

Audit and Governance Committee 23 November 2022



Working in partnership with **Eastbourne Homes**

Time and venue:

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

Membership:

**Councillor Robin Maxted (Chair); Councillors Amanda Morris (Deputy-Chair)
Sammy Choudhury, Peter Diplock, Tony Freebody, Md. Harun Miah, Kshama Shore,
Candy Vaughan and Stephen Gilbert (Audit Independent Member)**

Quorum: 2

Published: Tuesday, 15 November 2022

Agenda

1 Minutes (Pages 5 - 10)

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

2 Apologies for absence/declaration of substitute members

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

4 Questions by members of the public.

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

5 Urgent items of business.

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

6 Right to address the meeting/order of business.

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

7 External Audit Update

Update from external auditors, Deloitte.

8 Annual Report on Covert Surveillance Management (Pages 11 - 34)

Report of the RIPA (Regulation of Investigatory Powers Act) Monitoring Officer.

9 Treasury Management - Q2 2022-2023 (Pages 35 - 52)

Report of the Chief Finance Officer.

10 Internal Audit and Counter Fraud Quarterly Report (Pages 53 - 76)

Report of the Chief Internal Auditor.

11 IT and Communications Risks report (Pages 77 - 80)

Report of the Chief Internal Auditor.

12 Exclusion of public

The Chief Executive considers that discussion of the following items is likely to disclose exempt information as defined in Schedule 12A of the Local Government Act 1972 and may therefore need to take place in private session. The exempt information reasons are shown beneath the items listed below. Furthermore, in relation to paragraph 10 of Schedule 12A, it is considered that the public interest in maintaining the exemption outweighs the public interest in disclosing the information. (The requisite notices having been given under regulation 5 of the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012.)

13 IT and Communications Risks - Exempt Appendix A (Pages 81 - 84)

14 Date of next meeting

To note that the next meeting of the Audit and Governance Committee is scheduled to be held on 18 January 2023 in the Court Room, Town Hall, Eastbourne commencing at 6:00pm.

Information for the public

Accessibility:

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

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Public participation:

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

Information for Councillors

Disclosure of interests:

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

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

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

Councillor right of address:

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

Democratic Services

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

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Working in partnership with **Eastbourne Homes**

Audit and Governance Committee

Minutes of meeting held in Court Room at Eastbourne Town Hall, Grove Road, BN21 4UG on 28 September 2022 at 6.00 pm.

Present:

Councillor Robin Maxted (Chair).

Councillors Amanda Morris (Deputy-Chair), Sammy Choudhury, Tony Freebody, Md. Harun Miah, Kshama Shore, Candy Vaughan and Stephen Gilbert (Audit Independent Member).

Officers in attendance:

Ola Owolabi (Deputy Chief Finance Officer - Corporate Finance), Lee Ewan (Counter Fraud Investigations Manager) and Nick Peeters (Committee Officer).

Also in attendance: Ben Sherrif and Tanya Chikari, (external auditor Deloitte)

14 Minutes

The minutes of the last meeting, held on 12 July 2022, were confirmed as an accurate record.

15 Apologies for absence/declaration of substitute members

Apologies for absence were received from Councillor Diplock.

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

There were none.

17 Questions by members of the public.

There were none.

18 Urgent items of business.

There were none.

19 Right to address the meeting/order of business.

The Chair confirmed there were no requests to address the meeting.

20 External Audit Update

Ola Owolabi, Deputy Chief Finance Officer, provided an update on the work of the external auditors, Deloitte. Ben Sheriff and Tanya Chikari, representing Deloitte, also addressed the Committee.

Ben Sheriff, Deloitte, advised Members that the audit had commenced in July with a mix of remote and site visits by the Deloitte Audit team, working with the Council's Finance team. As not all of the information requested had been available, the planned timings for completion had moved back. The audit was progressing and, with support from the Finance Team, issues were being addressed. It was anticipated that the 2019/2020 audit would be completed by the end of October and the focus would then move to the 2021 audit.

Ola Owolabi advised the Committee that time was being taken to ensure that the requests for information from Deloitte and reconciliations were being dealt with thoroughly. These areas had caused delays, however weekly progress meetings were taking place and the timetable revised with the expectation that the 2019/2020 Audit would be presented to the Committee on 23 November and the 2020/2021 Audit would be available in January 2023. The 2021/2022 Audit would be presented to the Committee's 1 March meeting. The Finance Team was working closely with colleagues across the organisation and with Deloitte to provide responses to questions as quickly as possible.

The following points were highlighted during discussion:

- In terms of providing assurances that the revised timetable was realistic, Officers explained that meeting the specific format for reconciliations requested by the Auditors had taken considerable time. Now that had been provided, it was expected that the Audit for 2021/2022 would be easier and quicker to complete.
- Deloitte representatives explained that the time taken to provide the 2019/20 audit had been impacted by issues which surfaced during the testing of information. Many local government audits were experiencing similar challenges in respect of timings.
- Officers advised that providing additional or reformatted information and data also added time to the process. Each sample requested by the Auditors often included multiple accounting entries and the data behind each entry needed input from the relevant departments.
- Deloitte representatives stated that not all items requested to initiate the 2019/20 Audit had been available. Specific examples mentioned included papers for the 2020 ICE (Investment Company Eastbourne Ltd) Valuation, reconciliation of the trial balance and general ledger, and group accounts.
- Members expressed concern at the delays in providing the highlighted information requested and that internal requests to colleagues for data should be prioritised. Officers explained that the format for production of

trial balances had needed to be changed to one that was acceptable to the Auditors.

