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Audit and Governance Committee
29 September 2021

Time and venue:

6.00 pm in the Court Room - Town Hall, Eastbourne

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, 21 September 2021

Agenda

1 Apologies for absence/declaration of substitute members

2 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.

3 Minutes (Pages 5 - 10)

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

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 Audit 2019-2020 - *To Follow*

An update report from External Auditors, Deloitte.

8 Treasury Management Monitoring Report - Q1 (Pages 11 - 24)

A report of the Chief Finance Officer

9 Internal Audit and Counter Fraud Quarterly Report (Pages 25 - 48)

A report of the Chief Internal Auditor.

10 Strategic Risk Register Quarterly Review (Pages 49 - 60)

A report of the Chief Internal Auditor.

11 AOB

12 Date of the next meeting

Information for the public

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Information for Councillors

Disclosure of interests:

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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

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EASTBOURNE
Borough Council
Working in partnership with **Eastbourne Homes**

Audit and Governance Committee

Minutes of meeting held in Court Room at Eastbourne Town Hall, Grove Road, BN21 4UG on 28 July 2021 at 6.00 pm.

Present:

Councillor Robin Maxted (Chair).

Councillors Amanda Morris (Deputy-Chair), Helen Burton, Sammy Choudhury, Tony Freebody, Md. Harun Miah and Kshama Shore.

Officers in attendance:

Jackie Humphrey (Chief Internal Auditor), Ola Owolabi (Deputy Chief Finance Officer (Corporate Finance)) and Elaine Roberts (Committee Officer).

Also in attendance:
Ben Sheriff (External Auditor - Deloitte).

1 Minutes

The Minutes of the last meeting on 3 March 2021 were approved.

2 Apologies for absence/declaration of substitute members

Apologies were received from Councillor Diplock and CFO, Homira Javadi.

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.

There were no declarations of interest.

4 Questions by members of the public.

The Chair reported that no questions had been submitted.

5 Urgent items of business.

There were none.

6 Right to address the meeting/order of business.

The Chair reported a request from Councillor Smart to address the Committee regarding items 7 and 9. The Chair agreed that Councillor Smart could speak for up to five minutes before the commencement of each item.

7 External Auditor (Deloitte) report on the 2018/19 Statement of Accounts

The Chair then invited Councillor Smart to address the Committee regarding item 7 and thanked him for his comments.

The Chair invited Ola Owolabi, Deputy Chief Finance Officer (DFCO), to present the report.

The DFCO explained that the Statement of Accounts was an update of the version considered by the Committee at the November meeting and that the outstanding issues at that time had been resolved. The Council was now in a position to sign a Letter of Representation, to formally and publicly confirm the correctness and completeness of the auditing of accounts for 2018/19. The DFCO then invited Ben Sheriff, Deloitte, to present the report from Deloitte, External Auditors, (Appendix A of the report) regarding ISA 260.

The Chair thanked Ola Owolabi, DCFO, and Ben Sheriff, Deloitte, and invited comments and questions from Members as they considered the report.

During the following discussion Members noted the volume and complicated nature of the material associated with the agenda and requested that Officers consider the amount, relevance and accessibility of agenda materials going forward.

Points of clarification from Officers included:

- That there were statutory requirements regarding what should be included in the Statement of Accounts and how it should be presented, in compliance with the International Financial Reporting Standards/CIPFA Code, and that the main purpose of the covering report was to provide a more accessible, narrative summary.

- That a segmental income analysis could be provided. However, it was noted that the detail had significantly changed since the time of the report i.e. 2018/19.

- That the original timescale for delivery of externally audited accounts agreed with Deloitte at the start of 2021 was: 2018/19 by April / May; 2019/20 by end of July 2021 and 2020/21 by end of September 2021. Work on the 2019/20 accounts had now started.

- Deloitte noted that resource issues at Deloitte had contributed to the delays.

- That the Chief Internal Auditor would liaise with CMT regarding possible inclusion of risks identified in the External Accounting within the Strategic Risk Register.

- That Officers would provide an explanation of the increased employment costs to Members of the Committee.

- That Officers would liaise with the Chair to set up pre-committee briefing meetings, to aid Members' understanding of material due to be considered by the Committee that was of a particularly complicated nature.

Regarding ICE (Investment Company Eastbourne Ltd) in particular:

- Officers clarified that the complicated nature of the ICE joint venture (the Council's investment company) had contributed to the delay of the audit, but that there was now an agreed accounting model which would be used going forward. The cash receipt of £2m was banked but that there had been changes in the way the ICE transaction and accounting were presented within the accounts. Officers also clarified that the report's comment that "the final contractual structure [of ICE] was not the one approved by Council in 2017", referred to the structure for accounting and not the structure of the commercial venture / business proposition itself, which was essentially the same.

- Deloitte noted that ICE increased the number of risk variants for the Council, which in turn impacted the Council's risk profile. Deloitte acknowledged the difficulties associated with the complicated nature of the ICE accounting, compounded by a loss of institutional knowledge due to Officers having left the organisation since the venture was set up, and confirmed that the Council had followed proper governance procedures and had sought appropriate legal and other expert advice at the proper times, throughout the process prior to transaction of ICE.

- At the request of Members, Ola Owolabi, DCFO, provided a short, high-level overview of the ICE joint venture, including its initial set up and its terms going forward.

The members then proceeded to consider the recommendations of the report. In the course of the discussion, Ben Sheriff, Deloitte, was asked to provide his verbal update for the 2019/20 Statement of Accounts (originally scheduled as Agenda Item 8) so that all four recommendations could be considered together.

Resolved (unanimous):

1. To note the Independent Auditor's (Deloitte) report to those charged with governance on EBC Accounts, and the Value for Money conclusion report.

2. To approve the Audited 2018/19 Statement of Accounts.

3. To authorise the Chief Finance Officer to sign the formal Letter of Representation to Deloitte; and

4. To note the 2019/20 Statement of Accounts audit update.

8 External Audit 2019/20 Report

With agreement of the Chair, this Item was taken together with Item 7 and the decision noted in resolution point 4, Item 7.

9 Redmond Review update and MHCLG External Audit Consultations

The Chair invited Councillor Smart to address the Committee re item 9. Councillor Smart spoke for five minutes and the Chair thanked him for his comments.

The Chair invited Ola Owolabi, Deputy Chief Finance Officer (DCFO), to present the report.

The DCFO summarised the scope and progress to date of the Redmond Report and the recent response to the report from Central Government, as outlined in the White Paper, ‘Restoring trust in audit and corporate governance’.

A key recommendation of the Redmond Review was to create an Office of Local Audit and Regulation (OLAR). The Government’s White Paper recommended creating a new body – the Audit, Reporting and Governance Authority (ARGA) – which would replace the Finance Reporting Council (FRC) and would also be charged with providing oversight of local authority audit.

The PSAA (Public Sector Audit Appointments Ltd) would continue to have oversight of appointing individual local authority auditors.

The Audit and Accounts Regulations had been amended to extend the date to produce audited accounts from 31 July to 30 September for a period of 2 years until 2023.

Resolved (unanimous)

1. To note this report

10 Treasury Management Annual Report 2020/21

Ola Owolabi, Deputy Chief Finance Officer (DCFO), presented the report, which was a statutory requirement. The report had been previously approved by Cabinet and had come before the Audit and Governance Committee to be noted. The Chair thanked the DCFO for his presentation and the Committee considered the report.

Officers clarified queries regarding the changes in projections, and the impacts of COVID-19 – including interest rate forecasts and the requirement of the Council to manage significant amounts of money from Central Government for local business support grants.

Resolved (unanimous):

1. To note the report.

11 Annual Governance Statement Report

Jackie Humphrey, Chief Internal Auditor (CIA), presented the report, which included explanations of the Audit Team's work to review and improve accessibility of the information contained in the report, how the 'manager feedback' had been analysed and presented, and the Council's approach to document retention requirements.

It was noted that work over past months regarding the new Housing System software had meant that this was now no longer classed as a 'significant' issue. Specific additions to the report included sections on Covid-19 and the Council's investment company, ICE.

At the request of the external auditors, Deloitte, additional information for the previous years would be published as an addendum.

The Chair thanked the CIA for the report and invited comments and questions from the Committee Members.

Officers responded to Members' questions regarding the inclusion of companies in the Annual Governance Statement.

Resolved (unanimous)
1. To approve the Draft Annual Governance Statement 2020-21; and
2. To approve the addendum to the Annual Governance Statements for 2018-19 and 2019-20.

12 Internal Audit and Counter Fraud Report for the financial year 2020-2021

Jackie Humphrey, Chief Internal Auditor (CIA), presented the report to the Committee.

The report highlighted some of the key effects of Covid-19, including: impacts on the Audit Team's resources, that the Tourism Team had not been audited as had not been active, and that the Audit Team structure was currently under review.

The work of the Counter Fraud Team was reviewed and two new projects were highlighted: the performance analysis of the grants portal, and one to recoup money from housing debtors.

