Note:**

The Council figures have been restated as per Note 1 to the Eastbourne Borough Council (EBC) accounts which is reflected in the Group position.

## GROUP COMPREHENSIVE INCOME & EXPENDITURE STATEMENT

| Restated 2017/18 | | | | 2018/19 | | |
|---|---|---|---|---|---|---|
| **Expend £000** | **Income £000** | **Net £000** | | **Expend. £000** | **Income £000** | **Net £000** |
| 9,301 | (581) | 8,720 | Corporate Services | 7,372 | (461) | 6,911 |
| 63,202 | (54,199) | 9,003 | Service Delivery | 59,321 | (50,480) | 8,841 |
| 4,686 | (1,575) | 3,111 | Regeneration and Planning | 5,099 | (1,705) | 3,394 |
| 10,338 | (5,967) | 4,371 | Tourism and Enterprise | 11,332 | (6,129) | 5,203 |
| 15,490 | (26,024) | (10,534) | Housing Revenue Account (incl EHL) | 16,810 | (24,201) | (7,691) |
| **103,017** | **(88,346)** | **14,671** | **Cost of Services** | **99,934** | **(83,276)** | **16,658** |
| 216 | - | 216 | Levy Payable | 222 | - | 222 |
| 281 | - | 281 | Payments to housing capital receipts pool | 281 | - | 281 |
| 3,884 | (1,419) | 2,465 | (Gains) / Losses on sale and de-recognition of non-current assets | 11,204 | (10,129) | 1,075 |
| **4,381** | **(1,419)** | **2,962** | **Other Operating Expenditure** | **11,707** | **(10,129)** | **1,578** |
| 2,788 | - | 2,788 | Interest payable & similar charges | 3,022 | - | 3,022 |
| - | - | - | Fair Value movement in shares | 212 | - | 212 |
| - | - | - | Income from amortisation of Financial Guarantee contract | - | (496) | (496) |
| 1,150 | - | 1,150 | Net Interest on the Net Defined Benefit Liability | 1,240 | - | 1,240 |
| - | (352) | (352) | Interest receivable & Other Investment Income | - | (539) | (539) |
| 1,224 | (2,359) | (1,135) | Investment Properties | 1,713 | (5,627) | (3,914) |
| 1,595 | (1,489) | 106 | Trading Accounts | 2,378 | (1,455) | 923 |
| **6,747** | **(4,200)** | **2,547** | **Financing and Investment Income and Expenditure** | **8,565** | **(8,117)** | **448** |
| - | (11,467) | (11,467) | Non-specific grants and contributions | - | (4,492) | (4,492) |
| - | (8,007) | (8,007) | Council Tax income | - | (8,294) | (8,294) |
| 10,330 | (13,550) | (3,220) | Business Rates Retention | 11,044 | (13,569) | (2,525) |
| **10,330** | **(33,024)** | **(22,694)** | **Taxation and non-specific grant income** | **11,044** | **(26,355)** | **(15,311)** |
| | | **(2,514)** | **(Surplus) or Deficit on Provision of Services** | | | **3,373** |
| | | (349) | Joint Ventures accounted for on an equity basis | | | (246) |
| | | - | Tax Expenses | | | 14 |
| | | **(2,863)** | **Group (Surplus) or Deficit on Provision of Services** | | | **3,141** |
| | | (1,757) | Surplus on revaluation of Property, Plant and Equipment Assets | | | (2,563) |
| | | (3,931) | Re-measurement of the net defined benefit liability | | | 5,301 |
| | | **(5,688)** | **Other Comprehensive Income and Expenditure** | | | **2,738** |
| | | **(8,551)** | **Total Comprehensive Income and Expenditure** | | | **5,879** |

## GROUP BALANCE SHEET

| 1 April 2017 Restated £000 | 31 March 2018 Restated £000 | | Notes | 31 March 2019 £000 | £000 |
|---|---|---|---|---|---|
| 308,598 | 328,476 | Property, Plant & Equipment | 2 | 357,569 | |
| 15,034 | 15,034 | Heritage Assets | | 15,034 | |
| 11,358 | 32,166 | Investment Property | 3 | 36,754 | |
| 4,478 | 4,995 | Intangible Assets | | 6,279 | |
| 238 | 323 | Long Term Investments | | 1,030 | |
| - | 349 | Investment in Joint Ventures | | 4,081 | |
| 5,039 | 5,209 | Long Term Debtors | 4 | 16,593 | |
| **344,745** | **386,552** | **Long Term Assets** | | | **437,340** |
| 378 | - | Assets Held for Sale | | - | |
| 107 | 139 | Inventories | | 132 | |
| 12,521 | 20,403 | Short Term Debtors | 4 | 18,241 | |
| 4,968 | 5,707 | Cash and Cash Equivalents | | 6,199 | |
| **17,974** | **26,249** | **Current Assets** | | | **24,572** |
| (10,310) | (23,374) | Short Term Borrowing | | (27,447) | |
| (11,765) | (13,059) | Short Term Creditors | 5 | (21,365) | |
| (562) | (489) | Short Term Provisions | | (614) | |
| (116) | (13) | Revenue Grants Receipts in Advance | | (13) | |
| **(22,753)** | **(36,935)** | **Current Liabilities** | | | **(49,439)** |
| (772) | (204) | Long Term Creditors | | (69) | |
| (55,050) | (82,050) | Long Term Borrowing | | (96,617) | |
| - | - | Other Long Term Liabilities | | (17,379) | |
| (44,747) | (45,664) | Long Term Liabilities Pensions | 6 | (56,339) | |
| **(100,569)** | **(127,918)** | **Long Term Liabilities** | | | **(170,404)** |
| **239,397** | **247,948** | **NET ASSETS** | | | **242,069** |
| (27,776) | (31,721) | Usable reserves | | | (29,503) |
| (211,621) | (216,227) | Unusable Reserves | | | (212,566) |
| **(239,397)** | **(247,948)** | **TOTAL RESERVES** | | | **(242,069)** |

## GROUP CASH FLOW STATEMENT

| 2017/18 Restated £000 | GROUP CASH FLOW STATEMENT | 2018/19 £000 |
|---|---|---|
| (2,863) | Net (Surplus) or deficit on provision of services | 3,141 |
| (7,814) | Adjustment to net (surplus)/deficit on the provision of services for non-cash movements | (33,375) |
| 12,445 | Adjustment for items included in the net surplus/(deficit) on the provision of services that are investing and financing activities | 13,081 |
| **1,768** | **NET CASH FLOWS FROM OPERATING ACTIVITIES** | **(17,153)** |
| 35,475 | Investing Activities | 34,388 |
| (37,982) | Financing Activities | (17,727) |
| **(739)** | **NET (INCREASE)/DECREASE IN CASH AND CASH EQUIVALENTS** | **(492)** |
| (4,968) | Cash and cash equivalents at the beginning of the reporting period | (5,707) |
| **(5,707)** | **CASH AND CASH EQUIVALENTS AT THE END OF THE REPORTING PERIOD** | **(6,199)** |

| | COMPONENTS OF CASH AND CASH EQUIVALENTS | |
|---|---|---|
| **£000** | | **£000** |
| 2,675 | Bank Current Accounts | 6,160 |
| 32 | Cash held by the Authority | 39 |
| 3,000 | Short-term deposits with banks | - |
| **5,707** | **TOTAL CASH AND CASH EQUIVALENTS** | **6,199** |

## NOTES TO THE GROUP ACCOUNTING STATEMENTS

### 1. ACCOUNTING POLICIES

The accounting policies set out in Note 2 to the Eastbourne Borough Council accounts also apply to the group accounts. Where necessary, the accounts of Eastbourne Homes Ltd have been adapted to align them with the Council's policies.

### 2. PROPERTY PLANT AND EQUIPMENT

The table below shows the reconciliation of opening and closing balances and the movements in various categories for the year.

| | Council Dwellings | Other Land & Buildings | Vehicles, Plant & Equip. | Infra-structure | Commun. | Assets under Const. | Surplus Props. | Total |
|---|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| **Cost or Valuation at 31 March 2018 as previously stated** | **198,444** | **97,947** | **10,286** | **33,820** | **4,131** | **24,364** | **124** | **369,116** |
| Restatement | (8,137) | - | - | - | - | - | - | **(8,137)** |
| **Restated Cost or Valuation at 1 April 2018** | **190,307** | **97,947** | **10,286** | **33,820** | **4,131** | **24,364** | **124** | **360,979** |
| Additions | 4,675 | 1,213 | 1,144 | 288 | - | 30,632 | - | **37,952** |
| Donations | - | - | - | - | - | - | - | **-** |
| Revaluation increases recognised in the Revaluation Reserve | - | 2,563 | - | - | - | - | - | **2,563** |
| Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services | 5,253 | (530) | - | - | - | - | - | **4,723** |
| De-recognition – Disposals | (5,384) | (3,274) | (493) | (301) | - | - | - | **(9,452)** |
| **At 31 March 2019** | **194,851** | **97,919** | **10,937** | **33,807** | **4,131** | **54,996** | **124** | **396,755** |
| **Accumulated Depreciation and Impairment** | | | | | | | | |
| **At 31 March 2018 as previously stated** | **(8,061)** | **(3,482)** | **(3,569)** | **(17,038)** | **(563)** | **-** | **-** | **(32,713)** |
| Restatement | 210 | - | - | - | - | - | - | **210** |
| **Restated at 1 April 2018** | **(7,851)** | **(3,482)** | **(3,569)** | **(17,038)** | **(563)** | **-** | **-** | **(32,503)** |
| Depreciation Charge | (4,337) | (2,781) | (723) | (837) | - | - | - | **(8,678)** |
| Depreciation written out to the Revaluation Reserve | - | 875 | - | - | - | - | - | **875** |
| De-recognition - disposal | 239 | 365 | 493 | 13 | - | | - | **1,110** |
| **At 31 March 2019** | **(11,949)** | **(5,023)** | **(3,799)** | **(17,862)** | **(563)** | **-** | **-** | **(39,196)** |
| **Net Book Value** | | | | | | | | |
| At 31 March 2019 | 182,902 | 92,896 | 7,138 | 15,945 | 3,568 | 54,996 | 124 | **357,569** |
| At 31 March 2018 as restated | 182,456 | 94,465 | 6,717 | 16,782 | 3,568 | 24,364 | 124 | **328,476** |
| At 31 March 2018 as previously stated | 190,383 | 94,465 | 6,717 | 16,782 | 3,568 | 24,364 | 124 | **336,403** |

The equivalent figures re-stated for 2017/18 are shown below:

| | Council Dwellings | Other Land & Buildings | Vehicles, Plant & Equip. | Infra-structure | Commun. | Assets under Const. | Surplus Props. | Total |
|---|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| **Cost or Valuation at 31 March 2017 as previously stated** | **187,155** | **91,386** | **11,080** | **33,819** | **4,020** | **11,945** | **118** | **339,523** |
| Restatement | (4,185) | - | - | - | - | - | - | **(4,185)** |
| **Restated Cost or Valuation at 1 April 2017** | **182,970** | **91,386** | **11,080** | **33,819** | **4,020** | **11,945** | **118** | **335,338** |
| Additions | 3,952 | 1,855 | 825 | 315 | 111 | 17,653 | - | **24,711** |
| Revaluation increases recognised in the Revaluation Reserve | - | 1,755 | - | - | - | - | 3 | **1,758** |
| Revaluation increases recognised in the Surplus/Deficit on the Provision of Services | 6,730 | 344 | - | - | - | - | 3 | **7,077** |
| De-recognition - Disposals | (5,801) | (103) | (1,619) | (314) | - | - | - | **(7,837)** |
| Assets reclassified | 2,524 | 2,710 | - | - | | (5,234) | - | **-** |
| **Restated Balance at 31 March 2018** | **190,375** | **97,947** | **10,286** | **33,820** | **4,131** | **24,364** | **124** | **361,047** |
| | | | | | | | | |
| **Accumulated Depreciation and Impairment** | | | | | | | | |
| At 1 April 2017 | (3,802) | (1,707) | (4,468) | (16,200) | (563) | - | - | **(26,740)** |
| Depreciation Charge | (4,158) | (2,622) | (720) | (838) | - | - | - | **(8,338)** |
| Depreciation written out to the Revaluation Reserve | - | 842 | - | - | - | - | - | **842** |
| De-recognition - disposal | 41 | 5 | 1,619 | - | - | | - | **1,665** |
| **At 31 March 2018** | **(7,919)** | **(3,482)** | **(3,569)** | **(17,038)** | **(563)** | **-** | **-** | **(32,571)** |
| | | | | | | | | |
| **Net Book Value** | | | | | | | | |
| At 31 March 2018 as restated | 182,456 | 94,465 | 6,717 | 16,782 | 3,568 | 24,364 | 124 | **328,476** |
| At 1 April 2017 as restated | 179,168 | 89,679 | 6,612 | 17,619 | 3,457 | 11,945 | 118 | **308,598** |
| At 31 March 2017 as previously restated | 183,211 | 89,679 | 6,612 | 17,619 | 3,457 | 11,945 | 118 | **312,641** |

**Note:**
The Council figures have been restated as per Note 1 to the Eastbourne Borough Council accounts.

## 3. INVESTMENT PROPERTIES

The table below shows the movements in the fair value for Investment Properties.

| 2017/18 £000 | | 2018/19 £000 |
|---|---|---|
| **11,358** | **Balance at 1 April** | **32,166** |
| 21,687 | Additions | 2,924 |
| 95 | Disposals / De-recognition | (458) |
| (9) | Expenditure on existing properties | - |
| (965) | Net gains/losses from fair value adjustments | 2,122 |
| **32,166** | **Balance at 31 March** | **36,754** |

**Note**
Loan drawdown facilities are available from the Council (parent company) to enable the purchase of assets.

## 4. SHORT TERM DEBTORS

Short term debtors outstanding as at 31 March are:

| 31 March 2018 £000 | | 31 March 2019 £000 |
|---|---|---|
| 927 | Trade Receivables | 867 |
| 520 | Prepayments | 428 |
| 3,759 | Debtors for Local Taxation | 5,135 |
| 15,197 | Other Receivable Amounts | 11,811 |
| **20,403** | **Total** | **18,241** |

Long term debtors outstanding as at 31 March are:

| 31 March 2018 £000 | | 31 March 2019 £000 |
|---|---|---|
| 5,209 | Other Receivable Amounts | 16,593 |
| **5,209** | **Total** | **16,593** |

The balance at 31 March 2019 includes receivables in relation to the ICE/IIL guarantees.

## 5. SHORT TERM CREDITORS

The table below analyses the short-term liabilities between different groupings of creditor.

| 31 March 2018 £000 | | 31 March 2019 £000 |
|---|---|---|
| (5,089) | Trade payables | (10,641) |
| (7,970) | Other payables | (10,724) |
| **(13,059)** | **Total** | **(21,365)** |

## 6. POST EMPLOYMENT BENEFITS

6.1 Participation in defined liability pension plan

Details of the Council's participation in the East Sussex Pension Fund are set out in Note 30, and employees of Eastbourne Homes Ltd have the same access to the benefits of the scheme. EHIC has no employees.

6.2 Transactions relating to post-employment benefits

The following transactions have been made in the Group Comprehensive Income and expenditure statement:

| 2017/18 £000 | | 2018/19 £000 |
|---|---|---|
| | **Service Cost comprising:** | |
| 7,087 | Current Service Costs | 7,303 |
| 580 | Past Service Costs | 1,008 |
| | **Financing & Investment Income & Expenditure** | |
| 1,164 | Net Interest Expense | 1,240 |
| **8,831** | **Total Post-employment Benefits charged to the Surplus or Deficit on the Provision of Services** | **9,551** |
| | **Other Post-employment Benefits charged to the Comprehensive Income & Expenditure Statement** | |
| | Re-measurement of the net defined benefit liability comprising: | |
| 92 | Return on Plan Assets (excluding the amount included in the net interest expense) | (7,337) |
| (3,751) | Actuarial Gains and losses arising on changes in financial assumptions | 12,605 |
| (272) | Other | 33 |
| **(3,931)** | **Other Comprehensive Income & Expenditure** | **5,301** |
| **4,900** | **Total Post-employment Benefits charged to the Comprehensive Income & Expenditure Statement** | **14,852** |
| | **Movement in Reserves Statement** | |
| 8,831 | Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post-employment benefits in accordance with the Code | 9,551 |
| (2,691) | Actual amount (charged)/ credited to the General Fund Balance for pensions in the year | (4,177) |
| **6,140** | **Net adjustment in Movement in Reserves Statement** | **5,374** |

6.3 Pensions Assets and Liabilities recognised in the balance sheet

The amount included in the Balance Sheet for the Group obligation in respect of its defined plans is as follows:

| 31 March 2018 £000 | | 31 March 2019 £000 |
|---|---|---|
| 154,315 | Fair value of employer assets | 166,022 |
| (195,194) | Present value of funded liabilities | (217,714) |
| (4,785) | Present value of unfunded liabilities | (4,647) |
| **(45,664)** | **Net liability arising from defined benefit obligation** | **(56,339)** |

6.4 Reconciliation of the Movements in the Fair Value of the Scheme Assets

| 2017/18 £000 | | 2018/19 £000 |
|---|---|---|
| 143,303 | Opening fair value of assets | 154,315 |
| 3,703 | Interest income | 4,015 |
| | **Re-measurement gain/(loss):** | |
| (130) | The return on plan assets, excluding the amount included in the net interest expense | 7,337 |
| | The effect of changes in foreign exchange rates | |
| 3,622 | Contributions from employer - Funded | 3,845 |
| 342 | Contributions from employer - Unfunded | 332 |
| 1,158 | Contributions from employees into the scheme | 1,220 |
| (4,597) | Benefits paid - Funded | (4,710) |
| (342) | Benefits paid - Unfunded | (332) |
| 7,256 | Effect of business combinations and disposals | - |
| **154,315** | **Closing fair value of scheme assets** | **166,022** |

6.5 Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)

| 2017/18 £000 | | 2018/19 £000 |
|---|---|---|
| (186,760) | Opening balance at 1 April | (199,979) |
| (7,020) | Current service costs | (7,303) |
| (4,856) | Interest costs | (5,255) |
| (1,158) | Contributions from scheme participants | (1,220) |
| (8,564) | Effect of business combinations and disposals | - |
| | **Re-measurement (gains) and losses:** | |
| 3,751 | Actuarial gains/(losses) arising from changes in financial assumptions | (12,605) |
| 269 | Other | (33) |
| (580) | Past service costs | (1,008) |
| 4,597 | Benefits paid - Funded | 4,710 |
| 342 | Benefits paid - Unfunded | 332 |
| **(199,979)** | **Closing Balance at 31 March** | **(222,361)** |