- Officers explained the process through which the information requests from the Auditors was received and information provided. This highlighted that that timeframe between receipt of the request and the required date for returning information was not always practical.
- Members asked if there was anything that the Audit and Governance Committee could do to support the process of providing information requested by the Auditors. Officers explained that the Chief Finance Officer was working closely with the rest of the Corporate Management Team (CMT) to ensure that heads of service and the relevant officers were providing timely responses to requests from the Finance team. The minuting of the Committee's discussion on this matter would also help highlight the issue to CMT.
- Officers explained that the timeframe around the request for working papers had presented difficulties and it was also recognised that global events, particularly in the private sector had added to the requirements from the Auditors.
- Deloitte representatives advised Members that there had been underlying changes in auditing standards nationally over the previous years that had changed the requirements when auditing. Typically, when organisations had accounting issues, it was often due to preparation and issues in the systems and controls used.

Resolved (unanimously):

To note the update.

21 Treasury Management Report

Ola Owolabi, Deputy Chief Finance Officer, presented the report which provided details on the activities and performance of the Treasury Management service during April to June 2022/23. During discussion the following points were highlighted:

- Members were offered the opportunity for basic treasury management training.
- Officers were thanked for providing the report in a more understandable format and a number of abbreviations were clarified.
- Following discussion on the recommendations, Members expressed concern that part of the recommendation required acceptance that the Treasury Management Activities for the period 1 April to 30 June 2022 had been in accordance with the approved Treasury Strategies, when it was not known if this was the case. Stephen Gilbert suggested that the Committee recommend that Council accepts that Treasury Management Activities for

the period 1 April to 30 June 2022 have been in accordance with the approved Treasury Strategies, based on assurances given by the Deputy Chief Finance Officer.

Resolved (unanimously):

To note and agree to accept that Treasury Management Activities for the period 1 April to 30 June 2022 have been in accordance with the approved Treasury Strategies, based on assurances provided by the Deputy Chief Finance Officer.

22 Internal Audit and Counter Fraud Report

Lee Ewan, Counter Fraud Investigations Manager, presented the report, which provided a summary of the activities of Internal Audit and Counter Fraud for the first quarter of the financial year 2022-2023 – 1st April 2021 to 30th June 2022. During discussion the following points were highlighted:

- As many businesses had come forward for grants due to Covid 19, particularly small businesses, the Council now had a clearer, updated picture of businesses in existence. Visits could once again take place to confirm details.
- Members discussed the indicators for the Stage Door Pub and expressed concern at their red status. Members requested an update and further detail on the status of the Stage Door pub in the next report.

Resolved (unanimously):

- 1) To note the update on the work of Internal Audit and Counter-Fraud; and
- 2) To approve the draft Audit Charter; and
- 3) To approve the draft Code of Ethics for Internal Auditors.

23 Strategic Risk Register Quarterly Review

Lee Ewan, Counter Fraud Investigation Manager, presented the report which detailed the outcomes of the quarterly review of the register by the Corporate Management Team (CMT).

The scoring in the red/amber/green (RAG) rating was explained to the Committee and how the likelihood/impact score was mitigated by internal controls to provide an overall RAG rating

During discussion, Members highlighted particular concerns over the following indicators:

- SR006 – the Council prevented from delivering services for a prolonged period of time.
- SR007 – the Council materially impacted by medium to long term effects of an event under the Civil Contingencies Act.

- SR010 - the Council suffers a personal data breach by inadequate handling of data or an I.T. incident.

Members were not satisfied that all internal controls detailed in appendix A of the report provided assurance and confirmed that they would welcome a report to the Committee, providing further detail on the indicators highlighted above.

Resolved (unanimously):

- 1) To note the update to the strategic risk register; and
- 2) To request that officers provide a report relating to the robustness and reliability of the Council's IT and communications systems, and that proportionate mitigation of those risks is in place.

24 Date of next meeting

The date of the next meeting was confirmed as Wednesday 23 November, at 6pm, in the Court Room at Eastbourne Town Hall.

The meeting ended at 7.50 pm

Councillor Robin Maxted (Chair)

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Report to:	Audit and Governance Committee
Date:	23 November 2022
Title:	Annual report on Covert Surveillance Management
Report of:	RIPA Monitoring Officer
Ward(s):	All
Purpose of report:	To provide an overview of the Council's use of covert surveillance powers in 21/22; and to report on the recent external inspection of surveillance governance arrangements.
Officer recommendation(s):	(1) To note the covert surveillance summary for September 2021 to September 2022 (2) To note the findings of the Investigatory Powers Commissioner's Office Inspection conducted in June 2022 (3) To consider and approve the updated Covert Surveillance and CHIS Policy (4) To consider and approve the updated Policy on Acquisition of Communications Data
Reasons for recommendations:	Best practice requires an annual update to the Committee on Covert Surveillance Policy adherence
Contact Officer(s):	Name: Lee Ewan Post title: Counter-Fraud Investigations Manager and RIPA Monitoring Officer E-mail: lee.ewan@lewes-eastbourne.gov.uk Telephone number: 01323 41523

1 Introduction

- 1.1 This report summaries the Council's use of covert surveillance powers and online intelligence gathering during September 2021 – September 2022.
- 1.2 It also highlights the recommendations of the Investigatory Powers Commissioner's Office (IPCO) following their inspection of Lewes and Eastbourne Councils in June 2022.