An error in Appendix C was brought to the attention of the Committee, and Members were assured that it did not affect the quoted net annual total.

The next external review had been scheduled for 2022/23; the slightly later date was due to alignment of work across both Councils.

Following concerns raised by Members regarding the rates of assurance, Officers clarified that all items rated less than 'substantial' were followed up.

However, in the interests of managing the amount of information shared with Members, only unresolved items were brought back to the Committee. Officers agreed to consider ways to provide updates of the items which were followed up to the Committee going forward.

The CIA clarified in relation to a reported instance of 'no assurance', that whilst an investigation had found that there were no incorrect processes in use, the process itself was not formally recorded.

Resolved:

1. To note the report; and
2. That Officers review the additional information requirements identified by Members during the meeting for future reporting.

13 Strategic Risk Register Quarterly Review

Jackie Humphrey, Chief Internal Auditor (CIA), presented her report. It was noted that, following a review by the Corporate Management Team (CMT), the Covid-19 risk level had been reduced, apart from the financial element.

The Chair thanked the CIA and the Committee considered the report.

Officers clarified the distinctions between amber and red classifications and explained that amber and red issues were addressed through a cascade from CMT down to the relevant departments and management teams. Officers confirmed that the current review cycle was quarterly. The Chief Internal Auditor agreed to take comments from the Committee back for consideration by CMT, and to report back at the next Committee meeting.

Resolved (unanimous)

1. To note the report.

The meeting ended at 8.10 pm

Councillor Robin Maxted (Chair)

Report to:	**Audit and Governance Committee**
Date:	**29 September 2021**
Title:	**Treasury management – Q1 2021/22**
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 April to July 2021/22**
Decision type:	**Budget and Policy Framework**
Officer recommendation(s):	**The Committee is recommended to note and recommend that Council accepts that Treasury Management Activity for the period 1 April to 31 July 2021 has been in accordance with the approved Treasury Strategies.**
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** **Post title: Deputy Chief Finance Officer** **E-mail: ola.owolabi@lewes-eastbourne.gov.uk** **Telephone number: 01323 415083**

1. Introduction

1.1 This Council's approved Treasury Strategy Statement requires the Audit and Governance Committee to review details of Treasury Strategy transactions against the criteria set out in the Strategy and make observations to Cabinet as appropriate.

1.2 The Treasury Strategy Statement also requires the Audit and Governance Committee to review a formal summary report detailing the recent Treasury Management activity before it is considered by Council, in accordance with best practice and guidance issued by the Chartered Institute of Public Finance and Accountancy.

1.3 In addition, Treasury Management updates are included in the quarterly performance management reports, considered by both the Cabinet and Scrutiny Committee. The regulatory environment places a much greater responsibility on Members for the review and scrutiny of treasury management policy and activities.

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 has been scheduled for 20th October 2021, to support Members' scrutiny role.

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.

2. Annual Investment Strategy

2.1 The Treasury Management Strategy Statement (TMSS) for 2021/22 which includes the Annual Investment strategy, was approved by the Full Council on Monday, 22 February 2021. It sets out the Council's investment priorities as being:

- Security of Capital;
- Liquidity;
- Yield.

Approved limits within the Annual Investment Strategy were not breached during the period ending 31 July 2021, except for the balance held with Lloyds Bank, which exceeded the £5m limit for 13 days during the period.

2.2 Investment rates available in the market have continued at historically low levels. Investment funds are available on a temporary basis and arise mainly from the timing of the precept payments, receipts of grants and the progress of the capital programme.

2.3 As shown by the interest rate forecasts, it is now impossible to earn the level of interest rates commonly seen in previous decades as all investment rates are barely above zero now that Bank Rate is at 0.10%, while some entities, including more recently the Debt Management Account Deposit Facility (DMADF), are offering negative rates of return in some shorter time periods. Given this risky environment and the fact that increases in Bank Rate are unlikely to occur before the end of the current forecast horizon of 31st March 2023, investment returns are expected to remain low.

Negative investment rates

2.4 While the Bank of England has said that it is unlikely to introduce a negative Bank Rate, at least in the next 6 -12 months, some deposit accounts are already offering negative rates for shorter periods. As part of the response to the pandemic and lockdown, the Bank and the Government have provided financial markets and businesses with plentiful access to credit, either directly or through commercial banks.

2.5 As for money market funds (MMFs), yields have continued to drift lower. Some managers have suggested that they might resort to trimming fee levels to ensure that net yields for investors remain in positive territory where possible and practical. Investor cash flow uncertainty, and the need to maintain liquidity in these unprecedented times, has meant there is a glut of money swilling around at the very short end of the market.

2.6 Inter-local authority lending and borrowing rates have also declined due to the surge in the levels of cash seeking a short-term home at a time when many local authorities are probably having difficulties over accurately forecasting when disbursements of funds received will occur or when further large receipts will be received from the Government.

3 Treasury Position as at 31 July 2021

3.1 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.

3.2 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.

3.3 **Fixed Term Deposits pending maturity –**

The following table shows the fixed term deposits held between 1 April to 31 July 2021 and identifies the long-term credit rating of counterparties at the date of investment. It is important to note that credit ratings are only one of the criteria that are taken into account when determining whether a potential counterparty is suitable. All the deposits met the necessary criteria the minimum rating required for deposits made in terms of long-term A- (Fitch).

Counterparty	Date From	Date To	Days	Principal £'000	Int Rate %	Long-term Rating
Debt Management Office	19 Jul 21	03 Aug 21	15	2,700,	0.01	*

3.4 **Fixed Term Deposits which have matured in the reporting period**

The table below shows the fixed term deposits which have matured between 1 April to 31 July 2021, in maturity date order. It is important to note that the table includes sums reinvested and that in total the Council's investments have not increased by £21.5m over this period.

Counterparty	Date From	Date To	Days	Principal £'000	Int. Rate	Long-term
					%	
Debt Management Office	07 Apr 2021	13 Apr 2021	6	8,000	0.01	*
Debt Management Office	15 Jun 2021	25 Jun 2021	10	5,000	0.01	*
Debt Management Office	07 Jul 2021	29 Jul 2021	22	2,000	0.01	*
Debt Management Office	15 Jul 2021	19 Jul 2021	4	6,500	0.01	*
Total				**21,500**		

UK Government body and therefore not subject to credit rating

3.5 **Use of Deposit accounts**

In addition to the fixed term deposits, the Council has made use of the following interest-bearing accounts in the period covered by this report, with the average amount held being £2.739m generating interest of approximately £2.5k.

	Balance at 31 July 2021 £'000	**Average balance £'000**	**Current interest rate %**
Santander Business Reserve Account	5,000	4,505	0.17
Lloyds Bank Corporate Account	565	1,590	0.00
Lloyds Bank Call Account	3,310	2,191	0.01

4 TM Borrowing – Q1 2021/22

4.1 In taking borrowing 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 quarter as there was no financial benefit to the Council.
- **Repayment** – £2m of long-term money market loans was repaid at maturity on 28 May 2021

4.2 **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 (Public Works Loan Board) during the quarter to fund the net unfinanced capital expenditure and/or to replace maturing loans. Various temporary loans were taken to cover cash flow requirements. All loans drawn were for fixed rate as detailed within the table below.

Lender - Temp Debt	£m	Start Date	End Date	Rate
Loans held:				%
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
Wokingham Borough Council	10.0	15-Mar-21	15-Sep-21	0.12
West Midlands Combined Authority	10.0	21-May-21	21-Jan-21	0.07
Loans repaid:				
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

5 <u>Interest Rate Forecast</u>

5.1 The Council appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1st November 2012.

The latest forecasts on 10th May is shown below. A comparison of forecasts shows that PWLB rates have increased marginally and there is also now a first increase in Bank Rate from 0.10% to 0.25% in quarter 2 of 2023/24.

Link Group Interest Rate View	10.5.21											
	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.25	0.25	0.25
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.30	0.30	0.30
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.20	0.30	0.40	0.40	0.40
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.30	0.30	0.40	0.50	0.50	0.50
5 yr PWLB	1.20	1.20	1.30	1.30	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50
10 yr PWLB	1.70	1.70	1.70	1.80	1.80	1.90	1.90	1.90	2.00	2.00	2.00	2.00
25 yr PWLB	2.20	2.20	2.30	2.40	2.40	2.40	2.50	2.50	2.50	2.50	2.50	2.60
50 yr PWLB	2.00	2.00	2.10	2.20	2.20	2.20	2.30	2.30	2.30	2.30	2.30	2.40

5.2 The coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings, although some forecasters had suggested that a cut into negative territory could have happened prior to more recent months when strong recovery started kicking in. However, the minutes of the Monetary Policy Committee in February 2021 made it clear that commercial banks could not implement negative rates within six months; by that time the economy would be expected to be recovering strongly and so there would be no requirement for negative rates.

5.3 As shown in the forecast table above, one tentative increase in Bank Rate from 0.10% to 0.25% has now been pencilled in for quarter 2 of 2023/24 as an indication that the Bank of England will be moving towards some form of monetary tightening around this time. However, it could well opt for reducing its stock of quantitative easing purchases of gilts as a first measure to use before increasing Bank Rate so it is quite possible that we will not see any increase in Bank Rate in the three-year forecast period shown.