6.6 Local Government Pension Scheme Assets comprised:

| 31 March 2018 | | | | | 31 March 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| Quoted prices in active markets | Quoted prices not in active markets | Total | % of Total Assets | | Quoted prices in active markets | Quoted prices not in active markets | Total | % of Total Assets |
| £000 | £000 | £000 | | | £000 | £000 | £000 | |
| | | | | **Equity Securities:** | | | | |
| 2,875 | - | 2,875 | 2% | Consumer | 1,995 | - | 1,995 | 1% |
| 1,522 | - | 1,522 | 1% | Manufacturing | 1,364 | - | 1,364 | 1% |
| 259 | - | 259 | 0% | Energy and utilities | 391 | - | 391 | 0% |
| 4,667 | - | 4,667 | 3% | Financial Institutions | 1,867 | - | 1,867 | 1% |
| 2,643 | - | 2,643 | 2% | Health and care | 326 | - | 326 | 0% |
| 2,199 | - | 2,199 | 1% | Information technology | 7 | - | 7 | 0% |
| 308 | 523 | 831 | 1% | Other | 324 | 3 | 327 | 0% |
| **14,473** | **523** | **14,996** | **10%** | **Sub-total equity** | **6,275** | **3** | **6,276** | **3%** |
| | | | | **Debt Securities:** | | | | |
| - | 4,276 | 4,276 | 3% | UK Government | - | 4,021 | 4,021 | 3% |
| 275 | - | 275 | 0% | Other | - | 3,086 | 3,086 | 2% |
| **275** | **4,276** | **4,551** | **3%** | **Sub-total Debt Securities** | **-** | **7,107** | **7,107** | **5%** |
| | | | | **Private equity:** | | | | |
| **-** | **8,831** | **8,831** | **6%** | All | **-** | **10,216** | **10,216** | **6%** |
| | | | | **Real Estate:** | | | | |
| - | 14,797 | 14,797 | 10% | UK Property | - | 15,560 | 15,560 | 9% |
| **-** | **14,797** | **14,797** | **10%** | **Sub-total Real Estate** | **-** | **15,560** | **15,560** | **9%** |
| | | | | **Investment Funds & Unit Trusts:** | | | | |
| 19 | 84,971 | 84,990 | 54% | Equities | - | 91,548 | 91,548 | 55% |
| - | 17,802 | 17,802 | 12% | Bonds | - | 27,320 | 27,320 | 17% |
| - | 155 | 155 | 0% | Hedge Funds | - | 109 | 109 | 0% |
| 227 | - | 227 | 0% | Commodities | 280 | - | 280 | 0% |
| - | 1,706 | 1,706 | 1% | Infrastructure | - | 985 | 985 | 1% |
| - | 168 | 168 | 0% | Other | - | 34 | 34 | 0% |
| **246** | **104,802** | **105,048** | **67%** | **Sub-total Investment Funds & Unit Trusts** | **280** | **119,995** | **120,275** | **73%** |
| | | | | **Derivatives:** | | | | |
| - | 33 | 33 | 0% | Foreign Exchange | - | (19) | (19) | 0% |
| **-** | **33** | **33** | **0%** | **Sub-total Derivatives** | **-** | **(19)** | **(19)** | **0%** |
| | | | | **Cash & Cash Equivalents** | | | | |
| **3,892** | **2,166** | **6,058** | **4%** | All | **6,609** | **(3)** | **6,606** | **4%** |
| **18,886** | **135,428** | **154,314** | **100%** | **Total** | **13,162** | **152,860** | **166,022** | **100%** |

The breakdown of assets in monetary terms in the table above have been shown to the nearest £1,000. The additional precision in the presentation of the figures has been included, but the sum of the values rounded to the nearest £1,000 (or 1%) may not equal the total value due to rounding.

## 7. CASH AND CASH EQUIVALENTS

The surplus on the provision of services has been adjusted for the following non cash movements:

| 2017/18 Restated | Adjustment to Net Surplus or Deficit on the provision of services for non-cash movements | 2018/19 |
|---|---|---|
| **£000** | | **£000** |
| (7,496) | Depreciation | (7,804) |
| 8,451 | Impairment and (reversal) of impairment and valuation movements | 5,778 |
| (632) | Amortisation | (733) |
| (24) | Increase in impairment for bad debts | - |
| 1,949 | Increase / (Decrease) in creditors | (7,369) |
| 1,185 | (Increase) / Decrease in Debtors | 9,756 |
| 32 | (Increase) / Decrease in Inventories | (7) |
| (4,848) | Movement in pension liability | (5,374) |
| 349 | Share of Joint Ventures | 232 |
| (3,884) | Carrying amount of non-current assets sold or de-recognised | (11,204) |
| (2,897) | Other non-cash items (including Financial Guarantee) | (16,649) |
| **(7,815)** | **Adjustment for Non-Cash Movements included in the provision of services** | **(33,374)** |

The surplus or deficit on the provision of services has been adjusted for the following items that are investing and financing activities:

| £000 | | £000 |
|---|---|---|
| - | Proceeds from short term and long-term investments | 8,651 |
| 1,418 | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | 1,478 |
| 11,027 | Other items for which the cash effects are investing or financing activities | 2,952 |
| **12,445** | **Adjustment for items that are investing and financing activities** | **13,081** |

| £000 | Investing Activities | £000 |
|---|---|---|
| 47,090 | Purchase of property, plant and equipment, investment property and intangible assets | 40,824 |
| - | Purchase of short-term and long-term investments | 4,742 |
| 2,861 | Other payments for investing activities | 3,397 |
| (4,368) | Proceeds from sales of property, plant and equipment, investment property and intangible assets | (1,936) |
| - | Proceeds from short term and long-term investments | (8,651) |
| (10,108) | Other receipts from investing activities | (3,988) |
| **35,475** | **Net cash flows from investing activities** | **34,388** |

| £000 | Financing Activities | £000 |
|---|---|---|
| (74,890) | Cash receipts of short and long-term borrowing | (63,000) |
| 2,018 | Other receipts from financing activities | 840 |
| 34,890 | Repayment of short and long-term borrowing | 44,433 |
| **(37,982)** | **Net cash flows from financing activities** | **(17,727)** |

## 8. TRANSACTIONS BETWEEN EASTBOURNE BOROUGH COUNCIL AND EASTBOURNE HOMES LTD, EASTBOURNE HOUSING INVESTMENT COMPANY LTD and ASPIRATION HOMES LLP

Eastbourne Borough Council pay Eastbourne Homes Ltd a fee in accordance with an agreement to manage and maintain the Council's housing stock, including capital works. EHL obtained services from Eastbourne Borough Council under various Service Level Agreements. These include financial ledger systems, parks & gardens, information technology and Chief Finance Officer.

| | 2017/18 £000 | 2018/19 £000 |
|---|---|---|
| **Income** | | |
| Housing Management contract | 7,261 | 7,261 |
| Other contracts | 170 | 142 |
| **Expenditure** | | |
| Service Level Agreements | 794 | 786 |
| Fees payable by EHL to EBC | 1,409 | 2,251 |
| **Recharges** | | |
| Capital Works at cost | 5,005 | 4,977 |
| Other | 5 | - |
| **Debtor** | | |
| Amount due from Eastbourne Borough Council | 1,550 | 734 |
| **Creditor** | | |
| Amount due to Eastbourne Borough Council | 942 | 1,146 |

One of the seven Board Directors of EHL are residents in properties maintained by Eastbourne Homes and owned by Eastbourne Borough Council. These residents have a standard tenancy agreement and fulfil the same obligations and receive the same service as all other residents of Eastbourne.

South East Independent Living Limited (SEILL), a private limited company, was incorporated on 30 September 2013. This company is wholly owned by EHL and their accounts have been consolidated within the statement of accounts for EHL. SEILL has net assets of £22,000 and turnover of £963,000 (for the period 1 April 2018 to 31 March 2019).

Eastbourne Housing Investment Company Ltd (EHIC) was incorporated on 1 May 2015 and commenced trading in November 2015. There are five Directors made up of three Members, one senior Council officers and one EHL Director This company is wholly owned by the Council. EHIC has net liabilities of £1,024,000 and turnover of £396,000 (for the period 1 April 2018 to 31 March 2019). EHIC were given loans totalling £12,519,000 as at 31 March 2019 of which £10,302,000 was drawn down and interest of £389,000 was paid in 2018/19 to the Council by EHIC.

Aspiration Homes LLP were given loans totalling £4,101,000 as at 31 March 2019 of which £975,000 was drawn down and interest of £19,000 was payable in 2018/19 to the Council by AH.

## GLOSSARY

This glossary helps to define some of the terms and phrases found in these accounts.

**Accounting Period**
The length of time covered by the accounts, in the case of these accounts the year from 1 April to 31 March.

**Accrual**
A sum included in the accounts to cover income or expenditure attributable to the accounting period for goods or services, but for which payment has not been received/made, by the end of that accounting period.

**Actuarial Gains and Losses**
Changes in the estimated value of the pension fund because events have not coincided with the actuarial assumptions made or the assumptions themselves have changed.

**Balances**
These represent the accumulated surplus of revenue income over expenditure.

**Budget**
An expression, mainly in financial terms, of the Council's intended income and expenditure to carry out its objectives.

**Budget Requirement**
The amount each local authority estimates as its planned spending, after deducting funding from reserves and any income expected to be collected (excluding Council Tax and Government Grants). This requirement is then offset by Government Grant, the balance being the amount needed to be raised in Council Tax.

**Capital Charge**
A charge to service revenue accounts to reflect the cost of non-current assets (previously referred to as fixed assets) used in the provision of services.

**Capital Expenditure**
Expenditure on the acquisition of non-current assets (fixed assets) that will be of use or benefit to the Council in providing its services for more than one year. Capital expenditure also includes Revenue expenditure financing from Capital under Statue.

**Capital Adjustment Account**
The capital adjustments account records the resources set aside to finance capital expenditure and offsets the write-down of the historical cost of fixed assets as they are consumed by depreciation and impairments or by disposal.

**Capital Receipts**
Income received from the sale of capital assets. Legislation requires a proportion of capital receipts from the sale of Council houses to be paid over to a national pool.

**Cash Equivalents**
Generally short term, highly liquid investments readily convertible into cash.

**Chartered Institute of Public Finance and Accountancy (CIPFA)**
CIPFA is the main professional body for accountants working in the public service. It draws up the Accounting Code of Practices and issues professional guidance that is used to compile these accounts.

**Collection Fund**
A fund administered by the Council as a "Charging Authority". The Council Tax and Non-Domestic Rates are paid into this fund. The Council Tax and NDR demand of the Council and the precepts of other public bodies are paid out of the fund. Any surplus or deficit is shared between the various authorities.

**Corporate and Democratic Core**
These are the activities that a local authority engages in specifically because it is a democratically elected decision-making body. These costs are not apportioned to services but are shown here. Examples of costs are Councillors' allowances, Committee support and time spent by professional officers in giving policy advice.

**Creditors**
The amounts owed by the Council at the Balance Sheet date in respect of goods and services received before the end of the accounting period but not paid for.

**Current Service Cost**
The increase of the present value of a defined benefit scheme's liabilities expected to arise from employee service in the accounting period.

**Debtors**
Amounts owed to the Council but unpaid at the Balance Sheet date.

**Depreciation**
The measure of the cost or revalued amount of the benefit of the fixed asset that have been consumed during the period.

**Expected Rate of Return on Pensions Assets**
The average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

**Fees and Charges**
The income raised by charging for goods, services or the use of facilities.

**General Fund**
The main revenue fund of the Council which is used to meet the cost of services paid for from Council Tax, Government Grant and fees and charges.

**Heritage Asset**
A tangible asset with historical, artistic, scientific, technological or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

**Housing Revenue Account**
A separate account, maintained by law, which accounts for the income and expenditure related to the Council's housing stock. The General Fund cannot subsidise the Housing Revenue Account and vice versa.

**Intangible Assets**
Non-current assets (fixed assets) that do not have physical substance but are identifiable and controlled by the Council. Examples are software and licences.

**Leasing**
A method of acquiring the use of capital assets for a specified period for which a rental charge is paid.

**Levy**
A contribution payable by law to Internal Drainage Boards for land drainage.

**Minimum Revenue Provision**
An amount to be set aside each year from revenue to repay the principal amounts of external loans outstanding.

**Non-Current Asset**
Assets that yield benefits to the Council and the services it provides for a period of more than one year. Examples include land, buildings and vehicles.

**Non-Domestic Rates (NDR)** (also known as Business Rates)
Non-Domestic Rates are levied on businesses within its area by the Billing Authority and the proceeds are paid into its Collection Fund for distribution to precepting Authorities and for use by its own General Fund.

**Precept**
The amount levied by various Authorities that is collected by the Council on their behalf. The precepting Authorities in Eastbourne are East Sussex County Council, Sussex Police Authority and East Sussex Fire.

**Provisions**
Amounts set aside to meet costs which are likely or certain to be incurred but are uncertain in value or timing.

**Public Works Loans Board**
A Government body that provides loans to local authorities.

**Reserves**
The accumulated surplus income in excess of expenditure, which can be used to finance future spending and is available to meet unforeseen financial problems. Earmarked Reserves are amounts set aside for a specific purpose in one financial year and carried forward to meet expenditure in future years.

**Revaluation Reserve**
The revaluation reserve reflects the unrealised element of the cumulative balance of revaluation adjustments.

**Revenue Expenditure**
The day to day spending on employment costs, other operating costs (accommodation, supplies and services etc.) net of income for fees and charges etc.

**Revenue Expenditure financed from Capital under Statute (Refcus)**
Expenditure that can be classified as capital expenditure, but which does not result in the acquisition of a tangible or physical asset.

**Revenue Support Grant**
Central Government financial support towards the general expenditure of local authorities.

**Specific Government Grants**
Central Government financial support towards particular services which is "ring fenced", i.e. can only be spent on a specific service area or items.

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Working in partnership with **Eastbourne Homes**

Ben Sheriff
Director | Audit & Assurance
Deloitte LLP
3 Victoria Square
Victoria Street
St. Albans
AL1 3TF.

28 July 2021

Dear Engagement Director,

This representation letter is provided in connection with your audit of the financial statements of Eastbourne Borough Council and its subsidiaries (the "Council" and together the "Group") for the year ended 31 March 2019 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of the Council and the Group as of 31 March 2019 and of the results of its operations, other recognised gains and losses and its cash flows for the year then ended in accordance with the applicable law and the CIPFA /LASAAC Code of Practice on Local Authority Accounting 2018/19.

We confirm, to the best of our knowledge and belief, the following representations.

**Financial statements**

1. We understand and have fulfilled our responsibilities for the preparation of the financial statements in accordance with the applicable law and the CIPFA /LASAAC Code of Practice on Local Authority Accounting 2018/19 which give a true and fair view, as set out in the terms of the audit engagement letter.

2. Significant assumptions used by us in making accounting estimates, including those measured at fair value and assessing the impact of Covid-19 on the Group are reasonable. We have specifically considered the impact of Covid-19 and we do not consider that any matters arising in relation to this have impacted the measurement of items as at 31 March 2019. We have made the relevant disclosures regarding the impact of this subsequent to this date in both the narrative and notes to the Statement of Accounts.

3. The assumptions and judgements used by us specifically in valuing the loan and rental guarantees and related receivables associated with the arrangement entered into during the year by group company Infrastructure Company Eastbourne Ltd, with Infrastructure Investments Leicester Ltd as the counterparty, are reasonable and reflect our best judgement of assumptions at inception of the agreement and as at 31 March 2019.

4. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of IAS24 "Related party disclosures".

Eastbourne Borough Council
1 Grove Road
Eastbourne BN21 4TW
www.lewes-eastbourne.gov.uk
01323 410000

Homira Javadi
Chief Finance Officer
homari.javadi@lewes-eastbourne.gov.uk

5. All events subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment of or disclosure have been adjusted or disclosed.

6. We are not aware of any uncorrected misstatements or disclosure deficiencies.

7. We confirm that the financial statements have been prepared on the going concern basis and disclose in accordance with IAS 1 all matters of which we are aware that are relevant to the Council and the Group's ability to continue as a going concern, including principal conditions or events and our plans. We do not intend to liquidate the Group or cease operations as we consider we have realistic alternatives to doing so. We are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the Council and the Group's ability to continue as a going concern. We confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including our plans for future actions.

8. The measurement processes, including related assumptions and models used to determine accounting estimates in the context of applicable financial reporting framework are appropriate and have been applied consistently.

9. The assumptions appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity where relevant to the accounting estimates and disclosures.

10. The disclosures related to accounting estimates under the entity's applicable financial reporting framework are complete and appropriate.

11. There have been no subsequent events that require adjustments to the accounting estimates and disclosures included in the financial statements.

12. The Group has satisfactory title to all assets and there are no liens or encumbrances on the Group's assets and assets pledged as collateral

13. We have recorded or disclosed, as appropriate, all liabilities both actual and contingent

14. We are not aware of any deficiencies in internal control other than as raised in audit process, by internal audit, or disclosed in the Annual Governance Statement and Addendum to the Annual Governance Statement.

15. We have considered the accounting for inventory (total value £132k), which as disclosed in the financial statements is not accounted for in accordance with IFRS (as is on a "last invoice" basis). We confirm we do not consider this area of non-compliance to be significant to the financial statements.

16. We have reviewed our provisioning for NNDR, Council tax and HRA debtor provisioning, and consider the assumptions in respect of recoverability to reflect our best assessment of the recoverable amount of these balances.

17. All minutes of member and management meetings during and since the financial year have been made available to you.

18. With respect to the revaluation of properties in accordance with the Code:
   a) the measurement processes used are appropriate and have been applied consistently, including related assumptions and models; the assumptions appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity where relevant to the accounting estimates and disclosures;
   b) the disclosures are complete and appropriate.
   c) there have been no subsequent events that require adjustment to the valuations and disclosures included in the financial statements. The information supplied for the valuation of the Group's property and investment property assets includes up to date rental and other relevant data to inform the valuation, and there are no circumstances we are aware of that would impact upon the valuation of assets (such as issues with condition) that have not been shared with the valuer.
   d) we have considered the movement in property values between 31 December 2018 and 31 March 2019 and do not consider this material to the financial statements.

   We have considered the valuation of the Group's Property, Plant and Equipment, and are not aware of any circumstances indicating volatility in asset values for properties not revalued in the year that might indicate a valuation is required.

   We have considered the valuation of the Group's Property, Plant and Equipment, and we are not aware of any other errors or inconsistencies, and the overall valuation movement recognised is in line with that expected from the work of the valuer.

19. We have reconsidered the remaining useful lives of the Group's Property, Plant and Equipment and confirm that the present rates of depreciation are appropriate to amortise the cost or revalued amount less residual value over the remaining useful lives.