2 Legislative and Policy Background

- 2.1 Part 2 of the Regulation of Investigatory Powers Act 2000 ('RIPA') provides for the authorisation by certain public bodies, including Eastbourne Borough Council, of 'Directed Surveillance'.
- 2.2 'Directed Surveillance' is covert surveillance carried out in relation to a specific investigation or operation in such a manner as is likely to result in the obtaining of private information about any person, other than by way of immediate response to events of circumstances.
- 2.3 In conducting directed surveillance, the Council must comply not just with RIPA but with the relevant Home Office code of practice and the Council's own policy, links to which are provided in paragraph 13 below.
- 2.4 In procedural terms, the most important steps under RIPA are for the directed surveillance to be authorised internally by a trained and designated senior manager, and for that authorisation to be approved by a justice of the peace, i.e. a magistrate or district judge
- 2.5 At both stages, the authorising officer and JP must be satisfied that the proposed surveillance is necessary for the prevention or detection of a crime punishable, on conviction, by a custodial sentence of at least six months; and is proportionate to what is sought to be achieved by carrying it out. This involves balancing the seriousness of the intrusion into the privacy of the subject (or any other person who may be affected) against the need for the activity in investigative and operational terms.

3 Governance Arrangements

- 3.1 IPCO provides independent oversight of the use of investigatory powers by intelligence agencies, police forces and other public authorities. Its purpose is to oversee how these powers are used, taking account of the public interest and ensuring that investigations are conducted in accordance with the law.
- 3.2 IPCO's oversight includes the inspection of public authorities. Lewes and Eastbourne Councils are inspected once every three years, previously in December 2019 and most recently in June 2022. The key outcomes of this inspection are set out in paragraph 6 below.
- 3.3 Internally, the Council regulates its use of surveillance powers through specially trained managers, consisting of:
- RIPA Senior Responsible Officer – Oliver Dixon
 - RIPA Monitoring Officer – Lee Ewan
 - RIPA Authorising Officers – Tim Whelan and Linda Farley
- 3.4 To ensure continuing capability over the past 12 months, a Covert Human Intelligence Source (CHIS) training course was organised in November 2021 and attended by 8 council officers from various departments. Lee Ewan attended a RIPA Applicants and Gatekeepers course in March 2022 and two further refresher courses for RIPA Senior Responsible Officer and RIPA Authorising

Officer have been organised for Oliver Dixon and Tim Whelan in November 2022.

3.5 Surveillance arrangements are also subject to periodic internal audit.

4 Use of Covert Surveillance Powers between September 2021 and September 2022

4.1 Over the period September 2021 – September 2022, no council officer sought authorisation to conduct directed surveillance, to use a covert human intelligence source (CHIS); or to acquire communications data. Accordingly, no authorisations for these activities were granted during this time.

4.2 The non-use of directed surveillance powers is in part explained by the strict criteria relating to authorisation, as detailed in paragraph 2.5 above. The Council continues to investigate suspected criminal offences (mainly fraud), breach of tenancy agreements and non-payment of fees or taxes but, in the overriding majority of cases, directed surveillance cannot be justified under RIPA criteria and is therefore not used.

4.3 The Council's Neighbourhood First officers wear highly visible uniforms which helps deter criminal activity in the community. Any surveillance they undertake to deter fly tipping is done using cameras mounted on lamp posts but with highly visible signage intended to make potential offenders aware. Such activity amounts to overt surveillance which falls outside of the scope of this report, as it is not regulated by RIPA 2000 or the Investigatory Powers Act 2016.

5 Online Surveillance

5.1 Certain council teams may from time to time use open source material available on the internet to confirm the identity and circumstances of persons who (a) are in significant debt to the Council and need to be traced or (b) may be the subject of, or associated with, a counter-fraud investigation.

5.2 Controls are in place to minimise the risk that use of open source material to confirm an online presence (which, because it is in the public domain), does not intrude on the person's right to a private and family life) does not develop into 'directed surveillance' and therefore require express authorisation to render it a lawful interference with their right to privacy

5.3 Typically, online research may amount to directed surveillance if it becomes highly targeted through focused and systematic monitoring of an individual over a period of time, resulting in a profile or record of that person's activities being created and used, with a view to potential legal proceedings. Such surveillance may lawfully proceed only if it (a) meets the crime threshold – see paragraph 2.5; and (b) is authorised in accordance with RIPA procedures.

5.4 Controls are also in place to ensure that creating a covert profile to establish an online connection with a person whose social media profile is not open to the public may not proceed without the necessary authorisation.

- 5.5 The RIPA Monitoring Officer is meeting with the relevant Council teams to review the control arrangements and reinforce compliance.
- 5.6 Historically, the directed surveillance operations conducted by the Council have all related to fraud within the ambit of the Fraud Act 2006 and therefore liable to a penalty that would meet the crime threshold specified in paragraph 2.5 above.