5.4 **Significant risks to the forecasts**

- COVID vaccines do not work to combat new mutations and/or new vaccines take longer than anticipated to be developed for successful implementation.
- The lockdowns cause major long-term scarring of the economy.
- The Government implements an austerity programme that supresses GDP growth.
- The MPC (Monetary Policy Committee of the Bank of England) raises tightens monetary policy too early – by raising Bank Rate or unwinding QE.
- The MPC tightens monetary policy too late to ward off building inflationary pressures.
- Major stock markets e.g. in the US, become increasingly judged as being over-valued and susceptible to major price corrections.

5.5 **GILT YIELDS / PWLB RATES**. There was much speculation during the second half of 2019 that bond markets were in a bubble which was driving bond prices up and yields down to historically very low levels. The context for that was heightened expectations that the US could have been heading for a recession in 2020. In addition, there were growing expectations of a downturn in world economic growth, especially due to fears around the impact of the trade war between the US and China, together with inflation generally at low levels in most countries and expected to remain subdued. Combined, these conditions were conducive to very low bond yields.

5.6 While inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers. This means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. The consequence of this has been the gradual lowering of the overall level of interest rates and bond yields in financial markets. Over the year prior to the coronavirus crisis, this resulted in many bonds yields up to 10 years turning negative in the Eurozone. In addition, there was, at times, an inversion of bond yields in the US whereby 10-year yields fell below shorter-term yields. In the past, this has been a precursor of a recession.

5.7 Gilt yields had, therefore, already been on a generally falling trend up until the coronavirus crisis hit western economies during March 2020. After gilt yields initially spiked upwards in March, yields fell sharply in response to major western central banks taking rapid policy action to deal with excessive stress in financial markets during March and starting massive quantitative easing driven purchases of government bonds: these actions also acted to put downward pressure on government bond yields at a time when there was a huge and quick expansion of government expenditure financed by issuing government bonds. Such unprecedented levels of issuance in "normal" times would have caused bond yields to rise sharply.

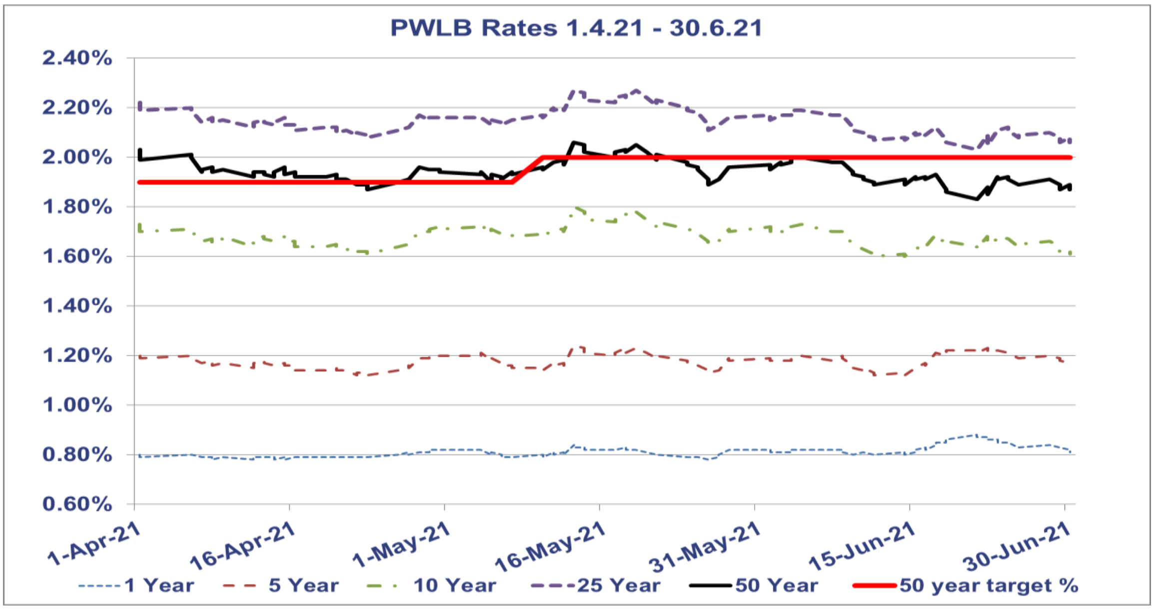
5.8 The current PWLB rates are set as margins over gilt yields as follows: -.

- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
- **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

As the interest forecast table for PWLB certainty rates, (gilts plus 80bps), above shows, there is likely to be little upward movement in PWLB rates over the next three years as the Bank of England is not expected to raise Bank Rate above 0.25% during that period as inflation is not expected to be sustainably over 2%.

PWLB maturity certainty rates year to date to 30th June 2021

5.9 Gilt yields and PWLB rates rose sharply during the first three months of 2021 but have lacked any consistent direction since then over the last three months to 30th June. The 50-year PWLB target certainty rate for new long-term borrowing started at 1.90% in this quarter but then rose to 2.00% in May.



	1 Year	5 Year	10 Year	25 Year	50 Year
Low	0.78%	1.12%	1.60%	2.03%	1.83%
Date	08/04/2021	22/04/2021	11/06/2021	21/06/2021	21/06/2021
High	0.88%	1.24%	1.80%	2.27%	2.06%
Date	21/06/2021	13/05/2021	13/05/2021	13/05/2021	13/05/2021
Average	0.81%	1.18%	1.68%	2.14%	1.94%
Spread	0.10%	0.12%	0.20%	0.24%	0.23%

Outlook for the remainder of 2021/22

5.10 The medium-term global economic outlook has continued to improve with the rollout of vaccination programmes. The UK has continued to benefit from its initial rapid vaccine rollout and has shifted focus onto second vaccinations to increase protection to counter a third wave of COVID-19 variant.

5.11 The opening up of the UK economy in Q2/Q3 will continue to prompt a sharp increase in GDP. While downside risks seem to have fallen somewhat after recent trends in GDP and labour, the upside risks remain relatively balanced with the MPC reiterating its commitment not to tighten policy until there is clear evidence that the recovery is eliminating spare capacity in the economy.

5.12 Inflation has moved above the Bank of England's 2% target. Alongside the increase in commodity prices, the MPC has acknowledged the prospect of a sharper upturn in inflation, with the potential CPI (Consumer Price Inflation) could rise above 3% in the coming months. However, the nature of the commodity price rise and the base effect easing, this is likely a more transitory effect. Upward pressure on gilt yields could continue in the short term due to the preponderance of strong data, but this is likely to ease once inflation fears recede as the effect of weak base effects subsides and growth figures return to more normal levels. Bank Rate is expected to remain at the current 0.10% level. The risk of movement in Bank Rate in the short term is low.

5.13 Gilt yields could continue to increase in the short term but will begin to plateau and reduce once the market's expectation of rises in Bank Rate and inflation fears subside. Longer term yields may face upward pressure towards the end of the forecast period as the economy moves back to a sustained footing and policy expectations start to strengthen.

5.14 Downside risks remain – the damage from the pandemic will have lasting effects and there is the risk of further virus mutations due to the uneven global rollout of vaccines. Downside risks also arise from potential future vaccine shortages as the global demand for vaccines increases.

6. Compliance with Treasury and Prudential Limits

6.1 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators (affordability limits) are included in the approved TMSS. As at 31 July 2021, the Council has operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices.

Treasury Prudential Indicators	**2021/22 Estimate Indicator**	**31 July Actual Indicator**	**RAG Status/Reason**
Authorised limit for external debt (Capital Strategy 4.2.4)	£219m	£219m	GREEN
Operational boundary for external debt (CS 4.2.4)	£199m	£199m	GREEN
Gross external debt (CS 4.2.2)	£179m	£179m	GREEN
Capital Financing Requirement (CS 2.3.4)	£199m	£199m	GREEN
Debt vs CFR (Capital Financing Requirement) under/(over) borrowing	£20m	£20m	GREEN
Investments (Average)	£6.6k	£1.6k	AMBER
Investment returns expectations	0.10%	0.04%	AMBER
Upper limit for principal sums invested for longer than 365 days			
Maturity structure of fixed rate borrowing - upper limits:			
Under 12 months	25%	25%	GREEN
12 months to 2 years	40%	40%	GREEN
2 years to 5 years	50%	50%	GREEN
5 years to 10 years	75%	75%	GREEN
10 years and above	100%	100%	GREEN
Revised Capital expenditure (CS 2.1.3)			
General Fund	£14.3m	£0.7m	GREEN
HRA (Housing Revenue Accounts)	£21.8m	£1.7m	GREEN

Commercial Activities/ non-financial investments	£18.8m	£11m	GREEN
Ratio of financing costs to net revenue stream (CS 8.1.1):			GREEN
Proportion of Financing Costs to Net Revenue Stream (General Fund)	17.4%	17.4%	GREEN
Proportion of Financing Costs to Net Revenue Stream (HRA)	13.1%	13.1%	GREEN

7 Economic Background

7.1 As expected, the Bank of England's Monetary Policy Committee kept Bank Rate unchanged and a detailed economic commentary on developments during period ended 31 June 2021 is attached as **Appendix A**.