20. Except as disclosed in Note 18 to the accounts, as at 31 March 2019 there were no significant capital commitments contracted for by the Group.

21. We are not aware of events or changes in circumstances occurring during the period which indicate that the carrying amount of fixed assets or goodwill may not be recoverable.

22. We confirm that:

   - all retirement benefits and schemes, including UK, foreign, funded or unfunded, approved or unapproved, contractual or implicit have been identified and properly accounted for;
   - all settlements and curtailments have been identified and properly accounted for;
   - all events which relate to the determination of pension liabilities have been brought to the actuary's attention;
   - the actuarial assumptions underlying the valuation of the scheme liabilities (including the discount rate used) accord with the directors' best estimates of the future events that will affect the cost of retirement benefits and are consistent with our knowledge of the business;

- the future salary increase assumption is reasonable and in line with our intentions;
- the actuary's calculations have been based on complete and up to date member data as far as appropriate regarding the adopted methodology; and
- the amounts included in the financial statements derived from the work of the actuary are appropriate.

23. We confirm that all of the disclosures within the Narrative Report and Annual Governance Statement and Addendum to the Annual Governance Statement, and in the remuneration disclosures within the financial statements, have been prepared in accordance with the relevant legislation and guidance.

**Information provided**

24. We have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- additional information that you have requested from us for the purpose of the audit; and;
- unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

25. All transactions have been recorded and are reflected in the financial statements and the underlying accounting records.

26. We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

27. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

28. We are not aware of any fraud or suspected fraud that affects the Council or Group and involves:

(i) management;

(ii) employees who have significant roles in internal control; or

(iii) others where the fraud could have a material effect on the financial statements.

29. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

30. We have disclosed to you all known instances of non-compliance, or suspected non-compliance, with laws, regulations, and contractual agreements whose effects should be considered when preparing financial statements

31. We have disclosed to you the identity of the Group's related parties and all the related party relationships and transactions of which we are aware.

32. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the applicable financial reporting framework. No other claims in connection with litigation have been or are expected to be received.

33. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.

34. We have made the following restatements to correct material misstatements in prior period financial statements that affect the comparative information: Dr reserves, , CR. Property plant and equipment. Major works capital expenditure had been capitalised without disposals being recognised – the restatement adopts the accounting practice acceptable under the Code of derecognising an equivalent value to the addition as a disposal, which we consider the most appropriate basis to account for this.

We confirm that the above representations are made on the basis of adequate enquiries of management and staff (and where appropriate, inspection of evidence) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

This letter was tabled and agreed at the meeting of the Audit and Governance Committee on 28 July 2021.

Yours faithfully,

Signed on behalf of Eastbourne Borough Council

…………………………………………

**Councillor Robin Maxted**
**Chair of the Audit and Governance Committee**

…………………………………………

**Homira Javadi,**
**Chief Finance Officer**

# Appendix 1

**Schedule of Uncorrected Misstatements**

| Description | Assets DR / (CR) £ | Liabilities DR / (CR) £ | Equity DR / (CR) £ | Income Statement DR / (CR) £ |
|---|---|---|---|---|
| None | | | | |

# Agenda Item 9

| | |
|---|---|
| **Agenda Item No:** | **Report No:** |

| | |
|---|---|
| **Report To:** | **Audit and Governance Committee** |
| **Date:** | **28 July 2021** |
| **Report Title:** | **Redmond Review update and MHCLG External Audit Consultations** |
| **Report of:** | **Chief Finance Officer** |
| **Ward(s):** | **All** |
| **Purpose of report:** | **To ensure the Committee are kept up to date on the progress in delivering the recommendations of the Redmond Review and ongoing external audit consultations.** |
| **Decision type** | **Budget and Policy Framework** |
| **Officer Recommendations:** | **The Committee is recommended to note this report.** |
| **Reasons for recommendations:** | **To provide an update on the Government's recent response to the Sir Tony Redmond's independent review.** |
| **Contact Officer(s)-** | **Name: Ola Owolabi<br>Post title: Deputy Chief Finance Officer<br>E-mail: ola.owolabi@lewes-eastbourne.gov.uk<br>Telephone number: 01323 485083** |

## 1 Introduction

1.1 Sir Tony Redmond was requested to undertake a review into the effectiveness of the local audit regime for local authorities and the transparency of financial reporting regime. The review outcomes and recommendations were presented to the Secretary of State for Housing, Communities and Local Government in September 2020.

1.2 In total, 23 recommendations were made covering the following topics:

- External Audit Regulation.
- Smaller Authorities Audit Regulation.
- Financial Resilience of local authorities.
- Transparency of Financial Reporting.

1.3 In October 2020, the Audit and Governance Committee received a presentation on the Redmond independent review into the effectiveness of external audits and transparency of financial reporting in local authorities and that further information would be provided to the Committee when available.

1.4 The Government has subsequently published a response to the Redmond recommendations in December 2020 and most recently, in May 2021.

## 2 Government responses to the Sir Redmond Review Findings

2.1 The Ministry of Housing, Communities and Local Government (MHCLG) published its response to the findings on 17 December 2020, which were grouped into five themes:

- Action to support immediate market stability.
- Consideration of system leadership options.
- Enhancing the functioning of local audits and the governance for responding to its findings.
- Improving transparency of local authorities' accounts to the public.
- Action to consider the functioning of local audits for smaller bodies.

2.2 The response confirmed the Government commitment to the principles of locally led audit regimes and that robust local scrutiny and accountability by the press and public are fundamental to the local audit framework.

2.3 The key recommendation made was that the Redmond Review recommended the Office of Local Audit and Regulation (OLAR) be created. This would oversee all aspects of local authority audit and Public Sector Audit Appointments (PSAA) created (the body who appoints 98% of all local authority audits) would be abolished.

2.4 The Government has produced a white paper on Corporate Audit in which it recommended creating a new body to replace the Finance Reporting Council (FRC) with the Audit, Reporting and Governance Authority (ARGA). The Government is proposing to add the role of oversight of local authority audit to ARGA, while the PSAA will continue to have oversight of appointing individual local authority auditors.

2.5 The other significant announcement was the amendment announced to the Audit and Accounts Regulations in response to the pandemic to further extend the date to produce audited accounts from 31st July to 30th September for a period of 2 years (2021/22 and 2022/23) with a commitment to review again to see whether there is a continued need to have this extended deadline.

## 3. MHCLG Audit Fees Consultation

3.1 There have been two recent consultations undertaken by the MHCLG in relation to the future external audit fees to be paid by local authorities.

- The first consultation relates to the allocation of the extra £15m to be used to support the current fees paid. This is intended to support affected local bodies to meet the anticipated rise in audit fees in 2021/22, driven by new requirements on auditors including the 2020 Code of Audit Practice, and to enable local authorities to develop standardised statements of service information and costs. *The Council responded to the consultation on 18 May 2021.*
- The second consultation relates to proposing changes to the fee setting and fee variation arrangements set out in the Local Audit (Appointing Person) Regulations 2015 to provide additional flexibility to the appointing person for principal bodies (Public Sector Audit Appointments Ltd) to reflect the changing nature of the local audit market. This is in response to the Sir Tony Redmond recommendation that the current fee structure for local audit be revised to ensure that adequate resources are deployed to meet the full extent of local audit requirements. *The Council responded to the consultation on 1 June 2021.*

**4 Financial Implications**

4.1 Not applicable as this report is for information.

**5. Risk Management Implications**

5.1 Not applicable as this report is for information.

**6. Equality Screening**

6.1 Not applicable as this report is for information.

**7 Legal Implications**

7.1 None arising from this report.

**8. Background Papers**

8.1 Full details of the Government response can be found on the Gov.uk website:

**December response**
https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-government-response-to-the-redmond-review

**May update.**
https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-spring-update

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| | |
|---|---|
| **Report to:** | **Audit and Governance Committee** |
| **Date:** | **28 July 2021** |
| **Title:** | **Treasury management annual report 2020/21** |
| **Report of:** | **Homira Javadi, Chief Finance Officer** |
| **Cabinet member:** | **Councillor Stephen Holt, Cabinet Member for Finance** |
| **Ward(s):** | **All** |
| **Purpose of report:** | **To report on the activities and performance of the Treasury Management service during 2020/21** |
| **Decision type:** | **Budget and Policy Framework** |
| **Officer recommendation(s):** | **The Committee is recommended to:**<br><br>**(1) Note the annual Treasury Management report for 2020/21**<br><br>**(2) Note the 2020/21 prudential and treasury indicators included.** |
| **Reasons for recommendations:** | **Requirement of CIPFA Treasury Management in the Public Sector Code of Practice (the Code) and this has to be reported to Full Council.** |
| **Contact Officer:** | **Name: Ola Owolabi**<br>**Post title: Deputy Chief Finance Officer**<br>**E-mail: ola.owolabi@lewes-eastbourne.gov.uk**<br>**Telephone number: 01323 415083** |

## 1 Introduction

1.1 This Council is required through regulations issued under the Local Government Act 2003 to produce an annual treasury report reviewing treasury management activities and the actual prudential and treasury indicators for 2020/21. 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 2020/21 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 5 February 2020)
- a mid-year (minimum) treasury briefing.
- an annual report following the year describing the activity compared to the strategy (this report).

1.3 In addition, Treasury Management updates are included in the quarterly performance management reports, considered by both the Cabinet and Scrutiny Committee. Recent changes in the regulatory environment place a much greater responsibility on Members for the review and scrutiny of treasury management policy and activities. This report is important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members. This report was considered by the Cabinet at its 14 July 2021 meeting.

1.4 This Council also confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit & Governance Committee before they were reported to the full Council. Member training on treasury management issues was undertaken on 16 November 2020, which is to support Members' scrutiny role and further training is expected to take place in 2021-22.

1.5 This report summarises:

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

1.6 Treasury Management is an integral part of the Council's overall finances and the performance of this area is very important. Whilst individual years obviously matter, performance is best viewed on a medium / long term basis. The action taken in respect of the debt portfolio in recent years has been extremely beneficial and has resulted in savings. Short term gains might, on occasions, be sacrificed for longer term certainty and stability.

1.7 The criteria for lending to Banks are derived from the list of approved counter parties provided by the Council's Treasury Management advisors, Link Asset Services. The list is amended to reduce the risk to the Council by removing the lowest rated counterparties and reducing the maximum loan duration.

1.8 The expectation for interest rates within the treasury management strategy for 2020/21 was that Bank Rate would continue at the start of the year at 0.75 % before rising to end 2022/23 at 1.25%. This forecast was invalidated by the Covid-19 pandemic which caused the Monetary Policy Committee to cut Bank Rate in March 2020, first to 0.25% and then to 0.10%, in order to counter the hugely negative impact of the national lockdown on large swathes of the economy.

1.9 While the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

1.10 The loan portfolio has produced a level of performance in the period in which performance figures have been calculated. Adding significant value in a period of extremely low interest rates is very difficult. Ironically a period in which there begins to be differentiation in expectations for both the pace and extent of future base rate rises will make the cash sums that can be gained larger, whilst also giving a higher level of risk that the decisions taken might retrospectively prove to be suboptimal. Given that interest rates are unlikely to rise for the next two years, low levels of returns are likely to continue and the cost of getting investment decisions wrong is unlikely to be significant.

**EBC Capitalisation Direction**

1.11 Similar to other local authorities, EBC took the opportunity to hold discussions with MHCLG about seeking permission for a Capitalisation Directive to help in dealing with 2020/21 deficit and balance the budget in 2021/22. Other councils that have been harder hit by Covid-19 have also requested support using this means across both years.

1.12 A capitalisation directive permits a Council to capitalise revenue expenditure if it is unable to set a balanced budget, has considered all other options, has limited reserves, and is increasing its Council Tax by the maximum permitted. The direction will only be granted in exceptional circumstances, and only the Secretary of State can permit this action legally

1.13 Following the Council seeking further support, on 2nd February 2021, the Minister of State for Regional Growth and Local Government in a letter addressed to the Leader of the Council, states that:

- With respect to the financial year of 2020/21, the Secretary of State is content to approve a total capitalisation direction to fund revenue expenditure not exceeding £6.8m, subject to conditions set out in the capitalisation direction.
- With respect to the financial year of 2021/22, the Secretary of State is minded to approve a capitalisation direction of a total not exceeding £6m. Again, such a direction may be subject to conditions, which would be set out in the capitalisation direction.

1.14 This report has been updated with the capitalisation of £3.55m of spend, attributable to the Capitalisation Directive permitted by the Ministry of Housing, Communities and Local Government (MHCLG), which allows the Council to capitalise the financial impact of the Covid-19 pandemic. This figure is yet to be audited by the MHCLG reviewer and any revisions to this amount will be reported at the future Committee meeting. The capitalisation direction impacts the Council's Capital Expenditure and Financing 2020/21 (see para 2.2 below).

## 2 The Council's Capital Expenditure and Financing 2020/21

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

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or

- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

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

| | **2019/20 Actual £m** | **2020/21 Original Estimate £m** | **2020/21 Revised Estimate £m** | **2020/21 Actual £m** |
|---|---|---|---|---|
| General Fund | 14.3 | 18.3 | 4.6 | 5.1 |
| Capitalisation Direction | - | - | 6.8 | 3.6 |
| HRA capital expenditure | 4.5 | 12.7 | 12.0 | 3.6 |
| Commercial Activities/nonfinancial investments | 15.0 | 9.6 | 15.3 | 3.8 |
| **Total capital expenditure** | **33.8** | **40.7** | **38.7** | **16.0** |
| Resourced by: | | | | |
| • Capital receipts (including capitalisation direction funding) | 3.6 | 2.3 | 15.9 | 4.1 |
| • Capital grants/external funding | 2.6 | 1.6 | 3.9 | 2.7 |
| • Capital Reserves | 4.2 | 6.3 | 8.3 | 2.7 |
| • Revenue | 0.5 | 3.7 | 1.8 | - |
| **Use of internal balances/ borrowing** | **23.4** | **26.9** | **8.8** | **6.5** |

## 3 The Council's overall borrowing need

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

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

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

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

3.4 The Council's 2020/21 MRP Policy (as required by CLG Guidance) was approved as part of the Treasury Management Strategy Report for 2020/21 on 5 February 2020. The Council's CFR for the year is shown below and represents a key prudential indicator. The figures include a credit sales agreement on the balance sheet, which increases the Council's borrowing need, the CFR.

| **CFR** | **31 March 2020 Actual £m** | **1 April 2020 Original Estimate £m** | **31 March 2021 Actual £m** |
|---|---|---|---|
| Opening balance | 149.9 | 177.0 | 172.8 |
| Add unfinanced capital expenditure (per table 2.0) | 23.4 | 26.9 | 6.5 |
| Less MRP | (0.5) | (1.2) | (1.0) |
| Closing balance | **172.8** | **202.7** | **178.3** |
| | | | |

3.5 Under the annuity methodology, MRP will be lower in the early years and increases over time. This is considered a prudent approach as it reflects the time value of money (i.e. the impact of inflation) as well as providing a charge that is better matched to how the benefits of the asset financed by borrowing are consumed over its useful life. That is, a method that reflects the fact that asset deterioration is slower in the early years of an asset and accelerates towards the latter years.

3.6 In the case of all capital spend financed by Prudential Borrowing; this will be subject to MRP under option 3: Asset life method – equal instalments charged over the estimated life of the asset. MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction), i.e., where expenditure is capitalised, the Authority shall charge annual Minimum Revenue Provision using the asset life method with a proxy 'asset life' of no more than 20 years.

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

**Net borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term, the Council's external borrowing net of investments, must only be for a capital purpose. This essentially means that the Council is not borrowing to support revenue expenditure. Net borrowing should not therefore, except in the short term, have exceeded the CFR for 2019/20 plus the expected changes to the CFR over 2020/21 and 2021/22. This indicator allows the Council some flexibility to borrow in advance of its immediate capital need in 2020/21. The table below highlights the Council's net borrowing position against the CFR. The Council has complied with this prudential indicator.

| | **31 March 2020 Actual £m** | **1 April 2020 Original Estimate £m** | **31 March 2021 Actual £m** |
|---|---|---|---|
| GF - Borrowing | 69.2 | 72.6 | 56.4 |
| HRA - Borrowing | 42.6 | 43.6 | 47.8 |
| Commercial Activities | 50.4 | 62.0 | 55.2 |
| **Net borrowing position** | **162.2** | **178.2** | **159.4** |
| CFR – General Fund | 79.8 | 97.1 | 75.3 |
| CFR - housing | 42.6 | 43.6 | 47.8 |
| Commercial Activities/non-financial investments | 50.4 | 62.0 | 55.2 |
| **CFR** | **172.8** | **202.7** | **178.3** |

3.8 **The Authorised limit** - the Authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. The table below demonstrates that during 2020/21 the Council has maintained gross borrowing within its Authorised limit.

**The operational boundary** – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the Authorised limit not being breached.

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

| **Descriptions** | **2020/21** |
|---|---|
| Authorised limit | £225.4m |
| Operational boundary | £210.4m |
| Financing costs as a proportion of net revenue stream: | |
| Non HRA | 11.8% |
| HRA | 11.1% |

## 4 Treasury Position as at 31 March 2021

4.1 The Council's debt and investment position is organised by staff within Financial Services in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities.

4.2 Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices. At the beginning and the end of 2020/21, the Council's treasury position was as follows:

| Description | 31 March 2020 Principal | Rate/ Return | 31 March 2021 Principal | Rate/ Return |
|---|---|---|---|---|
| Fixed rate funding: | | | | |
| -PWLB | £125.7m | | £122.4m | |
| -Market | £36.5m | | £37.0m | |
| **Total debt** | **£162.2m** | **2.52%** | **£159.4m** | **2.10%** |
| | | | | |
| CFR | £172.8m | | £178.3m | |
| Over/ (under) borrowing | (£10.6m) | | (£18.9m) | |
| **Total investments (excl. cash)** | | **£0m** | **£0m** | |

The Council held cash balances of £4.1m in current and call accounts which earned an average of 0.07%.