6 IPCO Inspection

- 6.1 In June 2022, an IPCO inspector carried out a virtual inspection of Lewes and Eastbourne Councils' governance arrangements for conducting covert surveillance. This included a review of RIPA policies and procedures, a record of training and a follow up virtual interview with Oliver Dixon and Lee Ewan.
- 6.2 The IPCO report received in July 2022 noted 'the information provided has demonstrated a level of compliance which removes, for the present, the requirement for a physical inspection'. Praise was given to the level and volume of training undertaken with an overall remark 'your authority has been found to be in a good place'.
- 6.3 The inspector noted, that although no powers were utilised between this and the previous inspection, an application for directed surveillance had been made by Lewes District Council. However, due to time delays with the court system this application was eventually withdrawn by the council due to changes in circumstances. The inspector undertook a review of the proposed surveillance authorisation 'which was found to have been well formed'.
- 6.4 IPCO made reference to the last inspection in 2019, on this occasion, two matters of non-compliance were identified along with several observations. The report details all matters have been attended to, with the two, relatively minor, non-compliance matters appropriately dealt with.
- 6.5 The RIPA policy was noted during the inspection to be satisfactorily formed. However, IPCO recommends amendments are made to the existing policies to incorporate the retention, review and destruction (RRD) of data gathered utilising the covert powers available. The report adds that the policies should carry clear instructions on the need to undertake RRD of covertly gathered material and to comply with the safeguarding chapters found within the Home Office Codes of Practice.
- 6.6 The RIPA Monitoring Officer (MO) has drafted the required amendments to both the Covert Surveillance and CHIS policy and Policy on Acquisition of Communications Data for Audit and Governance Committee approval.

7 Financial appraisal

- 7.1 There are no financial issues associated with this report.

8 Legal implications

- 8.1 For the Council's directed surveillance, use of a CHIS or acquisition of communications data to comply with human rights legislation (specifically the right to respect for family and private life, and the right to a fair trial), it must comply with the controls and procedures set down by the Regulation of Investigatory Powers Act 2000 or the Investigatory Powers Act 2016 (as applicable). The Council must also have regard to the relevant Home Office codes of practice which set out the practical steps local authorities should follow in applying these regulatory controls.

9 Risk management implications

- 9.1 Failure to implement IPCO's recommendations brings with it the risk of (1) non-compliance with surveillance legislation and codes of practice; and (2) censure by IPCO at their next inspection, causing reputational harm to the Council.

10 Equality analysis

- 10.1 There are no equality issues associated with this report.

11 Environmental sustainability implications

- 11.1 There are no environmental issues associated with this report.

12 Appendices

- Appendix A – Covert Surveillance and CHIS Policy
- Appendix B – Policy on Acquisition of Communication Data

13 Background papers

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

- [Home Office Code of Practice on Covert Surveillance and Property Interference \(August 2018\)](#)
- [Home Office Code of Practice on Communications Data \(November 2018\)](#)

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Lewes District Council



Working in partnership with **Eastbourne Homes**

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

Authority(ies) covered:	Aligned
Responsible (Executive Lead):	Councillor James MacCleary, Leader of LDC; Cllr David Tutt, Leader of EBC
Accountable (Operational Lead):	Oliver Dixon Senior Responsible Officer
Version (e.g. first draft, final report):	First draft update following IPCO inspection recommendations from June 2022
Approved by:	Head of Legal Services under delegated powers to make minor administrative amendments
Date of publication:	TBC
Revision due:	TBC
Final Equality and Fairness Analysis (EaFA) report approved by:	Not applicable
Date final EaFA report approved:	Not applicable

Contents

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

Introduction

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

Procedure

7. All physical or on-line covert surveillance (irrespective of whether its use falls within the ambit of the Regulation of Investigatory Powers Act 2000) and any use of a CHIS shall be undertaken in accordance with the procedures set out in this policy statement¹.
8. The Councils shall ensure that covert surveillance and/or the use of CHIS is only undertaken where it complies fully with all applicable laws, in particular the:
 - Human Rights Act 1998 (incorporating the fundamental rights and freedoms contained in articles 2 to 14 of the European Convention on Human Rights)
 - Regulation of Investigatory Powers Act 2000 ('RIPA')
 - Protection of Freedoms Act 2012
 - General Data Protection Regulation
 - Data Protection Act 2018
9. The Councils shall, in addition, have due regard to all official guidance and codes of practice, particularly those issued by the Home Office, the Investigatory Powers Commissioner's Office and the Information Commissioner's Office. Of these, the most significant are:
 - Covert Surveillance and Property Interference – Code of Practice (Home Office, August 2018)
 - Covert Human Intelligence Sources – Revised Code of Practice (Home Office, August 2018)
10. In particular, the following guiding principles shall form the basis of all covert surveillance and CHIS activity undertaken by the Councils:
 - (i) Covert surveillance and/or the use of a CHIS shall only be undertaken where it is absolutely necessary and only for the purpose of preventing or detecting a criminal offence.
 - (ii) Covert surveillance and/or the use of a CHIS shall only be undertaken where it is proportionate to do so and in a manner that is proportionate.
 - (iii) No monitoring of social network sites for investigation purposes shall take place without considering whether such monitoring constitutes directed surveillance; nor, where it is considered to be so, without obtaining the requisite prior authorisation and approval.
 - (iv) Adequate regard shall be had to the rights and freedoms of those who are not the target of the covert surveillance.