8 Financial appraisal

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

9 Legal implications

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

10 Risk management implications

10.1 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.

11 Equality analysis

11.1 Equality issues are considered

12 Appendices

12.1 Appendix A - Detailed economic commentary

13 Background papers

13.1 Treasury Management Strategy Statements 2021/22.

Link Treasury Services Limited - Detailed economic commentary on developments during quarter ended 30th June 2021

During the quarter ended 30th June 2021 *(quarter 1 of financial year 2021/22):*

- GDP rose by 2.3% m/m in April as restrictions were lifted on non-essential retailers;
- There were signs that activity was given another boost in May as indoor hospitality resumed;
- Sharply increasing virus cases in June delayed the final easing of lockdown restrictions by four weeks;
- Inflation accelerated to 2.1% in May due to energy effects and a surge in reopening inflation;
- Gilt yields and sterling made little headway, while the FTSE 100 failed to catch up on the S&P 500.

The economic recovery stepped up a gear as non-essential retailers and outdoor hospitality reopened on 12th April. The 2.3% m/m gain in GDP in April was the fastest pace of growth since July 2020 and left the economy just 3.8% below its February 2020 level. It was the accommodation and food sector and the retail sector that led the charge with monthly gains of 44.1% and 8.9% respectively.

Activity was given another boost in May as indoor hospitality reopened on 17th May. Households were keen to return to restaurants. The seven-day average of restaurant diners shot up from around 35% below the same period in 2019 to around 30% above it after 17th May. And there were further signs that the recovery shifted up a gear as the IHS Markit/CIPS composite PMI surged to an all-time high of 62.9 in May. Admittedly, there has since been a recent softening in some activity indicators. Retail sales volumes fell by 1.4% m/m in May and the Bank of England CHAPS data showed a dip in the value of consumer spending on electronic cards from 1.3% below the February 2020 value in May to 5.2% below it in the first two weeks of June. What is more, the composite PMI also declined from 62.9 in May to 61.7 in June. But we think that this is a sign that the economic recovery is evolving as consumers substitute spending on goods towards services, rather than a sign that the recovery is spluttering. Indeed, our CE BICS indicator, which has been a reliable barometer since the onset of the pandemic, suggests that growth has been strong in May and June. As a result, we think that GDP rose by around 1.5-2.0% m/m in both May and June.

The final stage of lifting lockdown restrictions on social distancing and large events was delayed in June. This was triggered by a sharp rise in new virus infections. These have increased from a low of around 1,600 per day in early May to over 20,000 by the end of June. Fortunately, this rise has not translated into a sharp increase in hospitalisations. Another reason for the delay was to buy some time to further the vaccine rollout. Currently, nearly half of the total population has received a second vaccine dose and over two thirds have received their first dose. At its current pace, the government is more or less on track to hit its target of vaccinating all adults with a first dose (roughly 53 million) by the end of July.

While Prime Minister Boris Johnson has said that the final domestic restrictions are likely to end on 19th July, this four-week delay is unlikely to prevent the economy from climbing back to its pre-pandemic size by the autumn. This is because the biggest bump to activity came from reopening hospitality in April and May and a delay of four weeks means that the final boost to activity will come only a month later. So, we think that monthly GDP will rise back to the pre-pandemic peak of February 2020 in August, rather than July as we had previously thought.

Meanwhile, households showed that they are willing and able to drive the recovery. Consumer credit increased in May for the first time since August 2020. And the rise in the amount of cash in households' bank accounts of £7.0bn in May was above the 2019 average rise of £4.7bn, suggesting that households are still amassing excess savings. That means there is the potential for faster rises in GDP further ahead should households choose to spend those excess savings.

Some sectors will take longer to recover than consumer spending. Trade flows are still well below pre-crisis levels and trade with the EU remains especially depressed after Brexit. Exports values to the EU, excluding erratic's, were 5.7% below their December level in April, while imports were a whopping 19.1% below. The slower recovery in the euro-zone and lingering Brexit effects are still hampering the recovery in trade with the EU, which will probably continue to lag behind the broader recovery.

After being subdued over much of the pandemic, inflation picked up sharply in this quarter. A large portion of the rise in CPI inflation from 0.7% in March to 1.5% in April was due to temporary energy price effects. Fuel price inflation added 0.3 percentage points (ppts). And the 9.2% increase in Ofgem's gas and electricity price cap from 1st April added 0.3ppts too. Inflation climbed further in May to 2.1% and core CPI inflation rose from 1.3% to 2.0%. Some of this was driven by reopening inflation, with clothing inflation, restaurants/hotels inflation and package holidays inflation all rising and likely rise further. Meanwhile, cost pressures are building earlier in the price pipeline. The input prices and output prices balances of the IHS Markit/CIPS manufacturing PMI both reached record highs in June. Core input producer price inflation picked up from 7.4% in April to 7.8% in May and core output producer price inflation rose from 2.5% to 2.7%.

A strong recovery is underway in the labour market. The 113,000 rise in LFS employment in the three months to April was the largest rise since February 2020 and the ILO unemployment rate edged down to 4.7% from 4.8%. The strong set of labour market figures for April fed concerns over the anecdotal reports of labour shortages and its possible impact on inflation from higher wage growth. Vacancies rose to just 3.4% below their pre-virus level in May and online Adzuna vacancies suggest that the official measure of vacancies rose to 20% above pre-pandemic levels in June.

The myriad of factors boosting inflation (energy price effects, utility price effects, supply/shipping constraints, commodity prices and reopening), are likely to prove temporary. As such, the Bank of England will probably look through increases in inflation above the 2.0% target due to these factors. Indeed, the minutes of the June meeting emphasised "the medium-term prospects for inflation" and left intact the forward guidance designed to stress the MPC's patience.

So, we still think financial markets are wrong to price in an interest rate rise from next year. **Instead, we think it will not be until late 2023 that inflation breaches 2.0% sustainably, with the Bank tightening policy from 2024. And when the Bank does tighten policy, we think it will unwind QE, (shrink its holdings of gilts), first rather than raise interest rates.** The Bank is likely to proceed very cautiously by simply not reinvesting the proceeds from maturing gilts. The maturity profile of the Bank's assets points to around £45bn of QE being unwound per year. And we suspect the MPC would want to wait to see how unwinding

QE is influencing the economy and financial markets before raising Bank Rate. So, the first rate hike may not come until a year later, perhaps in 2025.

In the wake of the hawkish surprise at the Fed's May meeting, the gilt yield curve flattened in the UK, but not to the same extent as in the US treasury market. That said, most of these moves have since unwound. **Our forecasts that the Bank will tighten policy later than the markets expect, and unwind QE before raising interest rates, will probably lead to a steeper gilt yield curve, driven by rising long yields.**

The FTSE 100 rose by 5% over Q2 but failed to make up any lost ground on the S&P 500 or Dax 30. However, the easing in COVID-19 restrictions in the UK helped the more domestically orientated FTSE 250 to outperform the FTSE 100. And we think that the favourable valuation and composition of UK equities should help them outperform their global peers over the rest of 2021. We expect the FTSE 100 to rise from 7,100 now to 7,500 by the end of 2021 and to 8,250 by the end of 2022.

In the US, CPI inflation accelerated from 4.2% in April to 5.0% in May, including a jump in core CPI inflation from 3.0% to 3.8%. That was mostly driven by categories directly affected by loosening virus restrictions. But there are also signs of pressures in other sectors too. <u>That means not all the upward pressure may prove transitory as the Fed expects.</u> The Fed revised up its median projections for interest rates to include two 25bp hikes in 2023. We think the upward pressure on inflation will be greater and longer lasting in the US than in the UK. **That is why we think the Fed will tighten (in 2023) before the BoE (in 2024), so the risks to our forecast for the pound to stay close to $1.40 for the next couple of years are to the downside.**

The more positive economic outlook this year for the UK compared to the **euro-zone** means there is scope for the pound to rise against the euro from €1.16 now, perhaps to €1.22. But as the economic recovery catches up in the euro-zone, sterling might fall back to €1.17 by the end of 2023. In the euro-zone, the vaccine rollout has picked up considerable speed. The euro-zone is now on track to vaccinate 70% of its adult population by July. And economies have gradually reopened as virus cases have fallen significantly. This progress means that we now think GDP increased by 1.0% q/q in Q2. After HICP inflation rose to 2.0% in May, we think that reopening inflation may push headline inflation above 2.5% in the second half of the year. But as inflation will drop back in 2022, the ECB will persist with its ultra-loose monetary policy.