4.3 The maturity structure of the debt portfolio was as follows:

| | 31 March 2020 Actual £m | 1 April 2020 Original limits £m | 31 March 2021 Actual £m |
|---|---|---|---|
| Under 12 months | 37.71 | 20.0 | 40.21 |
| 12 months and within 24 Mths. | 5.21 | 4.0 | 5.45 |
| 24 months and within 5 years | 10.74 | 22.0 | 8.12 |
| 5 years and within 10 years | 13.98 | 2.1 | 13.60 |
| 10 years and above | 94.52 | 103.2 | 92.07 |

The exposure to fixed and variable rates was as follows:

| | 31 March 2020 | 1 April 2020 | 31 March 2021 |
|---|---|---|---|

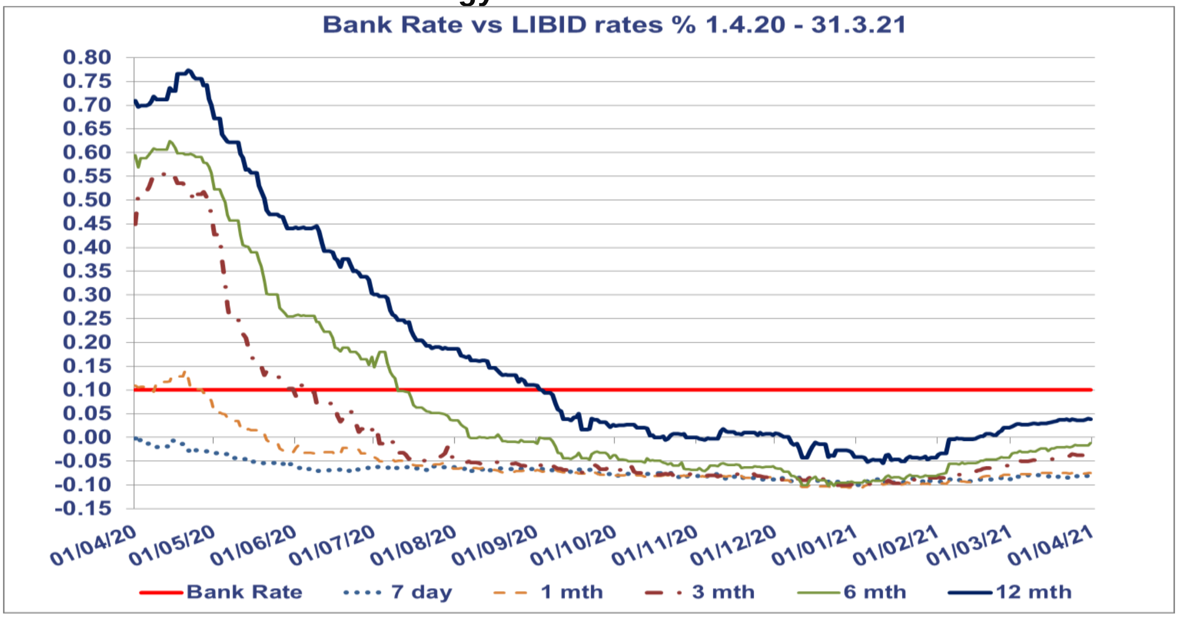
| | Actual £m | Original limits £m | Actual £m |
|---|---|---|---|
| Principal - Debt Fixed rate | 162.1 | 151.3 | 159.4 |
| Principal – Investments Variable rate | 0 | N/a | 0 |

## 5 The Strategy for 2020/21

5.1 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.

5.2 Investment returns which had been low during 2019/20, plunged during 2020/21 to near zero or even into negative territory. Most local authority lending managed to avoid negative rates and one feature of the year was the growth of inter local authority lending.

**Investment strategy and control of interest rate risk**




| | Bank Rate | 7 day | 1 mth | 3 mth | 6 mth | 12 mth |
|---|---|---|---|---|---|---|
| **High** | 0.10 | 0.00 | 0.14 | 0.56 | 0.62 | 0.77 |
| **High Date** | 01/04/2020 | 02/04/2020 | 20/04/2020 | 08/04/2020 | 14/04/2020 | 21/04/2020 |
| **Low** | 0.10 | -0.10 | -0.11 | -0.10 | -0.10 | -0.05 |
| **Low Date** | 01/04/2020 | 31/12/2020 | 29/12/2020 | 23/12/2020 | 21/12/2020 | 11/01/2021 |
| **Average** | 0.10 | -0.07 | -0.05 | 0.01 | 0.07 | 0.17 |
| **Spread** | 0.00 | 0.10 | 0.25 | 0.66 | 0.73 | 0.83 |

5.3 The Bank of England and the Government also introduced new programmes of supplying the banking system and the economy with massive amounts of cheap credit so that banks could help cash-starved businesses to survive the lockdown. The Government also supplied huge amounts of finance to local authorities to pass on to businesses. This meant that for most of the year there was much more liquidity in financial markets than there was demand to borrow, with the consequent effect that investment earnings rates plummeted.

5.4 The Council does not have sufficient cash balances to be able to place deposits for more than a month so as to earn higher rates from longer deposits. While the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

5.5 Investment balances have been kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing, rather than borrowing externally from the financial markets. External borrowing would have incurred an additional cost, due to the differential between borrowing and investment rates as illustrated in the charts shown below. Such an approach has also provided benefits in terms of reducing the counterparty risk exposure, by having fewer investments placed in the financial markets.

5.6 During 2020/21, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were low and minimising counterparty risk on placing investments also needed to be considered.

5.7 A cost of carry remained during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost – the difference between (higher) borrowing costs and (lower) investment returns.
The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this was kept under review to avoid incurring higher borrowing costs in the future when this Council may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

5.8 Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Chief Finance Officer, therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks. If it had been felt that there was a significant risk of a sharp FALL in long and short term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings would have been postponed, and potential rescheduling from fixed rate funding into short term borrowing would have been considered.

5.9 Interest rate forecasts expected only gradual rises in medium- and longer-term fixed borrowing rates during 2020/21 and the two subsequent financial years.

Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period. In this scenario, the treasury strategy was to postpone borrowing to avoid the cost of holding higher levels of investments and to reduce counterparty risk.

**Coronavirus Impact**

5.10 The full extent of the impact from Coronavirus continue to be accessed and analysed. However, the immediate risk to the financial markets coupled with additional burdens on Council spending and uncertainty over funding have increased the need to manage larger cash balances. 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.

5.11 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 Borrowing Outturn for 2020/21

6.1 **Treasury Borrowing**.

**Borrowing** – The Council has not borrowed more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed. No new loans were drawn down from PWLB in 2020/21 to fund the net unfinanced capital expenditure and/or to replace maturing loans. Interest rates for PWLB borrowing was between 1.59% and 2.21% compared with a budget assumption of 2.4%. Various temporary loans were taken to cover cash flow requirements. All loans drawn were for fixed rate and are detailed in Appendix A.

6.2 In taking this decision, the Council carefully considered achieving best value, the risk of having to borrow at higher rates at a later date, the carrying cost of the difference between interest paid on such debt and interest received from investing funds which would be surplus until used, and that the Council could ensure the security of such funds placed on temporary investment.

- **Rescheduling** – no debt rescheduling was carried out during the year as there was no financial benefit to the Council.
- **Repayment** – £760k of long term PWLB debt was repaid at maturity on 24 March 2021 and £2.5m was an instalment repayment for the repayment (EIP) loans. Various temporary loans were repaid during the year, see Appendix A.
- **Summary of debt transactions** – the overall position of the debt activity resulted in a fall in the average interest rate by 0.2%, representing a saving to the General Fund.

## 7 Interest Rates in 2020/21

7.1 The tight monetary conditions following the financial crisis continued through 2020/21 with little material movement in the shorter-term deposit rates. With many financial institutions failing to meet the Council's investment criteria, the opportunities for investment returns were limited. The PWLB rates (including the 0.2% reduction for Certainty Rate) at the beginning, average and end of the year are provided below.

| Term | Interest Rate March 2020 | Average Rate | Interest rate April 2021 |
|---|---|---|---|
| 1 Year | 1.90% | 1.42% | 0.79% |
| 5 Years | 1.95% | 1.50% | 1.19% |
| 10 Years | 2.14% | 1.81% | 1.70% |
| 25 Years | 2.58% | 2.32% | 2.19% |
| 50 Years | 2.39% | 2.13% | 1.99% |

**8 <u>Investment Outturn for 2020/21</u>**

8.1 **Investment Policy** – the Council's investment policy is governed by MHCLG guidance, which was been implemented in the annual investment strategy approved by the Council on 5 February 2020. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

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

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

| Balance Sheet Resources | 31 March 2020 £m | 31 March 2021 £m |
|---|---:|---:|
| Balances | 2.03 | 2.00 |
| Earmarked reserves | 6.86 | 7.13 |
| HRA | 5.88 | 5.88 |
| Major Repairs Reserve | 1.15 | 2.98 |
| Capital Grants & Contributions | 1.95 | 1.44 |
| Usable capital receipts | 6.26 | 4.54 |
| Total | **24.13** | **23.97** |

8.4 **Investments held by the Council** - the Council maintained an average balance of £7.0m of internally managed funds. The internally managed funds earned an average rate of return of 0.07%. The comparable performance indicator is the average 7-day LIBID rate, which was (0.07%).

## 9 The Economy and Interest Rates Forecast

9.1 The Council's treasury advisor, Link, provides the following forecast as at March 2021:

| Link Asset Services Interest Rate View | Mar-20 | Jun-20 | Sep-20 | Dec-20 | Mar-21 | Jun-21 | Sep-21 | Dec-21 | Mar-22 | Jun-22 | Sep-22 | Dec-22 | Mar-23 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Bank Rate View | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 1.00 | 1.00 | 1.00 | 1.00 | 1.25 | 1.25 | 1.25 | 1.25 |
| 3 Month LIBID | 0.70 | 0.70 | 0.80 | 0.80 | 0.90 | 1.00 | 1.00 | 1.10 | 1.20 | 1.30 | 1.30 | 1.30 | 1.30 |
| 6 Month LIBID | 0.80 | 0.80 | 0.90 | 1.00 | 1.00 | 1.10 | 1.20 | 1.30 | 1.40 | 1.50 | 1.50 | 1.50 | 1.50 |
| 12 Month LIBID | 0.90 | 0.90 | 1.00 | 1.10 | 1.20 | 1.30 | 1.40 | 1.50 | 1.60 | 1.70 | 1.70 | 1.70 | 1.70 |
| 5yr PWLB Rate | 2.30 | 2.30 | 2.40 | 2.40 | 2.50 | 2.60 | 2.70 | 2.80 | 2.90 | 2.90 | 3.00 | 3.00 | 3.10 |
| 10yr PWLB Rate | 2.50 | 2.50 | 2.60 | 2.60 | 2.70 | 2.80 | 2.90 | 3.00 | 3.10 | 3.10 | 3.20 | 3.20 | 3.30 |
| 25yr PWLB Rate | 3.00 | 3.00 | 3.10 | 3.20 | 3.30 | 3.40 | 3.50 | 3.60 | 3.70 | 3.80 | 3.80 | 3.90 | 3.90 |
| 50yr PWLB Rate | 2.90 | 2.90 | 3.00 | 3.10 | 3.20 | 3.30 | 3.40 | 3.50 | 3.60 | 3.70 | 3.70 | 3.80 | 3.80 |

*The Economy and Interest Rates Forecast is attached as Appendix B.*

9.2 At the close of the day on 31 March 2021, all gilt yields from 1 to 5 years were between 0.19 – 0.58% while the 10-year and 25-year yields were at 1.11% and 1.59%. HM Treasury imposed two changes of margins over gilt yields for PWLB rates in 2019/20 without any prior warning. The first took place on 9th October 2019, adding an additional 1% margin over gilts to all PWLB period rates. That increase was then, at least partially, reversed for some forms of borrowing on 11th March 2020, but not for mainstream non-HRA capital schemes. A consultation was then held with local authorities and on 25 November 2020, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates; the standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three year capital programme.

## 10 Executive Summary and Conclusion

10.1 During 2020/21, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

| **Actual prudential and treasury indicators** | **2019/20 Actual £m** | **2020/21 Original Estimate £m** | **2020/21 Actual £m** |
|---|---|---|---|
| Capital expenditure | 33.8 | 40.7 | 16.0 |
| Total Capital Financing Requirement: | | | |
| • General Fund | 79.8 | 97.1 | 75.3 |
| • HRA | 42.6 | 43.6 | 47.8 |
| • Commercial Activities | 50.4 | 62.0 | 55.2 |
| • Total | 172.8 | 202.7 | 178.3 |
| Net borrowing | 162.2 | | 159.4 |
| External debt | 162.2 | | 159.4 |
| Investments (all under 1 year) | - | | - |
| | | | |

10.2 Other prudential and treasury indicators are to be found in the main body of this report. The Chief Finance Officer also confirms that borrowing was only undertaken for a capital purpose and the statutory borrowing limit (the Authorised limit), was not breached. The financial year 2020/21 continued the challenging environment of previous years; low investment returns, and continuing counterparty risk continued.

**11 Other**

11.1 CIPFA consultations: In February 2021 CIPFA launched two consultations on changes to its Prudential Code and Treasury Management Code of Practice. These follow the Public Accounts Committee's recommendation that the prudential framework should be further tightened following continued borrowing by some authorities for investment purposes. These are principles-based consultations and will be followed by more specific proposals later in the year.

11.2 In the Prudential Code the key area being addressed is the statement that "local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed". Other proposed changes include the sustainability of capital expenditure in accordance with an authority's corporate objectives, i.e., recognising climate, diversity and innovation, commercial investment being proportionate to budgets, expanding the capital strategy section on commercial activities, replacing the "gross debt and the CFR" with the liability benchmark as a graphical prudential indicator.

11.3 Proposed changes to the Treasury Management Code include requiring job specifications and "knowledge and skills" schedules for treasury management roles to be included in the Treasury Management Practices document and formally reviewed, a specific treasury management committee for MiFID II professional clients and a new TMP 13 on Environmental, Social and Governance Risk Management.

11.4 **IFRS 16:** The implementation of the new IFRS 16 Leases accounting standard has been delayed for a further year until 2022/23.

## 12 Corporate plan and council policies

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

## 13 Financial appraisal

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

## 14 Legal implications

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

## 15 Risk management implications

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

## 16 Equality analysis

16.1 Equality issues are considered

## 17 Appendices

17.1
- Appendix A – Temporary loans taken during 2020/21.
- Appendix B - The Economy and Interest Rates

## 18 Background papers

The Background Papers used in compiling this report were as follows:
CIPFA Treasury Management in the Public Services code of Practice (the Code)
Cross-sectorial Guidance Notes
CIPFA Prudential Code
Treasury Management Strategy and Treasury Management Practices.
Link Asset Services Citywatch and interest rate forecasts

**Appendix A**

**Temporary loans taken during 2020/21**

| Lender - Temp Debt | £m | Start Date | End Date | Rate |
|---|---|---|---|---|
| POLICE AND CRIME COMMISSIONERS OF GWENT - GWENT | 5.0 | 29-Jun-20 | 30-Oct-20 | 0.14% |
| Sevenoaks District Council | 3.0 | 21-May-20 | 23-Nov-20 | 0.55% |
| North Yorkshire County Council | 5.0 | 21-May-20 | 23-Nov-20 | 0..55% |
| Police and Commissioner for Northumbria | 10.0 | 07-Jul-20 | 07-Jan-21 | 0.70% |
| North Yorkshire County Council | 5.0 | 23-Nov-20 | 22-Nov-21 | 0.25% |
| North Yorkshire County Council | 5.0 | 24-Nov-20 | 23-Nov-21 | 0.25% |
| Tendring District Council | 3.0 | 30-Oct-20 | 30-Jul-21 | 0.20% |
| Hertfordshire County Council | 7.0 | 23-Nov-20 | 24-May-21 | 0.10% |
| Gwynedd Council | 5.0 | 10-Feb-21 | 10-May-21 | 0.03% |
| Wokingham Borough Council | 10.0 | 15-Mar-21 | 15-Sep-21 | 0.12% |

**Long Term Loans taken during 2020/21**

| Lender - Long Term Debt | £m | Start Date | End Date | Rate |
|---|---|---|---|---|

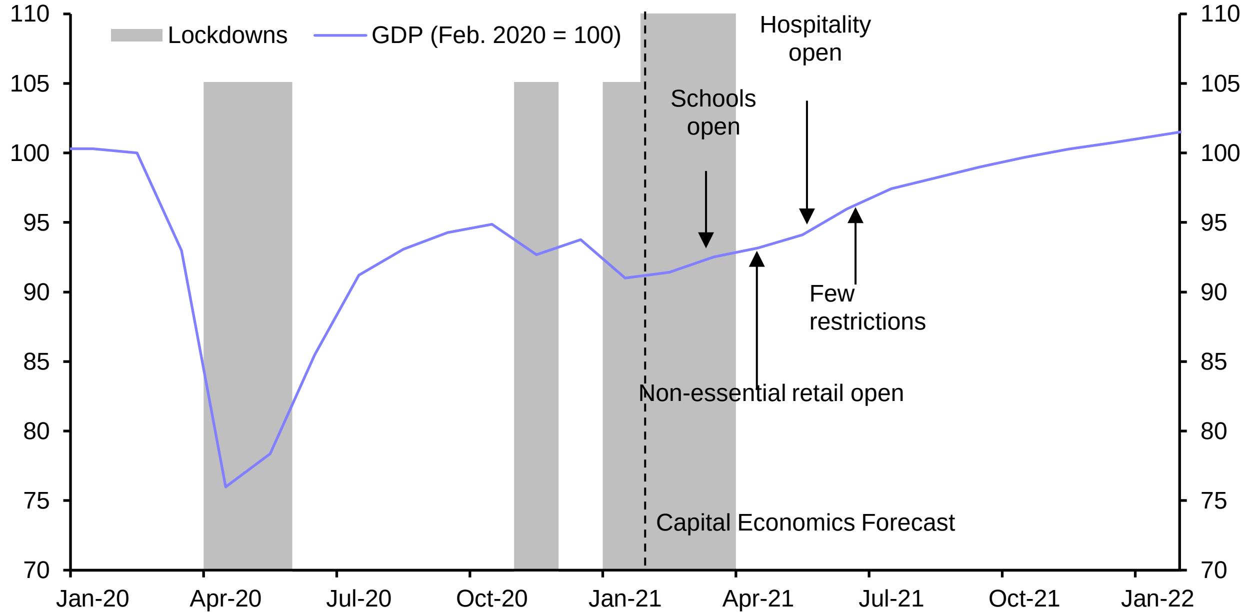
Maturity loans – repayment is due in full at maturity.
EIP loans – loans are repaid over the term of the loan in equal instalments paid half yearly.

The long-term borrowing interest rates vary between 1.59% and 2.21% compared with a budget assumption of borrowing at an interest rate of 2.4%.