¹ Except that, as stated in paragraph 10(vi), judicial approval is required only in relation to directed surveillance regulated by RIPA and the use of a CHIS.

Appendix A: Policy on use of covert surveillance and/or CHIS

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

Management of a CHIS

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

Review and Renewal of a CHIS Authorisation

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

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

Processing of Confidential Information Obtained from Surveillance

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

Appendix A: Policy on use of covert surveillance and/or CHIS

This authorisation level is set at a more senior level than that required for other surveillance activity, reflecting the sensitive nature of such information.

Data Retention, Review and Destruction

24. All material obtained through CHIS or covert surveillance operations, including all copies, extracts and summaries, must be handled and stored securely on Council systems to reduce the risk of loss or theft. Access to the material must be restricted to Council officers undertaking the operation or where necessary as part of the retention process or legal proceedings.
25. All material which could be relevant to a pending or future criminal or civil proceedings must be reviewed regularly to establish the aims of the authorisation are being met and retained in accordance with established disclosure requirements detailed in the Criminal Procedure and Investigations Act 1996.
26. Information obtained through CHIS or covert surveillance operations, and all copies, extracts and summaries should be scheduled for deletion or destruction and securely destroyed as soon as they are no longer required in accordance with the Council's Data Retention, Storage and Disposal Policy.

Training and Policy Review

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

Conclusion

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

Oliver Dixon, RIPA Senior Responsible Officer

Appendix A: Policy on use of covert surveillance and/or CHIS

Lee Ewan, Counter Fraud and Investigations Manager and RIPA Monitoring Officer

Appendices

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

Appendix 1 – Definition of Directed Surveillance

Surveillance is ‘directed’ if undertaken–

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

Note 1

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

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

Note 2

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

Note 3

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

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

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

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

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

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

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

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

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

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

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

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

STRONGER together



Lewes District Council



Working in partnership with **Eastbourne Homes**

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

Authority(ies) covered:	Aligned
Responsible (Executive Lead):	Councillor James MacCleary, Leader of LDC; Cllr David Tutt, Leader of EBC
Accountable (Operational Lead):	Oliver Dixon, Senior Responsible Officer
Version (e.g. first draft, final report):	First draft update following IPCO inspection recommendations from June 2022
Approved by:	Head of Legal Services under delegated powers to make minor administrative amendments
Date of publication:	TBC
Revision due:	TBC
Final Equality and Fairness Analysis (EaFA) report approved by:	Not applicable
Date final EaFA report approved:	Not applicable

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4. Roles in Applying for and Granting Authorisation
5. Procedure for Applying for Authorisation
6. Training for Officers in Designated Roles
7. Keeping of Records
8. Policy Review and Member Oversight

1. Introduction

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

2. Communications data

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

- (b) consists of, or includes, data which identifies or describes the entity (whether or not by reference to the entity's location), and
- (c) is not events data.

2.3 Entity data covers information about a person or thing, and about links between a telecommunications system and a person or thing that identifies or describes the person or thing. This means that individual communication devices such as phones, tablets and computers are entities. The links between a person and their phone are therefore entity data but the fact of or information about communications between devices on a network at a specific time and for a specified duration would be events data.

2.4 Examples of entity data include:

- Subscriber checks such as “who is the subscriber of phone number 01234 567 890?”, “who is the account holder of e-mail account example@example.co.uk?” or “who is entitled to post to web space www.example.co.uk?”
- subscribers’ or account holders’ account information, including names and addresses for installation, and billing including payment method(s), details of payments;
- information about the connection, disconnection and reconnection of services to which the subscriber or account holder is allocated or has subscribed (or may have subscribed) including conference calling, call messaging, call waiting and call barring telecommunications services;
- information about apparatus or devices used by, or made available to, the subscriber or account holder, including the manufacturer, model, serial numbers and apparatus codes; and information about selection of preferential numbers or discount calls.

2.5 **Events data** is more intrusive and means any data which identifies or describes an event (whether or not by reference to its location) on, in or by means of a telecommunication system where the event consists of one or more entities engaging in a specific activity at a specific time.

2.6 Events data includes the way in which, and by what method, a person or thing communicates with another person or thing. It excludes anything within a communication including text, audio and video that reveals the meaning, other than inferred meaning, of the communication.

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

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

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

3. Extent of data acquisition powers

3.1 The Council's acquisition of communications data under Part 3 of the Act will be a justifiable interference with an individual's human rights under Article 8 (the right to respect for privacy and family life) and, in certain circumstances, Article 10 (right to freedom of expression) of the European Convention on Human Rights **only** if the conduct being authorised or required to take place is:

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

- 3.2 When applying for authorisation to acquire communications data, the Council must believe the acquisition is necessary for the purpose of the **prevention or detection of serious crime**.
- 3.3 'Serious crime' means:
- an offence for which an adult is capable of being sentenced to one year or more in prison;
 - any offence involving violence, resulting in a substantial financial gain or involving conduct by a large group of persons in pursuit of a common goal;
 - any offence committed by a body corporate;
 - any offence which involves the sending of a communication or a breach of privacy; or an offence which involves, as an integral part of it, or the sending of a communication or breach of a person's privacy.
- 3.4 The Council must also believe the acquisition to be proportionate to what is sought to be achieved by obtaining the specified communications data – that the conduct is no more than is required in the circumstances.
- 3.5 The Council has no power to obtain the **content** of a communication.
4. Roles in applying for and granting authorisation
- 4.1 Acquisition of communications data under the Act involves four roles:
- the applicant – see 4.2;
 - the single point of contact ('SPoC') – see 4.3;
 - the Senior Responsible Officer – see 4.4;
 - the authorising individual – see 4.5.
- 4.2 The **applicant** is a Council officer involved in conducting or assisting an investigation or operation who makes an application in writing or electronically for the acquisition of communications data. For this specialised function, the role would normally be reserved to a counter-fraud officer but the Chief Finance Officer may – where he/she considered it appropriate – authorise a named and suitably qualified officer from a different specialism to make an application.
- 4.3 The **SPoC** is an individual trained to facilitate the lawful acquisition of communications data and effective co-operation between the body applying for authorisation (the Council) and the body with statutory power to grant the authorisation (the Office for Communications Data Authorisations – 'OCDA' – who act on behalf of the Investigatory Powers Commissioner – 'IPC'). In respect of local authorities, the SPoC role is performed by the National Anti-Fraud Network ('NAFN') – see further at 5.2.

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

The SRO is responsible for:

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

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

5. Procedure for applying for authorisation to acquire communications data

- 5.1 The procedure adopted by the Council in applying for an authorisation and in implementing any authorisation granted must comply with the Act and the Home Office Code of Practice, which include the measures set out in 5.2 to 5.6 below.
- 5.2 The Council must use NAFN's SPoC services for any application it wishes to submit for authorisation. Following SPoC evaluation, authorisation to proceed may only be provided by OCDA.
- 5.3 Council applicants are required to consult a NAFN SPoC throughout the application process. The accredited SPoCs at NAFN will scrutinise the applications independently and will provide advice to the Council, ensuring it acts in an informed and lawful manner.
- 5.4 In addition to involving the NAFN SPoC, the Council must ensure that someone – "the verifying officer" – of at least the rank of the Council's SRO is aware the application is being made before it is submitted to an authorising officer in OCDA. For Lewes and Eastbourne Councils, the verifying officer is the Chief Finance Officer, and this nomination will be notified to NAFN.

Appendix B: Policy on the acquisition of communications data

- 5.5 NAFN is responsible for submitting the application to OCDA on behalf of the Council.
- 5.6 The Council may not make an application that requires the processing or disclosure of internet connection records for any purpose.
- 5.7 The Council must cease any and all authorised acquisition of communications data as soon as the OCDA authorisation is cancelled or at the expiry of one month following the date of authorisation (whichever is sooner).
- 6. Training for officers with designated roles
 - 6.1 The Council must provide an adequate level of initial and refresher training to relevant officers to enable them to perform the role of applicant (see 4.2 above), SRO (see 4.4 above) or verifying officer (see 5.4 above), as applicable.
 - 6.2 The Council may enter into formal or informal partnership arrangements with other local authorities for the purpose of procuring region-wide training, in the interests of efficiency and effectiveness.
- 7. Records to be kept
 - 7.1 The Council must keep records of the appropriate matters set out in Chapter 24 of the Home Office Code of Practice, including the number of applications it submits to the SPoC for the acquisition of communications data.
 - 7.2 Under Chapter 24, the Council's SPoC has record keeping responsibilities of its own, for example recording how many applications it forwards to OCDA for authorisation and, of these, the number granted and declined.
 - 7.3 All material obtained through the Acquisition of Communications Data, including all copies, extracts and summaries must be handled and stored securely on Council systems to reduce the risk of loss or theft. Access to the material must be restricted to Council officers undertaking the operation or where necessary as part of the retention process or legal proceedings.
 - 7.4 All material which could be relevant to a pending or future criminal or civil proceedings must be retained in accordance with established disclosure requirements detailed in the Criminal Procedure and Investigations Act 1996.
 - 7.5 All communication data obtained, including copies, extracts and summaries should be scheduled for deletion or destruction and securely destroyed as soon as they are no longer required in accordance with the Council's Data Retention, Storage and Disposal Policy.
- 8. Policy review and member oversight

Appendix B: Policy on the acquisition of communications data

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

Report to:	Audit and Governance Committee
Date:	23 November 2022
Title:	Treasury management – Q2 2022/23
Report of:	Homira Javadi, Chief Finance Officer
Ward(s):	All
Purpose of report:	To report on the activities and performance of the Treasury Management service during July to September 2022/23
Decision type:	Budget and Policy Framework
Officer recommendation:	The Committee is recommended to note the report of the Chief Finance Officer and the assurances contained within and agree that Treasury Management Activities for the period 1 July to 30 September 2022, have 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 receive and review a quarterly formal summary report detailing the recent Treasury Management activities 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 and Governance Committee before they were reported to the full Council.
- 1.5 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.

Annual Treasury Management training

- 1.6 In line with the requirements to ensure appropriate training for Councillors, a training session on the Treasury Management activities was delivered on Monday 24th October 2022, via TEAMS by the Council's treasury management advisors – Link Asset Services.