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Agenda Item 9

Report to:	**AUDIT AND GOVERNANCE COMMITTEE**
Date:	**29th September 2021**
Title:	**Internal Audit and Counter Fraud Report for the first quarter of the financial year 2021-2022.**
Report of:	**Chief Internal Auditor**
Ward(s):	**All**
Purpose of report:	**To provide a summary of the activities of Internal Audit and Counter Fraud for the first quarter of the financial year - 1st April 2021 to 30th June 2021.**
Officer recommendation(s):	**That the information in this report be noted and members identify any further information requirements.** **The committee is requested to review and approve the updated Audit Charter.**
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** **Post title: Chief Internal Auditor** **E-mail: jackie.humphrey@lewes-eastbourne.gov.uk** **Telephone number: 01323 415925**

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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 first quarter of the financial year 2021-22.

1.4 At the last committee meeting, members raised some points relating to the layout of the report. In this report some RAG rating colours have been added for clarity and more information added to Appendix B. However, a fuller review of the report layout is underway and the next report to committee should address the issues that were raised.

2 Review of the work of Internal Audit carried out in the first quarter of the financial year 2021-22

2.1 A list of all the audit reports issued in final from 1st April 2021 to 30th June 2021 is as follows:

Name of Audit	Assurance Level
Council Tax (20/21)	Substantial Assurance
Payroll (20/21)	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 with an assurance level below "substantial". This list is split between reports issued in this financial year and those issued in previous years where follow ups have not yet been carried out or where the assurance level remains below "substantial" after follow up. The list contains brief bullet points of the issues highlighted during the reviews which informed the assurance level given.

2.4 During the first quarter of the year the focus of work for Internal Audit is on completing the annual reviews of the main financial systems. There is much work to be carried out on these and the team are reliant on departments responding to requests for information.

2.5 Two follow up reports have been completed in this quarter:

Business Continuity Planning: it was found that two of the original four recommendations had been addressed and that an action plan was in place to address the remaining action. The assurance level was raised from “minimal” to “partial” and a further follow up will be carried out in September.

IR35: it was found that only one of the original 13 recommendations had been addressed. However, work was ongoing to address the remaining recommendations. The assurance level was raised from “no” assurance to “minimal” because work has begun on looking at and addressing the recommendations. A further follow up will be carried out in October.

2.6 Following this quarterly report being taken to Corporate Management Team, the Assistant Director for HR and Transformation provided this update for the work on the recommendations re IR35:

“Outline next step:

- A new IR35 procedure has been drafted with appropriate guidance notes and forms e.g. Status Determination Statement
- Investigation has also been undertaken into existing arrangements with individuals and regarding the process with Matrix
- A meeting of the Working Group will review the draft policy and new proposed procedure
- Following this, a report will be taken to CMT by the end of September
- Go Live for new process – 1 October”

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 The team is currently carrying one vacancy. This has had an impact on the team’s resilience and has impacted work carried out as one member of the team was on sick leave for the majority of the first quarter. This member of the team is now back at work. Consideration is currently being given to the make-up the team and the resources necessary to have a fully resilient team.

2.9 One member of the team only joined Internal Audit in January. The current work on the annual reviews is their first time carrying out these reviews and is their first experience of carrying out a full review on their own. They have therefore taken more than the allocated time to complete the work and have required support. However, they are making very good progress and are now requiring less support.

2.10 Two members of the team are continuing with their Institute of Internal Auditors, Internal Audit Practitioner apprenticeships. The Audit Manager has completed the IIA Award in the Effective Delivery of Audit and Assurance, and the Internal

Audit Practitioner exam. She now needs to complete a professional discussion and sit a scenario-based exam to complete the apprenticeship. The Auditor undertaking the apprenticeship has had to undertake extra work on English and Maths as they could not find their school exam certificates. He has completed the IIA Award in the Effective Delivery of Audit and Assurance but is currently awaiting results.

2.11 The Internal Audit team has also been involved with giving advice to departments and sitting on groups involved with various projects. Previously this work has not been noted as work against the Audit Plan. However, consideration has been given to how this work supports the council and how it is recorded. The team are therefore trialling a new approach of "real-time auditing". One aspect of this will be that notes of discussion at these meetings will be recorded along with any suggestion/recommendation made by the Auditor present. A "report" will be passed to the appropriate manager/project manager after the meeting and a summary report at the end of the project. In this way the recommendations can be monitored and the work can be included against the Audit Plan as it will contribute to assurance given. An update on this work will be reported quarterly to the committee. This is a brand new process so it will evolve over time.

2.12 As reported previously, the flexibility of the new process of setting the Audit Plan proved invaluable during the Covid-19 pandemic. It also allows for the introduction of the new "real-time auditing" approach to be part of the overall work undertaken. 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. It should be noted that at the beginning of the year the actual figures will differ from that planned but should begin to match as more audit reviews are carried out.

Area	Planned	Actual
Regeneration	12%	0.44%
Tourism and Enterprise	9%	5.14%
Service Delivery	37%	47.84%
Corporate Services	42%	46.57%

3 Review of the work of Counter Fraud carried out in the first quarter of the financial year 2021-22.

3.1 The Counter Fraud Team continues to be directly impacted by the Covid-19 pandemic. This has resulted in periods of adjustment while supporting the council's key priority areas and maintaining a flexible and creative approach in dealing with the existing and new fraud investigations under government guidelines and restrictions.

3.2 Cases have continued to be built and monitored during the easing of lockdown restrictions, with the team responding to new and emerging fraud risks following the release of Covid-19 support packages to businesses and individuals.

3.3 Housing Tenancy – The team continues to work closely with colleagues in Homes First and Legal. There are currently 27 ongoing sublet/abandonment tenancy cases at various stages. 12 tenancy fraud cases were closed in the quarter with no further action.

3.4 Right to Buy – There continues to be a steady volume of Right to Buy applications. 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. 10 cases were withdrawn during this quarter with a net saving to the authority of £839,500.

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 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 £6,016.91 generated to the authority. 3 cases have been closed this quarter with a number still under review.

3.8 Council Tax – 28 cases have been investigated during the first quarter with a net recoverable income of £27,197.44 generated for the authority and a preventative saving of £11,208.96. A review of Council Tax exemptions/disregards also continues.

3.9 Council Tax Reduction – 5 cases have been closed in this period generating a recoverable income of £1,569.89 and a preventative saving of £1,878.08.

3.10 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, 5 cases have been closed in this period with an increase in recoverable Housing Benefit of £656.11 and a preventative saving of £4,063.95. £553.20 was also recovered from historic Adpen collection.

3.11 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. This activity has recouped £1,665 in this period which otherwise might have been written off.

3.12 National Fraud Initiative – The 2020/21 exercise has now commenced. The first batch released contains 1659 cases to review. The team have processed 135 so far and investigating another 37. No financial gains have been found to date.

3.13 Data Protection Requests – The team take an active role in supporting colleagues in other organisations to prevent fraud and tackle criminal activity. During this quarter the team have dealt with 22 DPA requests from the Police and other authorities. In addition, 7 fit and proper person checks were completed for new or renewal HMO licences and 12 Gas Safety checks were completed on council properties where the tenant has not responded.

3.14 6 allegations were received from the general public during this period which were closed down due to either insufficient information/contact details or the matter did not relate to a council concern.

3.15 A table showing the savings made by the Counter Fraud team in the first quarter of 2021-2022 can be found at Appendix C.

4 Post Verification of Review of the First Round of Covid Grants

4.1 The government introduced Small Business grants and Retail, Hospitality and Leisure grants to help businesses that were affected during the pandemic. In order to deal with the applications a portal was put onto the council's website, through which applications could be made. This piece of software checks applications against data held by the council and from open source data. It then allocated a RAG rating to the applications where:

Green – met checks and criteria and could be paid
Amber – low risk but some further checks required
Red – higher risk and required thorough checking

4.2 Lewes/Eastbourne was one of only two authorities to originally work with Ascendant to use this portal. By the second round of grants, many more authorities began using this software.

4.3 When the portal went live, 1500 applications were made between April and September 2020. In this first round, £10,0780,000 was paid out in Small Business grants and £8,035,000 in Retails, Hospitality and Leisure grants. A total of £18,815,000.

4.4 The Department of Business, Energy and Industrial Strategy (BEIS) requested post-verification testing to be carried out. In order to give assurance, the work was carried out in two parts:

- to check the information produced by the portal software to ensure that it had correctly allocated the RAG ratings

- to check grants which had been paid to see if any showed fraud or error had occurred

4.5 Software testing – a sample of applications from each of the RAG ratings were tested. In each case it was found that the correct rating had been allocated to the cases based on the data held by the council and open data. Therefore, reasonable assurance can be given that the software worked as intended.

4.6 Grants paid – a sample of cases was taken from those that had been in the amber and red ratings where the grant had been paid. 255 red rating and 591 amber rating were checked. Testing found that 11 had been paid incorrectly, amounting to a total of £110,000. At the time of writing, a further 26 are still under review. The percentage of grants incorrectly paid at this time is 1.3%.

It is not possible to state definitively whether any of the 11 cases paid incorrectly were fraudulent claims or not. It can only be stated that they were ineligible for the grant.