**Appendix B**

**The Economy and Interest Rates by Link Treasury Services Limited**

**UK. Coronavirus.** The financial year 2020/21 will go down in history as being the year of the pandemic. The first national lockdown in late March 2020 did huge damage to an economy that was unprepared for such an eventuality. This caused an economic downturn that exceeded the one caused by the financial crisis of 2008/09. A short second lockdown in November did relatively little damage but by the time of the third lockdown in January 2021, businesses and individuals had become more resilient in adapting to working in new ways during a three month lockdown so much less damage than was caused than in the first one. The advent of vaccines starting in November 2020, were a game changer. The way in which the UK and US have led the world in implementing a fast programme of vaccination which promises to lead to a return to something approaching normal life during the second half of 2021, has been instrumental in speeding economic recovery and the reopening of the economy. In addition, the household saving rate has been exceptionally high since the first lockdown in March 2020 and so there is plenty of pent-up demand and purchasing power stored up for services in the still-depressed sectors like restaurants, travel and hotels as soon as they reopen. It is therefore expected that the UK economy could recover its pre-pandemic level of economic activity during quarter 1 of 2022.




Both the Government and the Bank of England took rapid action in March 2020 at the height of the crisis to provide support to financial markets to ensure their proper functioning, and to support the economy and to protect jobs.

The Monetary Policy Committee cut Bank Rate from 0.75% to 0.25% and then to 0.10% in March 2020 and embarked on a £200bn programme of quantitative easing QE (purchase of gilts so as to reduce borrowing costs throughout the economy by lowering gilt yields). The

MPC increased then QE by £100bn in June and by £150bn in November to a total of £895bn. While Bank Rate remained unchanged for the rest of the year, financial markets were concerned that the MPC could cut Bank Rate to a negative rate; this was firmly discounted at the February 2021 MPC meeting when it was established that commercial banks would be unable to implement negative rates for at least six months – by which time the economy was expected to be making a strong recovery and negative rates would no longer be needed.

Average inflation targeting. This was the major change adopted by the Bank of England in terms of implementing its inflation target of 2%. The key addition to the Bank's forward guidance in August was a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably". That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years' time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate. This sets a high bar for raising Bank Rate and no increase is expected by March 2024, and possibly for as long as five years. Inflation has been well under 2% during 2020/21; it is expected to briefly peak at just over 2% towards the end of 2021, but this is a temporary short-lived factor and so not a concern to the MPC.

**Government support.** The Chancellor has implemented repeated rounds of support to businesses by way of cheap loans and other measures and has protected jobs by paying for workers to be placed on furlough. This support has come at a huge cost in terms of the Government's budget deficit ballooning in 20/21 and 21/22 so that the Debt to GDP ratio reaches around 100%. The Budget on 3rd March 2021 increased fiscal support to the economy and employment during 2021 and 2022 followed by substantial tax rises in the following three years to help to pay the cost for the pandemic. This will help further to strengthen the economic recovery from the pandemic and to return the government's finances to a balanced budget on a current expenditure and income basis in 2025/26. This will stop the Debt to GDP ratio rising further from 100%. An area of concern, though, is that the government's debt is now twice as sensitive to interest rate rises as before the pandemic due to QE operations substituting fixed long-term debt for floating rate debt; there is, therefore, much incentive for the Government to promote Bank Rate staying low e.g. by using fiscal policy in conjunction with the monetary policy action by the Bank of England to keep inflation from rising too high, and / or by amending the Bank's policy mandate to allow for a higher target for inflation.

**BREXIT.** The final agreement on 24th December 2020 eliminated a significant downside risk for the UK economy. The initial agreement only covered trade so there is further work to be done on the services sector where temporary equivalence has been granted in both directions between the UK and EU; that now needs to be formalised on a permanent basis. There was much disruption to trade in January as form filling has proved to be a formidable barrier to trade. This appears to have eased somewhat since then but is an area that needs further work to ease difficulties, which are still acute in some areas.

**EU.** Both the roll out and take up of vaccines has been disappointingly slow in the EU in 2021, at a time when many countries are experiencing a sharp rise in cases which are threatening to overwhelm hospitals in some major countries; this has led to renewed severe restrictions or lockdowns during March. This will inevitably put back economic recovery after the economy had staged a rapid rebound from the first lockdowns in Q3 of 2020 but

contracted slightly in Q4 to end 2020 only 4.9% below its pre-pandemic level. Recovery will now be delayed until Q3 of 2021 and a return to pre-pandemic levels is expected in the second half of 2022.
Inflation was well under 2% during 2020/21. The ECB did not cut its main rate of -0.5% further into negative territory during 2020/21. It embarked on a major expansion of its QE operations (PEPP) in March 2020 and added further to that in its December 2020 meeting when it also greatly expanded its programme of providing cheap loans to banks. The total PEPP scheme of €1,850bn is providing protection to the sovereign bond yields of weaker countries like Italy. There is, therefore, unlikely to be a euro crisis while the ECB is able to maintain this level of support.

**World growth.** World growth was in recession in 2020. Inflation is unlikely to be a problem in most countries for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.

**Central banks' monetary policy.** During the pandemic, the governments of western countries have provided massive fiscal support to their economies which has resulted in a big increase in total government debt in each country. It is therefore very important that bond yields stay low while debt to GDP ratios slowly subside under the impact of economic growth. This provides governments with a good reason to amend the mandates given to central banks to allow higher average levels of inflation than we have generally seen over the last couple of decades. Both the Fed and Bank of England have already changed their policy towards implementing their existing mandates on inflation, (and full employment), to hitting an average level of inflation. Greater emphasis could also be placed on hitting subsidiary targets e.g. full employment before raising rates. Higher average rates of inflation would also help to erode the real value of government debt more quickly.

| | |
|---|---|
| **Report to:** | **Audit and Governance Committee** |
| **Date:** | **28th July 2021** |
| **Title:** | **Annual Governance Statement** |
| **Report of:** | **Chief Internal Auditor** |
| **Ward(s):** | **All** |
| **Purpose of report:** | **To seek Councillors' approval of the Annual Governance Statement.** |
| **Officer recommendation(s):** | **To comment on and approve the draft Annual Governance Statement for 2020-21**<br><br>**To consider and approve the addendum to the Annual Governance Statements for 2018-19 and 2019-20** |
| **Reasons for recommendations:** | **To meet the Council's legal requirement to produce an Annual Governance Statement.** |
| **Contact Officer(s):** | **Name: Jackie Humphrey**<br>**Post title: Chief Internal Auditor**<br>**E-mail: Jackie.humphrey@lewes-eastbourne.gov.uk**<br>**Telephone number: 01323 415925** |

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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 Governance 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 effected 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 This year, extra questions were asked in the Managers' Assurance Statements. These were in respect of the effect of the response to the Covid-19 pandemic. These questioned related to:

- impact on governance arrangements
- suspended / weakened controls or work-arounds
- cessation / scaling back of business as usual causing gaps in governance arrangements
- other issues impacting on governance arrangements
- challenges caused by changes to working which will continue after the pandemic

2.8 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.

3.4 It is important that the Annual Governance Statement is accessible but this has to be balanced by a need to ensure that all relevant information is included. The Annual Governance Statement has therefore been reviewed and much of the information put into a table format to make it easier to find information. Wherever possible, hyperlinks or URLs have been included to link to relevant information. A table has also been added which covers companies and gives details of the council's relationship with these bodies.

## 4 The 2020-2021 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. As stated at 2.7, this year extra questions were added in respect of the effects of the response to the Covid-19 pandemic. Once completed the responses received are used to inform the governance statement.

4.2 A review of the returned statements highlighted two issues which were raised by several respondents.

- Financial pressures – a few statements raised concerns about the financial pressures caused by depleted income owing to the council's response to Covid-19.

- Adapted controls – some concerns were raised in a few statements around the issues of controls which were adapted to facilitate the council's response to the Covid-19 pandemic.

4.3 Issues Considered by Corporate Management Team

At a meeting of the Corporate Management Team several issues were considered for inclusion in the Annual Governance Statement.

The following were considered to be issues to just be mentioned in the body of the Annual Governance Statement.

- Financial pressures – it is acknowledged that the council has been seriously affected by the depletion of income caused by the response to the Covid-19 pandemic. It is considered that this is not currently a significant governance issue as the council has been, and continues to be, in discussion with the Ministry of Housing, Communities and Local Government. The council has also developed plans to identify and deliver savings.

- Adapted controls – some controls needed to be adapted to allow the council to continue working in new ways as a response to the Covid-19 pandemic. Early on Internal Audit contacted all managers to offer help and advice on adapting controls and managers identified and monitored these without using sight of the need for the control. This issue is therefore not considered to be a significant governance issue.

- Document retention – document retention is still considered an issue. However, a project is ongoing to identify paper documents and arrange necessary destruction and storage. Work has also commenced to delete information held electronically. However, there is still work to be undertaken to fully identify all the electronically held documentation. The Corporate Management Team considered that, with the ongoing work, this is not considered a significant governance issue.

4.4 Consideration was also given to the Housing software which has been noted as a significant governance issue for the past two years. It is recognised that significant progress has been made to resolve these issues. However, some of the problems caused by the issues are still working their way through processes and systems. Although the originating issue has been resolved, the problem caused still affected work in the financial year 2020-21. As this Annual Governance Statement covers 2020-21 it was agreed that the Housing software system should again be shown as a significant governance issue.

4.5 The committee is requested to consider the attached draft Annual Governance Statement (Appendix 4). Once agreed by the committee the Annual Governance Statement will be passed to the Leader of the Council and the Chief Executive to sign off and it will then be published on the council's website.

## 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 Annual Governance Statements for 2018-19 and 2019-20

6.1 As stated at 3.4 the Annual Governance Statement for 2020-21 has a new section added which lists the companies wholly owned by the council or in which the council has an interest. The council's external auditors, Deloitte, has recently stated that the Annual Governance Statements for 2018-19 and 2019-20 should both have included information on the company "Investment Company Eastbourne (ICE) Limited".

6.2 As both of these Annual Governance Statements were completed at the end of the relevant financial years and were agreed by the Audit and Governance Committee, it is not proposed to rewrite the whole statement. Therefore an addendum has been drafted which includes the list of companies and further information on ICE. This addendum can be found at Appendix 5 and the committee is requested to review and approve the addendum for publishing alongside the 2018-19 and 2019-20 Annual Governance Statements on the council's website.

## 7 Financial appraisal

7.1 There are no financial implications arising from this report.

## 8 Legal implications

8.1 This report is for noting only and therefore the Legal Services team has not been consulted on the content of it.

## 9 Risk management implications

9.1 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.

## 10 Equality analysis

10.1 A detailed Equality analysis is not required for this report.

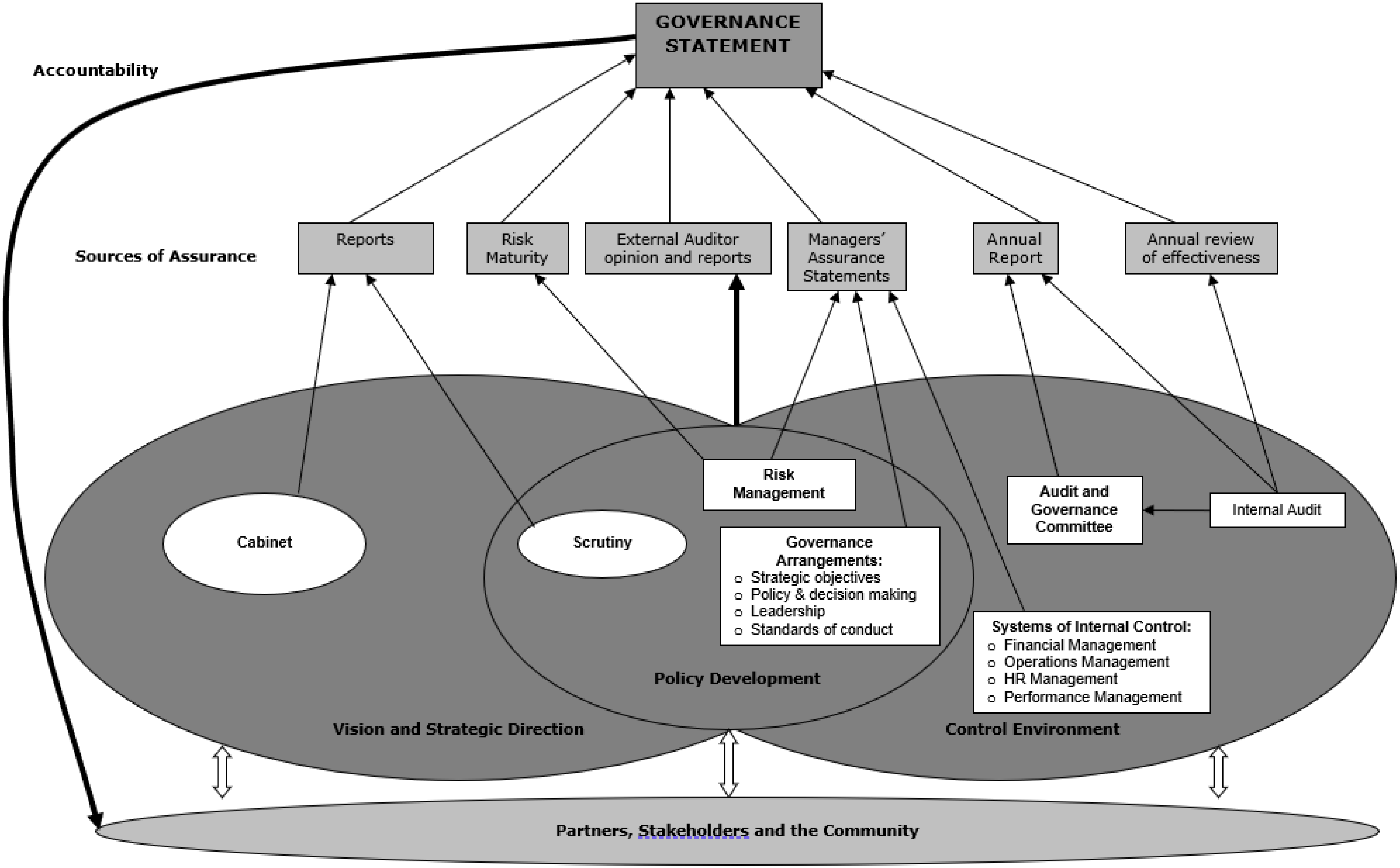
## 11 Appendices

- Appendix 1 – Governance Framework
- Appendix 2 – Annual Governance Statement Timetable
- Appendix 3 – Managers' Assurance Statement
- Appendix 4 – Annual Governance Statement
- Appendix 5 – Addendum to 2018-19 and 2019-20 Annual Governance Statements

## 12 Background papers

12.1 Internal Audit Report for the financial year 2020-2021.

Annual Governance Statement – Appendix 1



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## ANNUAL GOVERNANCE STATEMENT TIMETABLE

| Deadline | Responsibility | Action |
|---|---|---|
| Throughout year | | 1/4ly updates of the Strategic Risk Register |
| | Chief Internal Auditor | Internal Audit reports |
| | External Auditor | 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 |
| July | Chief Internal Auditor | Internal Audit Annual report presented to Audit Committee |
| | Chief Internal Auditor | Internal Audit Annual report presented to Audit Committee |
| | Chief Finance Officer, Leader and Chief Executive | Annual Governance Statement signed by Leader and Chief Executive |
| | Audit Committee | Annual Governance Statement published |

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

| **Governance Responsibility** | **Demonstrated by:** |
|---|---|
| Services are planned and managed to implement the priorities of Eastbourne Borough Council. | • Service plan aligned to the Council's priorities<br><br>• Plans in place to monitor the quality of service to users and seek continuous improvements<br><br>• Making best use of resources to ensure excellent service and value for money is achieved<br><br>• Dealing effectively with any failures in service delivery. |
| There are good working relationships with Members and officers responsibilities are clearly defined. | • Statutory Officers have clearly defined scope and status to fulfil their roles<br><br>• Delegated powers are clearly defined and understood<br><br>• Member/officer protocol operates effectively in practice<br><br>• Partnership governance arrangements are clearly defined and appropriate |
| The values of good governance are demonstrated and high standards of conduct and behaviour. | • Effective communication to all staff of the code of conduct, standing orders, Financial Procedure Rules, Contract Procedure Rules and Anti Fraud and Corruption Policy<br><br>• Effective performance management of staff and regular appraisals<br><br>• The Council's values are understood and promoted |
| Management decision making and advice to Members are well founded and involve consideration of professional advice and identified risks. | • Effective arrangements to ensure data quality (complete, accurate, timely and secure)<br><br>• The internal control framework operates effectively<br><br>• Professional advice is obtained where appropriate and is recorded<br><br>• Risk management operates effectively in strategic, project and operational areas<br><br>• Decisions made are in accordance with delegated powers and the Council's constitution |

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

| | |
|---|---|
| | • Arrangements are in place to obtain assurance on the management of key risks |
| The capacity and capability of officers has been developed to ensure effective performance. | • Training and development of staff<br><br>• Workforce planning to ensure there are adequate staffing levels<br><br>• Statutory officers have sufficient resources to fulfil their role |
| Robust public accountability is ensured by engaging with local people and stakeholders | • Arrangements to communicate with relevant sections of the community<br><br>• Undertaking effective consultation with public and other stakeholders<br><br>• Consultation with staff and engagement in decision making is undertaken |
| Adequate processes have been put in place for the safeguarding of children and vulnerable adults. | |
| Adequate action has been taken to ensure compliance with the requirements of the Bribery Act. | • Proportionate procedures have been put in place to prevent bribery<br><br>• The risks of bribery have been assessed and added to the departmental risk register<br><br>• Procedures and risks are regularly monitored and reviewed. |
| Are you satisfied that documents are held and disposed of in accordance with data protection requirements and the Councils' Retention and Disposal Schedule? | |
| Has any external review been carried out in your department? | |
| Have you had reason for using/considering using surveillance which would fall under RIPA? | |
| Have you used or considered using covert/directed surveillance either under RIPA or outside it? | |
| Are you aware of any frauds over £10k that have not already been informed to the Internal Audit section. | |

# Eastbourne Borough Council

# Annual Governance Statement

## Responsibility

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

In discharging this overall responsibility, the council is required to put in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

## What is governance?

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

Eastbourne Borough Council has approved and adopted a Local Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE[1] Framework *Delivering Good Governance in Local Government*. A copy of the code is available on the website (www.lewes-eastbourne.gov.uk/access-to-information/financial-information/corporate-governance )