2. Annual Investment Strategy

- 2.1 The Treasury Management Strategy Statement (TMSS) for 2022/23 which includes the Annual Investment strategy, was approved by the Full Council on Wednesday, 9 February 2022. 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 30 September 2022, except for the balance held with Lloyds Bank, which exceeded the £5m limit for 11 days during the period.

3 Treasury Position as at 30 September 2022

- 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 Fixed Term Deposits pending maturity –

The following table shows the fixed term deposits held between 1 July to 30 September 2022 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) rating.

Counterparty	Date From	Date To	Days	Principal £'000	Int Rate%	Rating
None held as at 30 September 2022.				n/a	n/a	

3.3 Fixed Term Deposits which have matured in the reporting period

The table below shows the fixed term deposits which have matured between 1 July to 30 September 2022, in maturity date order. It is important to note that the table includes sums reinvested.

Counterparty	Date From	Date To	Days	Principal £'000	Int. Rate %	Long-term rating
					%	
DMO	01/07/2022	01/08/2022	31	3,000,000	1.05	*
DMO	06/07/2022	08/08/2022	33	2,000,000	1.11	*
DMO	08/07/2022	29/07/2022	21	2,000,000	1.05	*
DMO	15/07/2022	19/07/2022	4	2,500,000	1.05	*
DMO	27/07/2022	29/07/2022	2	5,000,000	1.05	*
DMO	01/08/2022	04/08/2022	3	7,000,000	1.14	*
DMO	04/08/2022	08/08/2022	4	2,000,000	1.40	*
DMO	09/08/2022	22/08/2022	13	6,000,000	1.55	*
DMO	15/08/2022	22/08/2022	7	1,000,000	1.55	*
DMO	01/09/2022	12/09/2022	11	4,000,000	1.55	*
DMO	13/09/2022	20/09/2022	7	2,000,000	1.55	*
DMO	20/09/2022	23/09/2022	3	5,000,000	1.62	*

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

3.4 Use of Deposit accounts

In addition to the fixed term deposits, the Council has made use of the following interest-bearing accounts in the period covered by this report, with the average amount held being £2.56m generating interest of approximately £7.2k.

	Balance at 30 Sept. 2022 £'000	Average balance £'000	Current interest rate %
Santander Business Reserve Account	3,000	4,227	0.96
Lloyds Bank Corporate Account	642	1,820	0.01
Lloyds Bank Call Account	300	1,632	0.15

4 TM Borrowing – Q2 2022/23

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** – none between 1 July and 30 September 2022

- 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:				%
West Midlands Combined Authority	10,000	21/01/2022	20/01/2023	0.25
Hyndburn BC	2,000	28/02/2022	27/02/2023	0.70
Northern Ireland Housing Executive	10,000	20/06/2022	19/06/2023	1.20
West Yorkshire Combined Authority	5,000	23/05/2022	09/05/2023	1.20
West Yorkshire Combined Authority	10,000	25/07/2022	27/06/2023	1.80
Solihull MBC	5,000	20/09/2022	20/12/2022	2.35
Loans repaid:				
Middlesbrough Council	5,000	11/03/2022	29/07/2022	0.79
Greater Manchester Pension Fund	5,000	21/03/2022	22/08/2022	0.70

5 Interest Rate Forecast

- 5.1 The Council has 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.
- 5.2 The latest forecast on 27th September sets out a view that both short and long-dated interest rates will be elevated for some little while, as the Bank of England seeks to squeeze inflation out of the economy, whilst the government is providing a package of fiscal loosening to try and protect households and businesses from the ravages of ultra-high wholesale gas and electricity prices. The increase in PWLB rates reflects a broad sell-off in sovereign bonds internationally but more so the disaffection investors have with the position of the UK public finances after September's "fiscal event". To that end, the MPC has tightened short-term interest rates with a view to trying to slow the economy sufficiently to keep the secondary effects of inflation – as measured by wage rises – under control, but its job is that much harder now.

- 5.3 Links current and previous PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities.

Link Group Interest Rate View 27.09.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
BANK RATE	4.00	5.00	5.00	5.00	4.50	4.00	3.75	3.25	3.00	2.75	2.75	2.50
3 month ave earnings	4.50	5.00	5.00	5.00	4.50	4.00	3.80	3.30	3.00	2.80	2.80	2.50
6 month ave earnings	4.70	5.20	5.10	5.00	4.60	4.10	3.90	3.40	3.10	3.00	2.90	2.60
12 month ave earnings	5.30	5.30	5.20	5.00	4.70	4.20	4.00	3.50	3.20	3.10	3.00	2.70
5 yr PWLB	5.00	4.90	4.70	4.50	4.20	3.90	3.70	3.50	3.40	3.30	3.20	3.20
10 yr PWLB	4.90	4.70	4.60	4.30	4.10	3.80	3.60	3.50	3.40	3.30	3.20	3.20
25 yr PWLB	5.10	4.90	4.80	4.50	4.30	4.10	3.90	3.70	3.60	3.60	3.50	3.40
50 yr PWLB	4.80	4.60	4.50	4.20	4.00	3.80	3.60	3.40	3.30	3.30	3.20	3.10