Reasons for incorrect payment included:

- business had ceased trading as of 11th March 2020
- business not eligible under the criteria
- dispute between parties following change or transfer of the business

Recovery of the incorrectly paid grants is ongoing with £30,000 having been repaid in full. Of the remaining cases, some have accepted the decision and have requested a repayment plan. These have been set up through the Debtors system. Other have not responded. BEIS have advised that the council is responsible for taking any practical steps to recover monies incorrectly paid with the plan that at some point these debts, if still outstanding, will be passed back to them to resolve. All monies paid back will be given back to the government.

4.7 Work is continuing on checking grants but the following observations were made during the first round of testing:

- the grants were implemented in a matter of weeks so there was no time for thorough preparation
- the business rate payer records were formed for the collection of rates and not for fraud prevention so do not contain the same level of detail as other systems
- there were just 5 members of staff across two authorities working on the administration of these grants. extra work was caused where there has been a dispute over eligibility. All this at a time when the businesses were actually closed.
- there was pressure from government and business owners to pay out grants swiftly
- 423 grant applications were never fully completed, indicating that the measures in place are likely to have reduced fraudulent applications being made
- the process of administering the grants revealed that some information held by business rates was out of date

4.8 The Counter-Fraud team are continuing with post-verification testing. Now businesses have re-opened, it will be possible to do further checks around eligibility.

4.9 It has not been possible to find information from other authorities against which to benchmark this work. However, such information will continue to be sought and will be reported to the committee if and when it becomes available.

5 Updating Policies

5.1. The policies and procedures of Internal Audit and Counter Fraud are regularly reviewed and the procedures of the teams are also considered in terms of continuous improvement.

5.2. All of the policies are currently undergoing a thorough review to ensure that they are up to date and, where necessary, amended or re-written. Attached at Appendix D to this report is the updated Audit Charter which the committee is required to approve.

The Public Sector Internal Audit Standards (PSIAS) state:

The internal audit charter is a formal document that defines the internal audit activity's purpose, authority and responsibility. The internal audit charter establishes the internal audit activity's position within the organisation, including the nature of the chief audit executive's functional reporting relationship with the board; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

5.3. The committee is requested to review and approve the updated Audit Charter.

6 Updating the quarterly report

6.1 Questions raised by councillors have highlighted that the quarterly report itself needs to be reviewed. Over time, small changes have been made in response to requests and questions by councillors and it is felt that it would now be timely to consider a fuller review.

6.2 The review will consider the process of producing and collating information and how it is presented in this quarterly report.

6.3 As the committee requires the information it needs to keep the work under review, members are requested to make any comments/request about both content and layout of the current report. These will then be taken into consideration when updating the report.

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.

Appendix D - Audit Charter

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 IN ORIGINAL REVIEW	Level at follow up
Business Continuity Planning	Minimal	• There is no lead officer for business continuity planning • There is no appropriately skilled or resourced Business Continuity Planning function • The council does not hold a strategic Business Continuity Plan • There is a lack of business continuity plans at a department level	Partial (See appendix B) Ongoing
Rechargeable Repairs	Partial	• A number of tenancy agreements could not be found during testing • No check is made that invoices sent out are correct • The number of post inspections had fallen due to Covid restrictions.	Follow up Ongoing
IR35	No	• Pockets of knowledge on the subject in different areas of the council but not working together • A status determination statement on file was completed by the consultant • The status of the golf pro is unclear • Guidance on the intranet does not cover the full process and is not easily found • Consultants have been set up on council systems as if they are employees.	Minimal (See appendix B) 2nd Follow up due October 21
Arrears Collection	Partial	• Aged debt analyses not being utilised to inform debt collection • Lack of shared knowledge and expertise in debt collection	Follow up Ongoing

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 IN ORIGINAL REVIEW	Level at follow up
		as split between departments.	
Leaseholder Management and Recharges	Partial	• The Leaseholder handbook is out of date • Copies of some leases could not be found for the audit.	Follow up due June 21 Ongoing
Procurement	Partial	• The council does not have a Procurement Strategy • The council does not have a representative on any local procurement group • The use of corporate contracts is not adequately communicated • There is no reporting on savings made through contract procurement • The Creditors system is not being utilised to highlight opportunities to put contracts in place. • Non-compliance with raising of purchase orders is not being monitored and reported.	Follow up Ongoing
Implementation of Housing CX	Partial	• Some reports required from the system are still not available • Lack of resource for communication between departments and those writing reports	Follow up Ongoing
Fly Tipping	Partial	• No policy on fly tipping • Procedures require updating • Lack of separation of duties between operational work and authorisation • Information/evidence not held centrally in one place	Follow up Ongoing

APPENDIX B OUTSTANDING RECOMMENDATIONS AFTER FOLLOW UP/ACTIONS

AUDIT REPORT	RISK LEVEL	OUTSTANDING RECOMMENDATION	CLIENT COMMENTS
Business Continuity Plans	High	Business Continuity Plans for both councils must be completed and adopted as soon as possible.	We now have an agreed Action plan for the completion of BCPs across the organisation. The Pid for the project has been supplied. Commencing 6/4/21 with a completion 1/7/21. The plans will be validated through an Organisational Table Top BC Exercise in June 21.
	High	Business Continuity Plans for every department must be completed and adopted as soon as possible.	
IR35	High	The working group must consider the status of all the examples raised in this report	AD for HR is undertaking initial investigations. Results will go back to working group.
	High	Any adjustments to employment status must be made if the working group decides it falls within IR 35.	AD for HR is undertaking initial investigations. Results will go back to working group.
	High	Status Determination Statements must be obtained for all existing consultants employed through their own companies and before any new ones are taken on. (These must be undertaken by the councils and not the consultant.)	IR35 page being set up on the Hub where there will be a procedure, guidance notes and a downloadable RAF and SDS. This part of the process will be owned by the HR team. Will be done by end of August.
	High	Any out of date or missing contract/agreement must be reviewed or written.	AD for HR is undertaking initial investigations. Results will go back to working group. End of July
	Medium	A review should be carried out of any staff who have been employed through Matrix for a year or longer.	AD for HR is undertaking investigations. Results will go back to working group. End of July

APPENDIX B OUTSTANDING RECOMMENDATIONS AFTER FOLLOW UP/ACTIONS

AUDIT REPORT	RISK LEVEL	OUTSTANDING RECOMMENDATION	CLIENT COMMENTS
IR35 (continued)	Medium	Consideration should be given to the way in which consultants are set up for work in terms of equipment and communications.	AD for HR is undertaking investigations. Results will go back to working group. End of July
	High	The working group must write procedures for all the steps which must be followed by managers when considering hiring consultants	IR35 page being set up on the Hub where there will be a procedure, guidance notes and a downloadable RAF and SDS. This part of the process will be owned by the HR team. Will be done by end of August.
	High	A page should be set up on the Hub, or the current Agency Workers page updated, to explain about the considerations to be made when hiring consultants and the new IR35 procedures should be accessed from this page.	IR35 page being set up on the Hub where there will be a procedure, guidance notes and a downloadable RAF and SDS. This part of the process will be owned by the HR team. Will be done by end of August.
	Medium	The working group should carry out occasional review of the process.	Future meetings will be set up as and when appropriate, and at least once a year e.g. to review new proposed IR35 documentation; review IR35 process and outcomes. <u>Audit note</u> To be tested at next follow up to ensure occasional meetings are taking place.
	High	Consideration should be given to awareness training for staff either via Olle or training via Teams.	Awareness session will be given to SMF as they are the group most likely to consider taking someone on who may be impacted. Will be done by end of September (to use new procedure and guidance documents).

APPENDIX B OUTSTANDING RECOMMENDATIONS AFTER FOLLOW UP/ACTIONS

AUDIT REPORT	RISK LEVEL	OUTSTANDING RECOMMENDATION	CLIENT COMMENTS
IR35 (continued)	Medium	Finance should investigate the use of the IR35 fields on Cafi and use if possible.	Information regarding these fields has been obtained from Civica. In Civica Financials the IR35 functionality is an optional add on that is chargeable. Costs are not known at this point. It would allow the IR35 flags against suppliers to be set and dependent on input could lead to invoices being put in dispute where a supplier was determined to be subject to IR35 regulations. It would enable IR35 status determination results to be recorded on the system against suppliers. Audit note Work still needs to be undertaken to establish whether this will be used or not.
	Medium	The first time an invoice is processed for payment for a consultant, the payment must not be made until paperwork which supports the decision for/against IR35 is passed to the Creditors team.	Creditors are manually raising any issues they spot with payments entered onto the Creditors system which would generate a payment to single officer consultancy firm. Audit note It should be noted that no payment should be made without a self-determination and it is not clear whether this is the "issues" noted here. As there are few cases a check of any payments made will be carried out at the next follow up.
	Medium	A centralised list of determinations should be held and this should be managed by HR.	As part of the new process, an IR35 drive is being set up by the HR team where all documentation regarding both the process and individual IR35 employment records will be kept. Will be done by end of August.