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

## The purpose of the governance framework

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

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

**The Governance Framework**

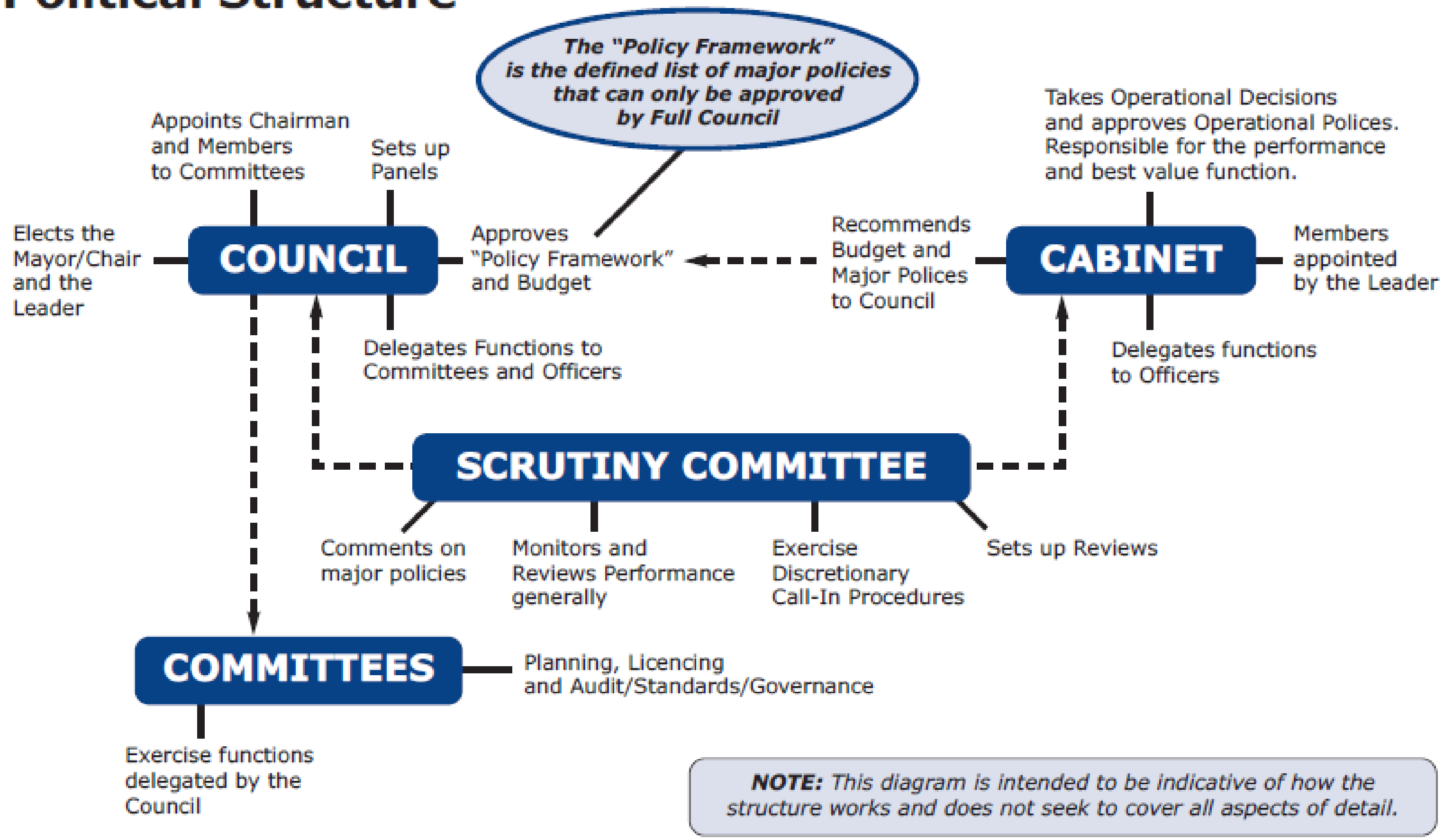
Key elements of the systems and processes that comprise the authority's governance arrangements are listed below with links to the council's website where relevant information can be found.

- Corporate plan (priority themes for four years) - https://www.lewes-eastbourne.gov.uk/about-the-councils/corporate-plans/
- Constitution (inc. statutory officers, scheme of delegation and financial procedure rules) - https://www.lewes-eastbourne.gov.uk/about-the-councils/constitutions/
- Council, Cabinet, Committees and Panels - https://democracy.lewes-eastbourne.gov.uk/mgListCommittees.aspx?CT=13215
- Corporate and service plans - https://www.lewes-eastbourne.gov.uk/about-the-councils/corporate-plans/
- Risk Management Policy
- Anti-Fraud and Anti-Corruption Policy (including Whistleblowing and Anti Bribery)
- Project Management methodology
- Medium Term Financial Strategy - https://www.lewes-eastbourne.gov.uk/access-to-information/financial-information/medium-term-financial-statement-and-annual-budget/
- Complaints procedure - https://www.lewes-eastbourne.gov.uk/about-the-councils/make-a-complaint/
- Head of Paid Service, Monitoring Officer and S. 151 Officer
- HR policies and procedures
- Staff and Member training
- Codes of conduct for staff and Members
- Corporate Management Team
- Internal Audit and Counter Fraud
- External sources

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

# How it Works...

## The Modernised Political Structure



**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 table below shows the areas where assurance is required and the sources of that assurance.

The governance framework has been in place at the council for the year ended 31 March 2021 and up to the date of approval of the Annual Accounts.

| GOVERNANCE FRAMEWORK | | |
|---|---|---|
| **ASSURANCE REQUIRED ON** | **SOURCES OF ASSURANCE** | **ASSURANCES RECEIVED** |
| Delivery of corporate priorities | • Corporate Plan<br>• Council, Cabinet, Committees and Panels<br>• Corporate and service plans<br>• Medium term financial strategy<br>• Corporate Management Team | • Weekly meetings of the Corporate Management Team<br>• Scrutiny Committee meetings<br>• Cabinet meetings |
| Economy, efficiency and effectiveness | • Council, Cabinet, Committees and Panels<br>• Corporate and service plans<br>• Medium term financial strategy<br>• Corporate Management team<br>• Internal Audit and Counter Fraud<br>• External sources | • Internal Audit reports and quarterly reports to Corporate Management Team and Audit and Governance committee<br>• Weekly meetings of the Corporate Management Team<br>• Quarterly meetings of the Audit and Governance Committee<br>• Scrutiny Committee meetings<br>• Cabinet meetings |
| Management of risk | • Council, Cabinet, Committees and Panels<br>• Corporate and service plans<br>• Risk management policy | • Internal Audit reports and quarterly reports to Corporate Management Team and Audit and Governance committee |

| | | |
|---|---|---|
| | • Anti-fraud and anti-corruption policy<br>• Complaints procedure<br>• Corporate Management Team<br>• Internal Audit and Counter Fraud<br>• External sources | • Weekly meetings of the Corporate Management Team<br>• Quarterly meetings of the Audit and Governance Committee<br>• Scrutiny Committee meetings<br>• Managers' Assurance Statements |
| Financial planning and performance | • Constitution (including the Financial Procedure Rules)<br>• Corporate and service plans<br>• Medium term financial strategy<br>• External sources | • Weekly meetings of the Corporate Management Team<br>• Quarterly meetings of the Audit and Governance Committee<br>• Scrutiny Committee meetings<br>• Cabinet meetings<br>• External Auditor's Annual Audit Letter |
| Effectiveness of internal controls | • Anti-fraud and anti-corruption policy<br>• Complaints procedure<br>• S. 151 Officer<br>• Corporate Management Team<br>• Internal Audit and Counter Fraud<br>• External sources | • Internal Audit reports and quarterly reports to Corporate Management Team and Audit and Governance committee<br>• Weekly meetings of the Corporate Management Team<br>• Quarterly meetings of the Audit and Governance Committee<br>• Scrutiny Committee meetings<br>• External Auditor's Annual Audit Letter<br>• Other external reviews carried out from time to time<br>• Managers' assurance statements |
| Community Engagement | • Council, Cabinet, Committees and Panels<br>• Corporate and service plans<br>• Corporate Management Team | • Community consultations<br>• Weekly meetings of the Corporate Management Team |
| Shared service governance | • Council, Cabinet, Committees and Panels<br>• Corporate and service plans<br>• Corporate Management Team<br>• Internal Audit and Counter Fraud | • Internal Audit reports and quarterly reports to Corporate Management Team and Audit and Governance committee |

| | | |
|---|---|---|
| | | • Weekly meetings of the Corporate Management Team |
| Project management and delivery | • Project management methodology<br>• Internal Audit and Counter Fraud | • Internal Audit reports and quarterly reports to Corporate Management Team and Audit and Governance committee<br>• Weekly meetings of the Corporate Management Team<br>• Scrutiny Committee meetings |
| Procurement processes | • Constitution (including the Contract Procedure Rules)<br>• Internal Audit and Counter Fraud | • Internal Audit reports and quarterly reports to Corporate Management Team and Audit and Governance committee<br>• Weekly meetings of the Corporate Management Team<br>• Quarterly meetings of the Audit and Governance Committee<br>• Scrutiny Committee meetings |
| Roles and responsibilities of Members and officers | • Constitution<br>• Head of Paid Service, Monitoring Officer and S.151 Officer | • Weekly meetings of the Corporate Management Team |
| Standards of conduct | • Anti-fraud and anti-corruption policy<br>• HR policies and procedures<br>• Codes of conduct for staff and Members<br>• Complaints procedure<br>• Monitoring Officer | • Weekly meetings of the Corporate Management Team |
| Training and development for Members and officers | • HR policies and procedures<br>• Staff and Member training<br>• Monitoring Officer | • Council’s democratic arrangements |
| Compliance with legislation, regulations, policies and procedures | • Constitution<br>• Anti-fraud and anti-corruption policy<br>• Complaints procedure<br>• HR policies and procedures<br>• Corporate Management Team | • Internal Audit reports and quarterly reports to Corporate Management Team and Audit and Governance committee<br>• Weekly meetings of the Corporate Management Team |

| | | |
|---|---|---|
| | • Internal Audit and Counter Fraud<br>• External sources<br>• Monitoring Officer | • Quarterly meetings of the Audit and Governance Committee<br>• Scrutiny Committee meetings<br>• Managers’ assurance statements |

**Opinion of the Chief Internal Auditor**

It must be noted that the impact of the Covid-19 pandemic has had a significant effect across the council. At the start of the financial year staff from the Internal Audit team were temporarily redeployed to help other departments with the initial responses to the pandemic. However, once it became clear that the effect of Covid-19 would be felt in the longer term, the staff returned to their Audit duties. Later in the year the team was running for approximately six months with two vacancies. In spite of these issues the team managed to complete a range of audits across the departments of the council. The only areas not reviewed were Tourism and Events, however as these areas were not able to operate for any length of time during the year, it is not considered to be a reason for limiting the opinion on the control environment.

The opinion of the Chief Internal Auditor, as noted in the annual report on the work of Internal Audit and Counter-Fraud, was that the internal controls in processes and IT systems across the authority were generally found to be sound. This is slightly caveated by the somewhat limited, but considered to be still adequate, breadth of audit reviews carried out which had been caused by vacancies in the team and some redeployment at the beginning of the year.

**Managing the Risk of Fraud and Corruption**

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

This code contains five principles:

- Acknowledge responsibility
- Identify risks
- Develop a strategy

- Provide resources
- Take action

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

**Financial Management Code**

The CIPFA (Chartered Institute of Public Finance and Accountancy) Financial Management (FM) Code's intention is to help create a culture of strong financial management and address the financial pressures that councils are facing. The self-regulation approach is also to prevent local authorities 'failing' and avoid any need for any external control or reductions in current powers.

An initial self-assessment of the council's current standing against each of the Financial Management Standards was carried by the Deputy Chief Finance Officers and Chief Internal Auditor in conjunction with the council's Section 151 Officer to determine the current situation and actions required to comply with the Code. Whilst there is a role for the Chief Finance Officer (S151 Officer) to manage compliance, this will be done with a joint responsibility of the council's Corporate Management Team (CMT) and Elected Members.

The council has a satisfactory record of financial management and so, analysing the council's structures, processes and procedures against the FM Code's Financial Management Standards, shows a reasonable level of compliance with these principles. However, there are a number of areas where further actions/consideration needs to be given to ensure compliance with every aspect of the FM Code.

**Companies**

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

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| Aspiration Homes LLP (Limited Liability Partnership) | Incorporated on 30 June 2017.<br><br>To ensure the councils have the overall capacity to maximise housing investment and funding opportunities. To act as the asset holding vehicle for affordable housing properties that cannot, for financial accounting or other reasons be held in EBC or LDC respective Housing Revenue Accounts. | Limited Liability Partnership<br>LDC and EBC<br><br>Company number: OC41800 | Governed by LLP Agreement and an Executive Committee of 6 - made up of 2 elected members from each authority. | **Eastbourne Borough Council**<br>Ownership of voting rights - More than 25% but not more than 50%<br>Right to surplus assets - More than 25% but not more than 50%<br>**Lewes District Council**<br>Ownership of voting rights - More than 25% but not more than 50%<br>Right to surplus assets - More than 25% but not more than 50% | Aspiration Homes will act as the asset holding vehicle for affordable housing properties developed through the EHICL and LHICL commercial development programmes.<br>Support has included a £10 million loan to be funded from borrowing by LDC to Aspiration Homes LLP.<br><br>www.lewes-eastbourne.gov.uk/about-the-councils/wholly-owned-companies-and-other-incorporated-entities |
| Eastbourne Housing Investment Company Ltd (EHICL)<br>(1 May 2015) | Company Active<br><br>To undertake more commercial development, place shaping activities and hold associated respective assets, in a way which meets legal and regulatory requirements and ensures that the council has distinct control over such assets. | Company<br>EBC only.<br><br>Company number: 09571387 | Governed by Articles of Association and a Board of 5 directors made up of senior staff and Elected Members from Eastbourne Borough Council plus one Independent. | Eastbourne Borough Council.<br>Ownership of shares – 75% or more<br>Ownership of voting rights - 75% or more<br>Right to appoint and remove directors. | To enable the council to undertake non HRA development and use associated forms of tenancies.<br><br>www.lewes-eastbourne.gov.uk/about-the-councils/wholly-owned-companies-and-other-incorporated-entities |

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| Eastbourne Downs Water Company (24 August 2016) | Company active<br><br>To enable water to be supplied to farms on the downs in Eastbourne. | Company EBC only<br><br>Company number: 10343551 | Governed by their Articles of Association and a Board of 3 directors – made up of EBC/LDC senior staff. | Private company limited by guarantee without share capital | www.lewes-eastbourne.gov.uk/about-the-councils/wholly-owned-companies-and-other-incorporated-entities |
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## Eastbourne Homes Ltd

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

**Investment Company Eastbourne (ICE) Limited**

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

The setting up of the company and the transaction itself, were subject to advice from independent, external, legal and financial professionals. A review of the governance around the setting up of the company, and the transaction itself, was carried out in December 2019 by the council's Chief Internal Auditor. It was found that due diligence had been followed by that lessons could be learned to ensure full transparency in any similar, future, situation.

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

The operations of IIL are run by its board of directors that are appointed by a majority of the shareholders as per Article 18.1 of IIL's Articles of Association. Clause 2 of the DAMA sets out a requirement for the management of IIL to run IIL in accordance with the 'Business plan' and any changes to the 'Business plan' require approval by the ICE Board of Directors.

ICE does not currently have a majority of the shareholding in IIL, but it has the ability to require the Shareholders to sell to ICE (or as it directs) 49.5% of the shares for £1 at any time in a non-default situation before the Property is sold in accordance with the DAMA. In addition, it has a second option which can only be exercised on a default termination of the DAMA and consists of the ability of ICE to require the Shareholders to sell to ICE (or as it directs) 100% of the shares for £1. In such a situation, unless the option to acquire 100% of the share capital in ILL is exercised under the Share Option agreement, ILL must procure that the Property is transferred to ICE (including the transfer by II(L2)L of the Leasehold Property). In which case ICE has a Purchase Option which has to be exercised within a set time period of termination of the DAMA. ICE can have a nominee purchase the Leasehold Property whilst it takes the Freehold.

The Articles of Association of IIL includes the grant of a "B" share which preserves the ICE entitlement to its share of the Exit Proceeds on a Disposal Dividend, a Sale, a Liquidation or a Return of Capital. The Articles of Association II(L2)L give a “B” share to ICE which provides that the company shall not without the written consent of the holder of the B share sell, transfer, dispose or grant any interest in or over (or agree to do so) the property.

The Intercreditor Deed records the fact that the security issued in favour of ICE ranks in all circumstances behind Canada Life's security. That said, Canada Life is restricted from taking enforcement action where to do so would prejudice the right of ICE to step in and take over the Loan under the DAMA. In order to benefit from this protection, ICE must notify Canada Life of its intention to complete an acquisition of the shares or the Property within ten business days of it being notified of an event of default. It must then complete the necessary processes within the timescales set out in the Inter-Creditor Deed.

**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.

This year, extra questions were asked in the Managers’ Assurance Statements. These were in respect of the effect of the response to the Covid-19 pandemic. These questioned related to:

- impact on governance arrangements
- suspended / weakened controls or work-arounds
- cessation / scaling back of business as usual causing gaps in governance arrangements
- other issues impacting on governance arrangements
- challenges caused by changes to working which will continue after the pandemic

A review of the returned statements highlighted two issues which were raised by several respondents.

- Financial pressures – a few statements raised concerns about the financial pressures caused by depleted income owing to the council's response to Covid-19.

- Adapted controls – some concerns were raised in a few statements around the issues of controls which were adapted to facilitate the council's response to the Covid-19 pandemic.

At a meeting of the Corporate Management Team several issues were considered for inclusion in the Annual Governance Statement. The following were considered to be issues to just be mentioned in the body of the Annual Governance Statement.

- Financial pressures – it is acknowledged that the council has been seriously affected by the depletion of income caused by the response to the Covid-19 pandemic. It is considered that this is not currently a significant governance issue as the council has been, and continues to be, in discussion with the Ministry of Housing, Communities and Local Government. The council has also developed plans to identify and deliver savings.

- Adapted controls – some controls needed to be adapted to allow the council to continue working in new ways as a response to the Covid-19 pandemic. Early on Internal Audit contacted all managers to offer help and advice on adapting controls and managers identified and monitored these without using sight of the need for the control. This issue is therefore not considered to be a significant governance issue.

- Document retention – document retention is still considered an issue. However, a project is ongoing to identify paper documents and arrange necessary destruction and storage. Work has also commenced to delete information held electronically. However, there is still work to be undertaken to fully identify all the electronically held documentation. The Corporate Management Team considered that, with the ongoing work, this is not considered a significant governance issue.

Consideration was also given to the Housing software which has been noted as a significant governance issue for the past two years. It is recognised that significant progress has been made to resolve these issues. However, some of the problems caused by the issues are still working their way through processes and systems. Although the originating issue has been resolved, the problem caused still affected work in the financial year 2020-21. As this Annual Governance Statement covers 2020-21 it was agreed that the Housing software system should again be shown as a significant governance issue.