APPENDIX B OUTSTANDING RECOMMENDATIONS AFTER FOLLOW UP/ACTIONS

OTHER REPORTS TO COMMITTEE	OUTSTANDING ACTION	COMMENTS
Risk Management	Hold facilitated workshops for CMT and Members to refresh understanding of roles and responsibilities.	Course drafted and passed to officer to produce an Olle course.
	Interactive training workshops across all levels.	
	Risk management refresher training for Members (especially newer ones).	
	All risk assessments to be put back onto Pentana Performance.	
	Contract risk management training and awareness, with a view to identifying strategically important contracts and associated risks.	
	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.	This will be completed once risk assessments have been produced.
	Service level risk registers to be discussed at Departmental Management Team meetings.	Senior Managers to be reminded of this once the risk assessments have been completed.

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									£0.00	£0.00
RTB value saved through intervention		£839,500.00							£0.00	£839,500.00
Housing intervention/fraud									£0.00	£0.00
Revenues										
NNDR	£6,016.91								£6,016.91	£0.00
Council Tax	£27,197.44								£27,197.44	£0.00
Value of ongoing CT increase per week		£11,208.96							£0.00	£11,208.96
Council Tax Penalties									£0.00	£0.00
CTR & Housing Benefit										
SPOC Cases									£0.00	£0.00
Council Tax Reduction	£1,569.89								£1,569.89	£0.00
CTR weekly incorrect benefit (WIB)		£1,878.08							£0.00	£1,878.08
Housing Benefit	£656.11								£656.11	£0.00
HB weekly incorrect benefit (WIB)		£4,063.95							£0.00	£4,063.95
Income from Adpen collection	£553.20								£553.20	£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	**£35,993.55**	**£856,650.99**	**£0.00**	**£0.00**	**£0.00**	**£0.00**	**£0.00**	**£0.00**	**£35,993.55**	**£856,650.99**

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Document name:	**Internal Audit Charter**
Document type:	Charter

Authority(ies) covered:	Aligned
Responsible (Executive Lead):	Chief Finance Officer
Accountable (Operational Lead):	Chief Internal Auditor
Version (e.g. first draft, final report):	First Draft Update
Approved by:	
Date of publication:	
Revision due:	
Final Equality and Fairness Analysis (EaFA) report approved by:	Not applicable
Date final EaFA report approved:	Not applicable

CONTENTS

1. Powers

1.1 The Audit and Standards Committee, Lewes District Council, and the Audit and Governance Committee, Eastbourne Borough Council, (the committees) have established Internal Audit with the authority, purpose, responsibilities and duties as are set out in this Charter.

1.2 The committees empower Internal Audit to be able to conduct its work in accordance with the agreed plan, with free and unfettered access to people and information, consistent with the purpose, responsibilities and duties as set out in this Charter and any other matters that may be delegated by the Audit Committee to Internal Audit from time to time.

2. Role and Mandate

2.1 Internal Audit is an independent and objective, assurance and consulting activity forming part of the system of governance and internal control.

2.2 The primary role of Internal Audit is to help the Corporate Management Team (CMT) and the committees to protect assets, reputation and sustainability of the councils. Internal Audit will achieve this through assessing whether all significant risks are identified and appropriately reported to CMT and the committees, assessing whether they are adequately controlled and by assisting senior management to improve the effectiveness of governance, risk management and internal controls.

2.3 It assists the councils in accomplishing their objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of their risk management, control and governance processes.

3. Authority

3.1 Internal Audit, with strict accountability for confidentiality and safeguarding records and information, is authorised full, free and unrestricted access to any of the busines records, physical properties and personnel pertinent to carrying out any engagement.

3.2 All employees are requested to assist the internal audit activity in fulfilling its rules and responsibilities.

4. Organisation

4.1 The Chief Internal Auditor (CIA) will communicate with, and report quarterly to, the audit committees.

4.2 The CIA reports functionally to the Chief Finance Officer.

4.3 The CIA also has right of access directly to the Chief Executive, the Chairs of the Audit Committees and the Head of Legal Services should this be deemed necessary.

4.4 All work undertaken by the audit team is carried out in accordance with the Public Sector Internal Audit Standards.

5. Independence and Objectivity

5.1 The internal audit activity will remain free from interference by any element in the organisation, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessarily independent and objective service.

5.2 Internal auditors will have no direct operational responsibility or authority over any of the activities audited. They will therefore not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair an internal auditor’s judgement.

5.3 Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. Internal auditors must not allow themselves to be unduly influenced, by their own interests or by others, in forming judgements.

5.4 The CIA will confirm to the audit committees, at least annually, the organisational independence of the internal audit activity.

6. Responsibilities

6.1 The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the councils’ governance, risk management and internal control processes in relation to the defined goals and objectives.

6.2 Internal Audit is responsible for evaluating all processes (Audit Universe) including governance processes and risk management processes with its approach set out in 7 and 8.

6.3 Internal Audit may perform consulting and advisory services related to governance, risk management and control as appropriate. Other areas of consultancy may be considered.

6.4 Internal Audit is responsible for reporting significant risk exposures and control issues, identified through its work, to the committees.

7. Internal Audit Plan

7.1 At least annually the CIA will submit an internal audit plan to the committee to review and approve.

7.2 Internal Audit's plan will be risk based and aligned to the councils' objectives where appropriate.

7.3 The CIA will report any resourcing limitations within the team, and their impact, to the committees.

7.4 The internal audit plan will be developed using the Audit Universe and by identifying areas of risk or current concern. The suggested plan will be considered by CMT before submission to the committees for approval.

7.5 Progress against the plan will be reported quarterly to the committees.

7.6 The scope of internal audit will include:

- completeness, reliability and integrity of financial, management and performance information
- design and effectiveness of controls
- means of safeguarding assets, employees and interests
- processes for identifying, reporting and managing risks
- systems established to ensure compliance with policies, plans, contracts, legislation and regulations including those set by the councils and those established externally
- economy, efficiency and effectiveness in the use of resources

7.7 Internal Audit will continually seek to maintain independence and objectivity and will use professional judgement when considering rotation of staff on audit assignments.

8. Reporting and Monitoring

8.1 Findings may be prepared and issued by Internal Audit following the conclusion of internal audit engagements and will be distributed as appropriate. Internal Audit results will be communicated to the committees where appropriate.

8.2 The internal audit report may include management's response and corrective action to be taken in regard to the specific finding and recommendations. Management's response, whether included within the original audit report or provided thereafter by management of the audited area, should include an action plan and timescales for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.

8.3 The internal audit activity will be responsible for appropriate follow up on audit recommendations. All significant observations/recommendations will remain open until the responsible manager has provided assurance or, if relevant, further testing has shown that the necessary mitigating action has been carried out.

9. Periodic Assessment

9.1 The CIA is responsible for providing a self-assessment, at least annually, of the internal audit activity. This will be via reports to the committees on performance and a review of how the function meets the Public Sector Internal Audit Standards.

9.2 The CIA will also ensure that an external assessment is conducted at least every five years.

10. Quality Assurance and Improvement Programme

10.1 Internal audit activity will maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity. The programme will include an evaluation of the internal audit activity's conformance to the Definition of Internal Auditing, Public Sector Internal Audit Standards and an evaluation of whether internal auditors apply the Code of Ethics for Internal Auditors. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

11. Review of the Charter

11.1 The charter will be reviewed annually and will be presented to the committees when changes are made.

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Agenda Item 10

Report to:	**Audit and Governance Committee**
Date:	**29th September 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** **Post title: Chief Internal Auditor** **E-mail: Jackie.humphrey@lewes-eastbourne.gov.uk** **Telephone number: 01323 415925**

1 Introduction

1.1 The Strategic Risk Register is a high level document that records the key risks facing the council: those risks that would prevent the authority from achieving its overall strategies and objectives.

1.2 Maintaining the Strategic Risk Register is a vital part of the governance arrangements of the authority and, as such, it is overseen by the Corporate Management Team who review it on a quarterly basis.

1.3 The risk register shows the risk, a description of the risk, the risk score if no action is taken (original risk score), the internal controls put in place to mitigate the risk and the risk score after these controls are in place (current risk score).

1.4 The risk register is brought to the committee when any changes have been made to it following review by the Corporate Management Team.

2 Process

2.1 The Strategic Risk Register is the top level of the risk management process. Whilst the Strategic Risk Register is considered quarterly at the Corporate Management Team, this is a simply a review of the register itself.

2.2 There are many different risks and pieces of work that feed into the Strategic Risk Register. These are managed and monitored on a day to day basis within the relevant sections and departments.

2.3 The quarterly meeting of the Corporate Management Team to discuss the Strategic Risk Register allows the relevant Director/Assistant Director to provide feedback on risks in their area. This information is then used to consider changes that may need to be made to the Strategic Risk Register.

2.4 The Corporate Management Team will also carry out “horizon scanning” at these meetings: considering issues that are arising and considering whether they need to be included in the register.