**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.

As was reported to Cabinet and Council in February 2021, due to the extreme financial pressures primarily caused by the response to the Covid-19 pandemic being experienced by the council, it was necessary to seek support from central government. This has been provided in the form of a capitalisation direction (effectively allowing the council to borrow or use capital receipts) to fund revenue expenditure of up to exceeding £6.8m, for the financial year 2020/21 and up to £6m for 2021/22. Beyond this, into 2022/23, the council will need to reach a financially balanced position without the requirement for further capitalisation.

Following the announcement of the capitalisation direction in February 2021, extensive work is being undertaken to identify a package of service and organisational changes, sufficient to, where possible, reduce the need to borrow for capitalisation purposes. The package is also designed to reduce operational costs in order to meet the projected budget shortfall in 2022/23. This is being achieved through a Priority Based Budgeting approach which is working to ensure priority functions and services are protected whilst driving efficiency wherever possible.

It is expected that, with the anticipated recovery of the local economy, as the country moves forward out of the Covid-19 pandemic, the council's income will start to recover. This will then enable some of the unavoidable reductions in service levels, to be reconsidered and, where appropriate, reinstated and for the council to continue to move forward in delivering against its corporate plan commitments.

**SIGNIFICANT GOVERNANCE ISSUES 2020/2021**

| Area | Issue | Action |
|---|---|---|
| Housing software | The Housing software which has been noted as a significant governance issue for the past two years. It is recognised that significant progress has been made to resolve these issues. However, some of the problems caused by the issues are still working their way through processes and systems. Although the originating issue has been resolved, the problem caused still affected work in the financial year 2020-21. | The effects of the issues are being monitored and resolved where necessary. |



**STATEMENT**

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

Signed on behalf of Eastbourne Borough Council:

……………………………………………………………………………………………

Leading Member

……………………………………………………………………………………………

Chief Executive

Date:

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# Eastbourne Borough Council

# Addendum to 2018-19 and 2019-20 Annual Governance Statement

**Companies**

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



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| Eastbourne Housing Investment | Company Active<br><br>To undertake more commercial development, place shaping | Company<br>EBC only.<br><br>Company number: | Governed by Articles of Association and a Board of 5 directors made up of senior staff and Elected | Eastbourne Borough Council.<br>Ownership of shares – 75% or more | To enable the council to undertake non HRA development and use associated forms of tenancies. |

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| (26 March 2018) | purpose of providing a Guarantee to an institutional investor (Infrastructure Investments Ltd) relating to a property asset in Leicester. | | made up of EBC/LDC senior staff. | owned by Eastbourne Borough council. | |
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| | people 18 or over with long term physical health condition. | | | | |

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The completion of the Council's accounts final audit was delayed due to technical accounting issues/treatment and valuation of the ICE guarantee contract.  The Council has complied with the recommended number of technical accounting changes following consultation with council's External Auditors (Deloitte), Grant Thornton, Arlingclose Limited and Link Asset Management Service on the accounting treatment and valuation of the ICE guarantee contract.

# Agenda Item 12

| | |
|---|---|
| **Report to:** | **AUDIT AND GOVERNANCE COMMITTEE** |
| **Date:** | **28th July 2021** |
| **Title:** | **Internal Audit and Counter Fraud Report for the financial year 2020-2021.** |
| **Report of:** | **Chief Internal Auditor** |
| **Ward(s):** | **All** |
| **Purpose of report:** | **To provide a summary of the activities of Internal Audit and Counter Fraud for the financial year - 1st April 2020 to 31st March 2021.** |
| **Officer recommendation(s):** | **That the information in this report be noted and members identify any further information requirements.** |
| **Reasons for recommendations:** | **The remit of the Audit and Governance Committee includes the duties to agree an Annual Audit Plan and keep it under review, and to keep under review the probity and effectiveness of internal controls, both financial and operational, including the Council's arrangements for identifying and managing risk.** |
| **Contact Officer(s):** | **Name: Jackie Humphrey**<br>**Post title: Chief Internal Auditor**<br>**E-mail: jackie.humphrey@lewes-eastbourne.gov.uk**<br>**Telephone number: 01323 415925** |

## 1 Introduction

1.1 The remit of the Audit and Governance Committee includes the duties to agree an Annual Audit Plan and keep it under review, and to keep under review the probity and effectiveness of internal controls, both financial and operational, including the Council's arrangements for identifying and managing risk.

1.2 The quarterly report includes a review of work undertaken by Internal Audit and Counter Fraud.

1.3 This report summarises the work carried out by Internal Audit and Counter Fraud across the financial year 2020-21 and includes the Chief Internal Auditor's opinion of the control environment which is based on the outcomes of this work.

## 2 Review of the work of Internal Audit carried out in the financial year 2020-21

2.1 A list of all the audit reports issued in final from 1st April 2020 to 31st March 2021 is as follows:

| Name of Audit | Assurance Level |
|---|---|
| Benefits and Council Tax Reduction (19/20) | Substantial Assurance |
| Main Accounting (19/20) | Partial Assurance |
| Treasury Management (19/20) | Substantial Assurance |
| Payroll (19/20) | Partial Assurance |
| Council Tax (19/20) | Substantial Assurance |
| National Non Domestic Rates (19/20) | Substantial Assurance |
| Cash and Bank (19/20) | Partial Assurance |
| Debtors (19/20) | Partial Assurance |
| Housing Rents (19/20) | Partial Assurance |
| Creditors (19/20) | Partial Assurance |
| Information Technology (19/20) | Partial Assurance |
| Voids Management | Substantial Assurance |
| Rechargeable Repairs | Partial Assurance |
| Leaseholder Management and Recharges | Partial Assurance |
| Business Continuity Planning | Minimal Assurance |
| Procurement | Partial Assurance |
| Building Control | Full Assurance |
| Implementation of Housing CX | Partial Assurance |
| Fly Tipping | Partial Assurance |
| Arrears Collection | Partial Assurance |
| Officers Expenses | Substantial Assurance |
| IR35 | No Assurance |
| Members Allowances | Substantial Assurance |

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

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

| Assurance Level | Description |
|---|---|
| Full Assurance | Full assurance that the controls reduce the risk to an acceptable level. |
| Substantial Assurance | Significant assurance that the controls reduce the level of risk, but there are some reservations; most risks are adequately managed, for others there are minor issues that need to be addressed by management. |
| Partial Assurance | Partial assurance that the controls reduce the level of risk. Only some of the risks are adequately managed; for others there are significant issues that need to be addressed by management. |

| | |
|---|---|
| Minimal Assurance | Little assurance that the controls reduce the level of risk to an acceptable level; the level of risk remains high and immediate action is required by management. |
| No Assurance | No assurance can be given. The reasons will be explained thoroughly in the report. |

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

2.4 There are four reviews which are due for follow up. These became due at the time when the focus of work turns to completing the annual reviews. The follow ups will be undertaken as soon as possible after the annual reviews are completed.

2.5 Business Continuity Planning was given a “minimal” rating because, at the time of carrying out the review, business continuity plans were not generally found to be in place. However, this does not mean that the council did not respond well to the challenges of the pandemic.

2.6 The review of IR35 was given “no” assurance. IR35 refers to legislation designed to combat tax avoidance by workers, and those employing them, who are supplying their services to clients via an intermediary, such as a limited company, but who would be an employee if the intermediary was not used. “No” assurance was given as there was no evidence of a set procedure or relevant controls being in place.

2.7 Appendix B shows outstanding recommendations/actions. This list includes recommendations from audit reviews that remain outstanding after the first follow up has been completed. It also includes actions from other reports that have been brought to committee.

2.8 During the course of the financial year the council has been affected by the response to the ongoing Covid-19 pandemic and this was also felt by the team. At the beginning of financial year some staff were redeployed temporarily. Two undertook welfare calls to Eastbourne Homes tenants. One other member of the team helped with processing of Benefit claims. Once it became clear that the pandemic would be of a long duration, the staff were called back to continue with Audit work.

2.9 In December 2019 one member of the Audit team left and the post was advertised. However, the recruitment process was halted by the pandemic the following March. In July of 2020 another member of the team left. This left the team with only one Auditor, one Senior Auditor and the Audit Manager. In October 2020 the Corporate Management Team agreed that one of the vacant posts could be filled and the recruitment process began. The new Auditor began work at the end of January 2021.

2.10 With these constraints, the work of the audit team was affected. However, with the new way of arranging the audit plan for the year, the breadth of coverage was maintained, even if fewer audits were undertaken than was planned. As the majority of Tourism functions were not carried out during the year, no audit reviews were carried out in this area.

2.11 During the year the team also continued to give advice to various departments on a variety of subjects. Members of the team have also been involved with various projects, usually by being members of meetings or project boards. Some of these include document management, Workplace 2021 and AI-Bots.

2.12 The table below shows the work carried out by the Internal Audit team showing the percentage of work carried out across the main areas of the council compared to that originally planned, as well as the comparison without Tourism.

| Area | Planned | Planned without Tourism | Actual |
|---|---|---|---|
| Regeneration | 12% | 13.5% | 7.4% |
| Tourism and Enterprise | 9% | 0% | 0.29% |
| Service Delivery | 37% | 40.5% | 45.79% |
| Corporate Services | 42% | 46% | 43.7% |

In view of the constraints of this financial year, and this being the first year of working in this way, the results do demonstrate that this approach is working well.

2.13 Two members of the team are undertaking the Internal Audit Practitioner Apprenticeship, funded through the government's Apprenticeship Scheme. The apprenticeship is devised by the Chartered Institute of Internal Auditors (Chartered IIA) which is the recognised professional body for internal auditing in the UK and Ireland.

As part of the apprenticeship they will complete the:

- IIA Certificate in Internal Audit and Business Risk
- Certified Internal Auditor (CIA) – Part 1 – Essentials of Internal Auditing

Completion of the IIA Certificate leads to the IACert designation, and completion of CIA Part 1 leads to the award of the Internal Audit Practitioner designation. One of the officers has recently completed the IIA Certificate portion.

## 3 Review of the work of Counter Fraud carried out in the financial year 2020-21.

3.1 The Counter Fraud Team was affected by the response to the Covid-19 pandemic. This resulted in periods of redeployment to support key priority areas. One member of staff caught Covid and was absent from work for some time.

3.2 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 for businesses and individuals.

3.3 Housing Tenancy – The team continues to work closely with colleagues in Homes First and Legal. There are currently 17 ongoing sublet/abandonment tenancy cases at various stages. 24 tenancy fraud cases were closed in the year with no further action. Three properties were returned in the year as a result of the work of the team.

3.4 Right to Buy – There was a rapid increase in applications in the second half of the year. 27 cases are currently either being checked to prevent and detect fraud, and protect the authority against money laundering, or waiting for a home visit to verify residential status. 24 cases were withdrawn during the year with a net saving to the authority of £1,466,020.

3.5 Housing Applications – the team are working directly with colleagues in Homes First to implement additional counter-fraud measures to ensure the limited housing stock that is available will only be allocated to those in genuine need.

3.6 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.

3.7 Small Business Grant Fund – Following on from the government's announcement to support businesses through the Covid-19 pandemic, the team have been working closely with the revenues specialists to prevent and investigate fraudulent applications. The team are currently undertaking post verification work as requested by the Department for Business, Energy and Industrial Strategy (BEIS). This work involves reviewing a sample grant application in each scheme for evidence of fraud or non-compliance. Over 400 applications have currently been reviewed with the commencement of recovery action for any incorrectly awarded grants. Further schemes were announced in January and March 2021 following the latest national lockdown measures; the work therefore continues. Currently the focus of work is on completing the testing and sending the required returns to BEIS within the set timescales. However, a report will be written explaining the work undertaken and the results of the work.

3.8 NNDR – As part of the review of Small Business Grant Fund applications discrepancies of Small Business Rate Relief and liable rate payer have been found. This has resulted in changes to business rate bills with a net income of £9,881.27 generated to the authority. 20 cases have been closed during the year with a number still under review.

3.9 Council Tax – 69 cases have been investigated during the year with a net recoverable income of £44,202.04 generated for the authority. A review of Council Tax exemptions/disregards also continues.

3.10 Council Tax Reduction – 30 cases have been closed in this period generating a recoverable income of £18,657.93 and a preventative saving of £14,376.44.

3.11 Housing Benefit – The team continue to work closely with the Department for Work and Pensions (DWP) and the benefit section. Due to resource limitations, and pressing need to assess Universal Credit applications, the DWP have limited their capacity to investigate Housing Benefit. However, 38 cases have been closed in this period with an increase in recoverable Housing Benefit of £40,678.09 and a preventative saving of £16,851.52. £3,875.49 was also recovered from historic Adpen collection.

3.12 Housing debtors – The team have commenced a project to look at debt avoidance where loans have been made to assist with securing housing and have remained outstanding following existing methods of contact. So far, this activity has recouped £2,118.59 in this period which otherwise might have been written off.

3.13 National Fraud Initiative – The mandatory datasets for the 2020/21 exercise have been uploaded and the first batch released with 1659 cases to review. Work has begun on working through these and 91 matches have been processed so far and with a further 34 being investigated. No financial gains have been found to date.

3.14 Data Protection Requests – The team take an active role in supporting colleagues in other organisations to prevent fraud and tackle criminal activity. During the year the team have dealt with 57 DPA requests from the Police and other authorities.

3.15 Other work - In addition, 41 checks were completed on new or licence renewals for Houses of Multiple Occupation. Four checks on residency were carried out on council properties where no response had been received to requests to carry out gas safety checks. 59 allegations were received from the general public during the year which were closed down due to either insufficient information/contact details or the matter did not relate to a council concern.

3.16 A table showing the savings made by the Counter Fraud team in the year 2020-2021 can be found at Appendix C.

## 4 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 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 As stated earlier in this report, the response to Covid-19 has had an effect on the work of the Internal Audit team. Some staff were temporarily redeployed at the start of the financial year, before being pulled back to carry out audit reviews. The team also carried one vacancy throughout the year and a second vacancy for approximately six months. However, it was possible to ensure a fairly reasonable breadth of coverage.

5.3 The response to Covid-19 also had an effect on the audit reviews themselves. The Tourism section was virtually shut down for a large portion of the financial year, so no reviews were carried out in this area. In other areas some aspects of work were stopped or curtailed; for example, the chasing of arrears. Where this was the case, testing could not be carried out if the work had not been undertaken.

5.4 There was some relaxation of controls owing to the response to the Covid-19 pandemic. However, the controls in the main financial areas are audited annually and these controls are currently being tested. No significant issues have been identified.

5.5 In 18-19 and 19-20 the new housing software system was shown as a significant governance issue. Originally this was owing to issues with the implementation and later it was due to the impact on the accounts of these issues. Significant progress has been made to ensure these issues were addressed. However, at the time of drafting the reports for this committee, other issues with data from the system, that were affecting the accounts, were raised by Finance. Further investigation and testing is required to determine whether these issues are with the system itself or with the way data is being input by users. It was not possible to complete this work in time for the July committee meeting but this is dealt with in the Annual Governance Statement report.

5.6 Considering the findings of the work of Audit throughout the year, and caveated by 5.2, 5.3 and 5.4 above, it is the opinion of the Chief Internal Auditor that internal controls in processes and IT systems across the authority were found to be generally sound.

5.5 This opinion feeds into the Annual Governance Statement which is the subject of a separate report to this committee.

## 6 Conforming with the Public Sector Internal Audit Standards

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

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 Chief Internal Auditor'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 Chief Internal Auditor 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 2016. The results of this review were fully reported to the Audit and Governance Committee at the September 16 meeting. The report from the reviewers stated that the audit function at Eastbourne generally conforms with the standards. Whilst the peer review for Eastbourne was carried out in 2016 the review for Lewes was carried out in 2018. As the Audit team now covers both authorities the next review will be considered for 2022/23.

6.6. The Internal Audit team has maintained its independence throughout 2020/21 in accordance with the Audit Charter.

## 7 Financial appraisal

7.1 There are no financial implications relating to expenditure arising from this report. Details of savings generated by the Counter Fraud team are included in Appendix C.

## 8 Legal implications

8.1 This report is for noting only and therefore the Legal Services team has not been consulted on the content of it.

## 9 Risk management implications

9.1 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.

## 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 Environmental sustainability implications

11.1 Not applicable

## 12 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 – Outstanding recommendations/actions

Appendix C - Counter Fraud work and savings.

## 13 Background papers

Internal Audit reports issued throughout the year.