3 September 2021 Review

3.1 The Strategic Risk Register was taken to Corporate Management Team on 1st September 2021 for the quarterly review.

3.2 Risks SR_009 – consideration was given to the risk of commercial enterprises not delivering financial expectations. In light of the current economic environment it was agreed to raise the likelihood from 3 (likely) to 4 (highly likely).

3.3 Risk SR_007 – there was a discussion to consider whether climate change should be specifically mentioned in the register. It was agreed that it should and that the risk sits under “Council materially impacted by the medium to long term effects of an event under the Civil Contingencies Act”. The following has therefore been added:

Description: Emergency caused by a climate change event.

Internal control: Adoption of, and action to implement, the council’s Climate Emergency Strategy.

3.4 SR_002 and SR_005 – Consideration was given to whether the risks around the current Recovery and Reset programme should be specifically mentioned in the register. It was agreed that these sit under two risks:

- Changes to the economic environment makes the council economically less sustainable

and

- Not being able to sustain a culture that supports organisational objectives and future development.

Under both the following has been added:

Description: The council’s Recovery and Reset programme fails to meet its objectives.

Internal control: Regular monitoring of the progress and outcomes of the Recovery and Reset programme.

3.5 The changes can be seen on the attached Strategic Risk Register.

4. Financial appraisal

4.1 There are no financial implications arising from this report.

5. Legal implications

5.1 This report is for noting only and therefore the Legal Services team has not been consulted on the content of it.

6. Risk management implications

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

7. Equality analysis

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

8. Appendices

- Strategic Risk Register

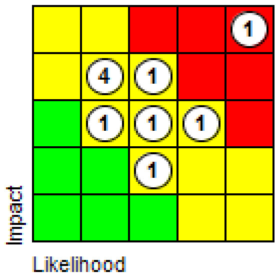
9. Background papers

None

Appendix A: Strategic Risk Register (Eastbourne)

EASTBOURNE Borough Council
Working in partnership with Eastbourne Homes

Report Type: Risks Report
Generated on: 02 September 2021

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

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
SR_001	No political and partnership continuity/consensus with regard to organisational objectives	Sudden changes of political objectives at either national or local level renders the organisation, its current corporate plan and	3	4	12	Reduces Likelihood 1. Create inclusive governance structures which rely on sound evidence for decision making. Reduces Impact	Chief Executive	2	3	6	Amber	02-Nov-2021

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
		Medium-Term Financial Strategy unfit for purpose.				2. Annual review of corporate plan and Medium-Term Financial Strategy 3. Creating an organisational architecture that can respond to changes in the environment.						
SR_002	Changes to the economic environment makes the Council economically less sustainable	1. Economic development of the town suffers. 2. Council objectives cannot be met. 3. Covid-19 has had a serious impact on the council's finances. 4. The council's Recovery and Reset programme fails to meet its objectives.	5	5	25	Reduces Impact 1. Robust Medium-Term Financial Strategy reviewed annually and monitored quarterly. Refreshed in line with macro economic environment triennially. 2. Creating an organisational architecture that can respond to changes in the environment. Reduces Likelihood 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. 4. Regular monitoring of the progress and outcomes of the Recovery and Reset programme.	Chief Finance Officer	5	5	25	Red	02-Nov-2021

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Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
SR_003	Unforeseen socio-economic and/or demographic shifts creating significant changes of demands and expectations.	1. Unsustainable demand on services. 2. Service failure. 3. Council structure unsustainable and not fit for purpose. 4. Heightened likelihood of fraud.	5	5	25	<u>Reduces Impact</u> 1. Grounding significant corporate decisions based on up to date, robust, evidence base. (e.g. Census; Corporate Plan Place Surveys; East Sussex in Figures data modelling). 2. Ensuring community and interest group engagement in policy development (e.g. Neighbourhood Management Schemes; Corporate Consultation Programme)	Director of Service Delivery	3	3	9	Amber	02-Nov-2021
SR_004	The employment market provides unsustainable employment base for the needs of the organisation	Employment market unable to fulfil recruitment and retention requirements of the Council resulting in a decline in performance standards and an increase in service costs.	4	4	16	<u>Reduces Likelihood</u> 1. Changes undertaken to increase non-financial attractiveness of EBC to current and future staff. 2. Appropriate reward and recognition policies reviewed on a regular basis. <u>Reduces Likelihood and Impact</u> 3. Review of organisation delivery models to better manage the blend of direct labour provision. Pursuit of mutually beneficial shared service arrangements.	Asst Director for HR and Transformation	3	2	6	Amber	02-Nov-2021
SR_005	Not being able to sustain a culture that supports	1. Decline in performance.	4	4	16	<u>Reduces Likelihood</u> 1. Deliver a fit for purpose organisational culture.	Asst Director for HR and	3	4	12	Amber	02-Nov-2021

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
	organisational objectives and future development.	2. Higher turnover of staff. 3. Decline in morale. 4. Increase in absenteeism. 5. Service failure 6. Increased possibility of fraud. 7. The council's Recovery and Reset programme fails to meet its objectives.				2. Continue to develop our performance management capability to ensure early intervention where service and/or cultural issues arise. 3. Continue to develop communications through ongoing interactions with staff. 4. Regular monitoring of the progress and outcomes of the Recovery and Reset programme.	Transformation					
SR_006	Council prevented from delivering services for a prolonged period of time.	1. Denial of access to property 2. Denial of access to technology/information 3. Denial of access to people	4	5	20	<u>Reduces Likelihood</u> 1. Adoption of best practice IT and Asset Management policies and procedures. <u>Reduces Likelihood and Impact</u> 2. The council has created a more flexible, less locationally dependent, service architecture. <u>Reduces Impact</u> 3. Regularly reviewed and tested Business Continuity Plans.	Chief Executive	2	4	8	Amber	02-Nov-2021

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
						4. Regularly reviewed and tested Disaster Recovery Plan.						
SR_007	Council materially impacted by the medium to long term effects of an event under the Civil Contingencies Act	1. Service profile of the Council changes materially as a result of the impact of the event. 2. Cost profile of the Council changes materially as a result of the impact of the event. 3. Work adversely affected by reduced staff numbers due to effects of pandemic virus. 4. Emergency caused by a climate change event	5	5	25	<u>Reduces Likelihood and Impact</u> 1. Working in partnership with other public bodies. 2. Robust emergency planning and use of Council's emergency powers. <u>Reduces Impact</u> 3. Ongoing and robust risk profiling of local area (demographic and geographic). 4. Review budget and reserves in light of risk profile. <u>Reduces Likelihood</u> 5. Adoption of, and action to implement, the council's Climate Emergency Strategy	Chief Executive	2	4	8	Amber	02-Nov-2021
SR_008	Failure to meet regulatory or legal requirements	1. Trust and confidence in the Council is negatively impacted. 2. Deterioration of financial position as a result of regulatory intervention/penalties.	3	4	12	<u>Reduces Likelihood</u> 1. Developing, maintaining and monitoring robust governance framework for the Council. 2. Building relationships with regulatory bodies.	Chief Executive	2	4	8	Amber	02-Nov-2021

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
		3. Deterioration of service performance as a result of regulatory intervention/penalties				3. Develop our Performance Management capability to ensure early intervention where service and/or cultural issues arise. 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 Capital and Medium-Term Financial Strategies. 5. Ensure there is full understanding the impact of new legislation. 6. All managers are required to abide by the Council's procurement rules. 7. Ensure that fire risk regulations are adhered to and that Fire Risk Assessments are regularly reviewed.						

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
SR_009	Commercial enterprises that are fully controlled by the authority do not deliver financial expectations or do not meet governance requirements.	1. Unfamiliar activity with staff inexperienced in this area. 2. Council finances affected if projects do not meet financial expectations. 3. Reputational damage if governance procedures are inadequate. 4. Failure to abide by company law.	5	5	25	<u>Reduces Likelihood</u> 1. Hire suitably qualified/experienced staff to give legal and specialist support. 2. Ensure that projects meet core principles. 3. Up or re-skill staff to maximise commercial opportunities. 4. Ensure governance processes are set up and adhered to.	Director of Regeneration and Planning And Chief Executive	4	3	12	Amber	02-Nov-2021
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. 2. Deterioration of financial position as a result of regulatory intervention/penalties 3. Deterioration of service performance as a result of regulatory intervention/penalties	3	4	12	<u>Reduces Likelihood</u> 1. Ongoing corporate training for data protection. 2. Ensure all staff complete the e-learning Data Protection course. 3. Ensure that the Data Protection Policy is regularly reviewed. 4. Ensure the Data Protection Officer is afforded the resources to discharge their statutory functions.	Chief Executive	2	4	8	Amber	02-Nov-2021

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
		4. Increased probability of compensation claims by persons affected by a personal data breach.				5. Ensure that managers regularly remind staff of their responsibilities under data protection, including personal data breach reporting arrangements. 6. Ensure the suite of IT policies is kept up to date. 7. Ensure that IT security is in place and regularly tested. Reduces Impact 8. Incident management procedures to mitigate loss or breach of data are in place.						