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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.

| AUDIT REVIEW | ASSURANCE LEVEL | ISSUES NOTED | Level at follow up |
|---|---|---|---|
| Main Accounting (19/20) | Partial | • Budget holders indicated they would like more training<br>• Written procedures have not been updated to reflect shared service<br>• Cafi does not reflect the current organisation structure<br>• Recharges between councils are not carried out on a regular monthly basis<br>• Regular reconciliations between the general ledger and feeder files (e.g. rents, council tax etc.) are not being carried out | Annual Audits are followed up when the following year's audit is completed. |
| Payroll (19/20) | Partial | • The Authorised Signatory List requires updating<br>• Processes around honoraria payments needs to be reviewed<br>• Some forms do not request detailed information or adequate information was not entered. | Annual Audits are followed up when the following year's audit is completed |
| Cash and Bank (19/20) | Partial | • Written procedures are out of date<br>• Cash is held securely but a number of staff are able to access the area where the cash is held. | Annual Audits are followed up when the following year's audit is completed |
| Debtors (19/20) | Partial | • Information/evidence is retained in various areas and some is retained on Outlook.<br>• Authorisation for raising invoices is not consistently retained<br>• The Authorised Signatory List requires updating<br>• Debt recovery procedures require updating. | Annual Audits are followed up when the following year's audit is completed |

**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.

| AUDIT REVIEW | ASSURANCE LEVEL | ISSUES NOTED | Level at follow up |
|---|---|---|---|
| Housing Rents (19/20) | Partial | • Lack of reports from Housing software required to carry out some areas of work<br>• Procedures for entering some types of tenancy require review<br>• Delays in debt recovery action<br>• Access to standing data on the Housing system needs to be reviewed<br>• Arrears recovery procedures need to be aligned and updated | Annual Audits are followed up when the following year's audit is completed |
| Creditors (19/20) | Partial | • The Authorised Signatory List requires updating<br>• Information/evidence is retained in various areas and some is retained on Outlook.<br>• No documented procedures for verifying bank account changes nor is evidence of checks retained<br>• Purchase orders are not always raised in a timely manner. | Annual Audits are followed up when the following year's audit is completed |
| Information Technology (19/20) | Partial | Owing to workload pressures within IT due to Covid-19 it was only possible to carry out a light touch audit. As it was not possible to carry out testing a "partial" assurance level was given. A full review will be carried out for 2020/21. | Full review to be carried out in 20/21 |
| Business Continuity Planning | Minimal | • There is no lead officer for business continuity planning<br>• There is no appropriately skilled or resourced Business Continuity Planning function<br>• The council does not hold a strategic Business Continuity Plan<br>• There is a lack of business continuity plans at a | Follow up due February 21 |

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

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

| AUDIT REVIEW | ASSURANCE LEVEL | ISSUES NOTED | Level at follow up |
|---|---|---|---|
| | | department level | |
| Rechargeable Repairs | Partial | • A number of tenancy agreements could not be found during testing<br>• No check is made that invoices sent out are correct<br>• The number of post inspections had fallen due to Covid restrictions. | Follow up due March 21 |
| IR35 | No | • Pockets of knowledge on the subject in different areas of the council but not working together<br>• A status determination statement on file was completed by the consultant<br>• The status of the golf pro is unclear<br>• Guidance on the intranet does not cover the full process and is not easily found<br>• Consultants have been set up on council systems as if they are employees. | Follow up due March 21 |
| Arrears Collection | Partial | • Aged debt analyses not being utilised to inform debt collection<br>• Lack of shared knowledge and expertise in debt collection as split between departments. | Follow up due April 2021 |
| Leaseholder Management and Recharges | Partial | • The Leaseholder handbook is out of date<br>• Copies of some leases could not be found for the audit. | Follow up due June 21 |
| Procurement | Partial | • The council does not have a Procurement Strategy<br>• The council does not have a representative on any local | Follow up due June 21 |

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.

| AUDIT REVIEW | ASSURANCE LEVEL | ISSUES NOTED | Level at follow up |
|---|---|---|---|
| | | procurement group<br>• The use of corporate contracts is not adequately communicated<br>• There is no reporting on savings made through contract procurement<br>• The Creditors system is not being utilised to highlight opportunities to put contracts in place.<br>• Non-compliance with raising of purchase orders is not being monitored and reported. | |
| Implementation of Housing CX | Partial | • Some reports required from the system are still not available<br>• Lack of resource for communication between departments and those writing reports | Follow up due June 21 |
| Fly Tipping | Partial | • No policy on fly tipping<br>• Procedures require updating<br>• Lack of separation of duties between operational work and authorisation<br>• Information/evidence not held centrally in one place | Follow up due June 21 |

## APPENDIX B OUTSTANDING RECOMMENDATIONS/ACTIONS

<table>
<tr><th>AUDIT REPORT</th><th>OUTSTANDING RECOMMENDATION</th><th>COMMENTS</th></tr>
<tr><td>None</td><td>None</td><td>None</td></tr>
<tr><th>OTHER REPORTS TO COMMITTEE</th><th>OUTSTANDING ACTION</th><th>COMMENTS</th></tr>
<tr><td rowspan="7">Risk Management</td><td>Hold facilitated workshops for CMT and Members to refresh understanding of roles and responsibilities.</td><td rowspan="5">Currently writing an in-house Olle course.</td></tr>
<tr><td>Interactive training workshops across all levels.</td></tr>
<tr><td>Risk management refresher training for Members (especially newer ones).</td></tr>
<tr><td>All risk assessments to be put back onto Pentana Performance.</td></tr>
<tr><td>Contract risk management training and awareness, with a view to identifying strategically important contracts and associated risks.</td></tr>
<tr><td>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.</td><td>This will be completed once risk assessments have been produced.</td></tr>
<tr><td>Service level risk registers to be discussed at Departmental Management Team meetings.</td><td>Senior Managers to be reminded of this once the risk assessments have been completed.</td></tr>
</table>

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**Appendix C**

# EASTBOURNE COUNTER FRAUD SAVINGS

| | QUARTER ONE | | QUARTER TWO | | QUARTER THREE | | QUARTER FOUR | | YEAR TOTAL | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Income | Savings | Income | Savings | Income | Savings | Income | Savings | Income | Savings |
| **Tenancy Housing** | | | | | | | | | | |
| Recovery of council properties | | | | £186,000.00 | | | | £93,000.00 | £0.00 | £279,000.00 |
| RTB value saved through intervention | | £480,920.00 | | £479,200.00 | | £505,900.00 | | | £0.00 | £1,466,020.00 |
| Housing intervention/fraud | | | | | | £3,240.00 | | | £0.00 | £3,240.00 |
| **Revenues** | | | | | | | | | | |
| NNDR | | | £3,788.58 | | £6,092.69 | | | | £9,881.27 | £0.00 |
| Council Tax | £11,866.42 | | £309.71 | | £7,217.94 | | £24,807.97 | | £44,202.04 | £0.00 |
| Value of ongoing CT increase per week | £297.93 | | £3,216.13 | | £433.81 | | £476.35 | | £4,424.22 | £0.00 |
| Council Tax Penalties | | | | | | | | | £0.00 | £0.00 |
| **CTR & Housing Benefit** | | | | | | | | | | |
| SPOC Cases | | | | | | | | | £0.00 | £0.00 |
| Council Tax Reduction | £1,462.65 | | £8,484.03 | | £2,850.11 | | £5,861.14 | | £18,657.93 | £0.00 |
| CTR weekly incorrect benefit (WIB) | | £5,136.64 | | £3,213.76 | | £2,864.00 | | £3,162.24 | £0.00 | £14,376.64 |
| Housing Benefit | £22,938.42 | | £2,452.74 | | £15,286.93 | | | | £40,678.09 | £0.00 |
| HB weekly incorrect benefit (WIB) | | £7,462.40 | | £4,541.12 | | £4,848.00 | | | £0.00 | £16,851.52 |
| Income from Adpen collection | £1,107.85 | | £984.06 | | £498.99 | | £1,284.59 | | £3,875.49 | £0.00 |
| **NFI** | | | | | | | | | | |
| Overpayments identified | | | | | | | | | £0.00 | £0.00 |
| Weekly incorrect benefit identified | | | | | | | | | £0.00 | £0.00 |
| **OTHER INVESTIGATIONS** | | | | | | | | | | |
| Procurement | | | | | | | | | £0.00 | £0.00 |
| Internal | | | | | | | | | £0.00 | £0.00 |
| DPA | | | | | | | | | £0.00 | £0.00 |
| Income from court costs | | | | | | | | | £0.00 | £0.00 |
| **TOTALS** | **£37,673.27** | **£493,519.04** | **£19,235.25** | **£672,954.88** | **£32,380.47** | **£516,852.00** | **£192,324.48** | **£96,162.24** | **£121,719.04** | **£1,779,488.16** |

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| | |
|---|---|
| **Report to:** | **Audit and Governance Committee** |
| **Date:** | **28th July 2021** |
| **Title:** | **Strategic Risk Register Quarterly Review** |
| **Report of:** | **Chief Internal Auditor** |
| **Ward(s):** | **All** |
| **Purpose of report:** | **To report to Committee the outcomes of the quarterly review of the register by Corporate Management Team.** |
| **Officer recommendation(s):** | **To receive and note the update to the Strategic Risk Register** |
| **Reasons for recommendations:** | **The Council is committed to proper risk management and to regularly updating the committee with regard to the Strategic Risk Register.** |
| **Contact Officer(s):** | **Name: Jackie Humphrey**<br>**Post title: Chief Internal Auditor**<br>**E-mail: Jackie.humphrey@lewes-eastbourne.gov.uk**<br>**Telephone number: 01323 415925** |

## 1 Introduction

1.1 The Strategic Risk Register is a high level document that records the key risks facing the council: those risks that would prevent the authority from achieving its overall strategies and objectives.

1.2 Maintaining the Strategic Risk Register is a vital part of the governance arrangements of the authority and, as such, it is overseen by the Corporate Management Team who review it on a quarterly basis.

1.3 The risk register shows the risk, a description of the risk, the risk score if no action is taken (original risk score), the internal controls put in place to mitigate the risk and the risk score after these controls are in place (current risk score).

1.4 The risk register is brought to the committee when any changes have been made to it following review by the Corporate Management Team.

## 2 June 2021 Review

2.1 The Strategic Risk Register was taken to Corporate Management Team on 23rd June 2021 for the quarterly review.

2.2 The Corporate Management Team also discussed the current risks and agreed the following:

- as the Covid-19 pandemic has progressed it is felt that heightened risks have been handled or addressed and therefore risk levels could revert back to pre-Covid levels.

- the exception to the above is risk SR_002 “Changes to the economic environment makes the council economically less stable”. It was agreed that this risk level should remain high.

- SR_008 “Failure to meet regulatory or legal requirements”. Internal control number 4 – the wording has been updated to reflect the current position.

2.3 The Head of Legal Services was contacted to enquire whether risk SR_011 was still required. This risk was “Judicial challenge of decision-making is heightened as a consequence of increased reliance on use of officer delegated powers. This risk was added as a result of committee meetings going on-line only during the Covid-19 pandemic. The Head of Legal Services agreed that with face-to-face meetings re-commencing, this risk is no longer relevant. The risk has therefore been removed from the register.

2.4 The changes can be seen on the attached Strategic Risk Register.

**3. Financial appraisal**

3.1 There are no financial implications arising from this report.

**4. Legal implications**

4.1 This report is for noting only and therefore the Legal Services team has not been consulted on the content of it.

**5. Risk management implications**

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

**6. Equality analysis**

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

**7. Appendices**

- Strategic Risk Register

**8. Background papers - None**

# Strategic Risk Register (Eastbourne)

**Report Type:** Risks Report
**Generated on:** 25 June 2021



| Code | Title | Description | Likelihood | Impact | Original Risk Score | Internal Controls | Risk Owner | Likelihood | Impact | Current Risk Score | Traffic Light | Next Review Date |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| SR_001 | No political and partnership continuity/consensus with regard to organisational objectives | Sudden changes of political objectives at either national or local level renders the organisation, its current corporate plan and Medium-Term Financial Strategy unfit for purpose. | 3 | 4 | 12 | Reduces Likelihood<br>1. Create inclusive governance structures which rely on sound evidence for decision making.<br><br>Reduces Impact<br>2. Annual review of corporate plan and Medium-Term Financial Strategy<br><br>3. Creating an organisational architecture that can respond to changes in the environment. | Chief Executive | 2 | 3 | 6 | Amber | 03-Aug-2021 |
| SR_002 | Changes to the economic environment makes the Council economically less sustainable | 1. Economic development of the town suffers.<br><br>2. Council objectives cannot be met.<br><br>3. Covid-19 has had a serious impact on the council's finances. | 5 | 5 | 25 | Reduces Impact<br>1. Robust Medium-Term Financial Strategy reviewed annually and monitored quarterly. Refreshed in line with macro-economic environment triennially.<br><br>2. Creating an organisational architecture that can respond | Chief Finance Officer | 5 | 5 | 25 | Red | 03-Aug-2021 |

Appendix 1 – Strategic Risk Register Quarterly Report

| Code | Title | Description | Likelihood | Impact | Original Risk Score | Internal Controls | Risk Owner | Likelihood | Impact | Current Risk Score | Traffic Light | Next Review Date |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | to changes in the environment.<br><br><u>Reduces Likelihood</u><br>3. The council is currently in ongoing discussions with the Ministry of Housing, Communities and Local Government around financial support to cover costs related to expenditure on response to the Covid-19 pandemic. | | | | | | |
| SR_003 | Unforeseen socio-economic and/or demographic shifts creating significant changes of demands and expectations. | 1. Unsustainable demand on services.<br><br>2. Service failure.<br><br>3. Council structure unsustainable and not fit for purpose.<br><br>4. Heightened likelihood of fraud. | 5 | 5 | 25 | <u>Reduces Impact</u><br>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).<br><br>2. Ensuring community and interest group engagement in policy development (e.g. Neighbourhood Management Schemes; Corporate Consultation Programme) | Director of Service Delivery | 3 | 3 | 9 | Amber | 03-Aug-2021 |
| SR_004 | The employment market provides unsustainable | Employment market unable to fulfil recruitment and retention | 4 | 4 | 16 | <u>Reduces Likelihood</u><br>1. Changes undertaken to increase non-financial | Asst Director for HR and | 3 | 2 | 6 | Amber | 03-Aug-2021 |

| Code | Title | Description | Likelihood | Impact | Original Risk Score | Internal Controls | Risk Owner | Likelihood | Impact | Current Risk Score | Traffic Light | Next Review Date |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | employment base for the needs of the organisation | requirements of the Council resulting in a decline in performance standards and an increase in service costs. | | | | attractiveness of EBC to current and future staff.<br><br>2. Appropriate reward and recognition policies reviewed on a regular basis.<br><br><u>Reduces Likelihood and Impact</u><br>3. Review of organisation delivery models to better manage the blend of direct labour provision. Pursuit of mutually beneficial shared service arrangements. | Transformation | | | | | |
| SR_005 | Not being able to sustain a culture that supports organisational objectives and future development. | 1. Decline in performance.<br><br>2. Higher turnover of staff.<br><br>3. Decline in morale.<br><br>4. Increase in absenteeism.<br><br>5. Service failure<br><br>6. Increased possibility of fraud. | 4 | 4 | 16 | <u>Reduces Likelihood</u><br>1. Deliver a fit for purpose organisational culture.<br><br>2. Continue to develop our performance management capability to ensure early intervention where service and/or cultural issues arise.<br><br>3. Continue to develop communications through ongoing interactions with staff. | Asst Director for HR and Transformation | 3 | 4 | 12 | Amber | 03-Aug-2021 |

Appendix 1 – Strategic Risk Register Quarterly Report



| Code | Title | Description | Likelihood | Impact | Original Risk Score | Internal Controls | Risk Owner | Likelihood | Impact | Current Risk Score | Traffic Light | Next Review Date |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| SR_006 | Council prevented from delivering services for a prolonged period of time. | 1. Denial of access to property<br><br>2. Denial of access to technology/information<br><br>3. Denial of access to people | 4 | 5 | 20 | Reduces Likelihood<br>1. Adoption of best practice IT and Asset Management policies and procedures.<br><br>Reduces Likelihood and Impact<br>2. The council has created a more flexible, less locationally dependent, service architecture.<br><br>Reduces Impact<br>3. Regularly reviewed and tested Business Continuity Plans.<br><br>4. Regularly reviewed and tested Disaster Recovery Plan. | Chief Executive | 2 | 4 | 8 | Amber | 03-Aug-2021 |
| SR_007 | 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.<br><br>2. Cost profile of the Council changes materially as a result of the impact of the event. | 5 | 5 | 25 | Reduces Likelihood and Impact<br>1. Working in partnership with other public bodies.<br><br>2. Robust emergency planning and use of Council's emergency powers.<br><br>Reduces Impact<br>3. Ongoing and robust risk profiling of local area | Chief Executive | 2 | 4 | 10 | Amber | 03-Aug-2021 |

| **Code** | **Title** | **Description** | **Likelihood** | **Impact** | **Original Risk Score** | **Internal Controls** | **Risk Owner** | **Likelihood** | **Impact** | **Current Risk Score** | **Traffic Light** | Next Review Date |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 3. Work adversely affected by reduced staff numbers due to effects of pandemic virus. | | | | (demographic and geographic).<br><br>4. Review budget and reserves in light of risk profile. | | | | | | |
| SR_008 | Failure to meet regulatory or legal requirements | 1. Trust and confidence in the Council is negatively impacted.<br><br>2. Deterioration of financial position as a result of regulatory intervention/penalties<br><br>3. Deterioration of service performance as a result of regulatory intervention/penalties | 3 | 4 | 12 | <u>Reduces Likelihood</u><br>1. Developing, maintaining and monitoring robust governance framework for the Council.<br><br>2. Building relationships with regulatory bodies.<br><br>3. Develop our Performance Management capability to ensure early intervention where service and/or cultural issues arise.<br><br>4. The Council has adopted and published an Asset Management Strategy (AMS) that set out how the Council uses its land and property assets effectively to deliver its service and the rules by which the Council can purchase assets in the future. These strategies are updated on a yearly basis as part of the | Chief Executive | 2 | 4 | 8 | Amber | 03-Aug-2021 |

| Code | Title | Description | Likelihood | Impact | Original Risk Score | Internal Controls | Risk Owner | Likelihood | Impact | Current Risk Score | Traffic Light | Next Review Date |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Capital and Medium-Term Financial Strategies.<br><br>5. Ensure there is full understanding the impact of new legislation.<br><br>6. All managers are required to abide by the Council's procurement rules.<br><br>7. Ensure that fire risk regulations are adhered to and that Fire Risk Assessments are regularly reviewed. | | | | | | |
| SR_009 | Commercial enterprises that are fully controlled by the authority do not deliver financial expectations or do not meet governance requirements. | 1. Unfamiliar activity with staff inexperienced in this area.<br><br>2. Council finances affected if projects do not meet financial expectations.<br><br>3. Reputational damage if governance procedures are inadequate.<br><br>4. Failure to abide by company law. | 5 | 5 | 25 | Reduces Likelihood<br>1. Hire suitably qualified/experienced staff to give legal and specialist support.<br><br>2. Ensure that projects meet core principles.<br><br>3. Up or re-skill staff to maximise commercial opportunities.<br><br>4. Ensure governance processes are set up and adhered to. | Director of Regeneration and Planning<br><br>And<br><br>Chief Executive | 3 | 3 | 9 | Amber | 03-Aug-2021 |

Appendix 1 – Strategic Risk Register Quarterly Report

| Code | Title | Description | Likelihood | Impact | Original Risk Score | Internal Controls | Risk Owner | Likelihood | Impact | Current Risk Score | Traffic Light | Next Review Date |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| SR_010 | The Council suffers a personal data breach by inadequate handling of data or by an IT incident | 1. Trust and confidence in the Council is negatively impacted.<br><br>2. Deterioration of financial position as a result of regulatory intervention/penalties<br><br>3. Deterioration of service performance as a result of regulatory intervention/penalties<br><br>4. Increased probability of compensation claims by persons affected by a personal data breach. | 3 | 4 | 12 | Reduces Likelihood<br>1. Ongoing corporate training for data protection.<br><br>2. Ensure all staff complete the e-learning Data Protection course.<br><br>3. Ensure that the Data Protection Policy is regularly reviewed.<br><br>4. Ensure the Data Protection Officer is afforded the resources to discharge their statutory functions.<br><br>5. Ensure that managers regularly remind staff of their responsibilities under data protection, including personal data breach reporting arrangements.<br><br>6. Ensure the suite of IT policies is kept up to date.<br><br>7. Ensure that IT security is in place and regularly tested.<br><br>Reduces Impact | Chief Executive | 2 | 4 | 8 | Amber | 03-Aug-2021 |

Appendix 1 – Strategic Risk Register Quarterly Report

| Code | Title | Description | Likelihood | Impact | Original Risk Score | Internal Controls | Risk Owner | Likelihood | Impact | Current Risk Score | Traffic Light | Next Review Date |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | 8. Incident management procedures to mitigate loss or breach of data are in place. | | | | | | |