Link Group Interest Rate View	09.08.22													
	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	
BANK RATE	2.25	2.50	2.75	2.75	2.75	2.50	2.50	2.25	2.25	2.25	2.25	2.25	2.00	
3 month ave earnings	2.50	2.80	3.00	2.90	2.80	2.50	2.40	2.30	2.30	2.30	2.20	2.20	2.20	
6 month ave earnings	2.90	3.10	3.10	3.00	2.90	2.80	2.70	2.60	2.50	2.50	2.40	2.30	2.30	
12 month ave earnings	3.20	3.30	3.20	3.10	3.00	2.90	2.80	2.70	2.40	2.40	2.40	2.40	2.40	
5 yr PWLB	2.80	3.00	3.10	3.10	3.00	3.00	2.90	2.90	2.80	2.80	2.80	2.70	2.70	
10 yr PWLB	3.00	3.20	3.30	3.30	3.20	3.10	3.10	3.00	3.00	3.00	2.90	2.90	2.80	
25 yr PWLB	3.40	3.50	3.50	3.50	3.50	3.40	3.40	3.30	3.30	3.20	3.20	3.20	3.10	
50 yr PWLB	3.10	3.20	3.20	3.20	3.20	3.10	3.10	3.00	3.00	2.90	2.90	2.90	2.80	

- LIBOR and LIBID rates ceased at the end of 2021. In a continuation of previous forecasts, Links money market yield forecasts are based on expected average earnings by local authorities for 3 to 12 months.
- Links forecasts for average earnings are averages i.e., rates offered by individual banks may differ significantly from these averages, reflecting their different needs for borrowing short-term cash at any one point in time.

A SUMMARY OVERVIEW OF THE FUTURE PATH OF BANK RATE

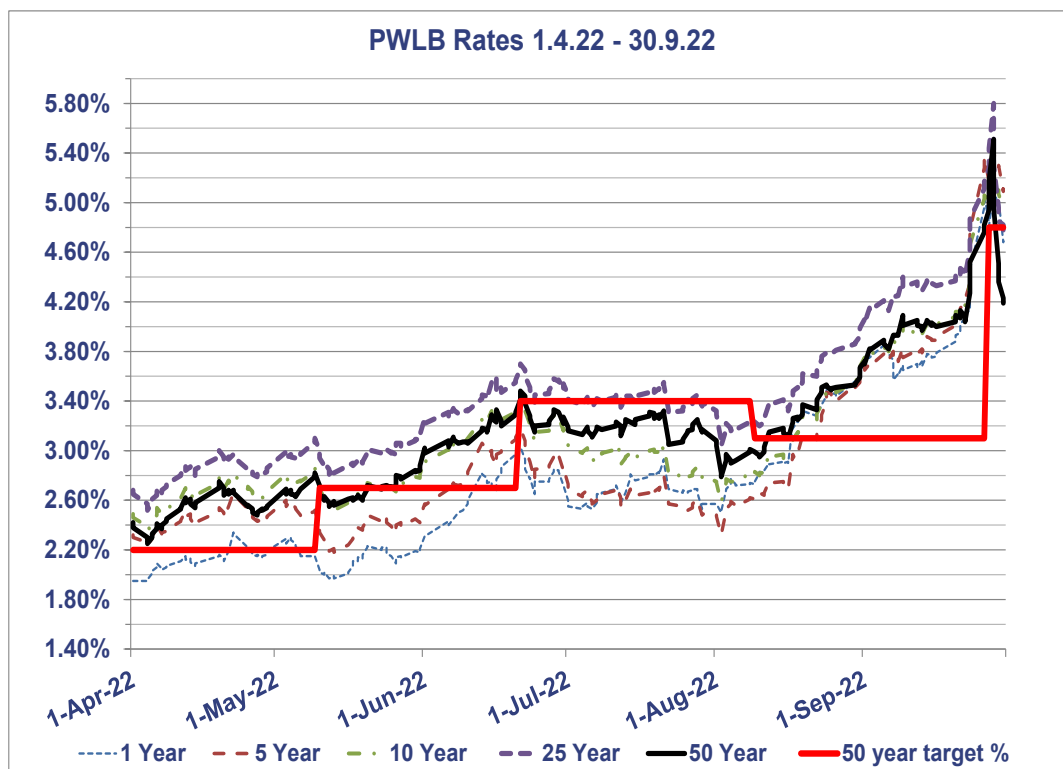
- 5.4 The forecast for interest rates was previously updated on 9th August and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by delivering a succession of rate increases. This has happened but the “fiscal event” has complicated the picture for the MPC, who will now need to double-down on counteracting inflationary pressures stemming from the government’s widespread fiscal loosening.
- 5.5 Further down the road, it is anticipated that the Bank of England will be keen to loosen monetary policy when the worst of the inflationary pressures are behind us – but that timing will be one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.
- 5.6 The CPI measure of inflation will peak at close to 10.4% in November 2022. Despite the cost-of-living squeeze that is still taking shape, the Bank will want to see evidence that wages are not spiralling upwards in what is evidently a very tight labour market.
- 5.7 Regarding the “provisional” plan to sell £10bn of gilts back into the market each quarter, this is still timetabled to take place but not until October at earliest. In the

upcoming months, the forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the government over its fiscal policies, but the on-going conflict between Russia and Ukraine.

- 5.8 On the positive side, consumers are still estimated to be sitting on over £160bn of excess savings left over from the pandemic so that will cushion some of the impact of the above challenges. However, most of those are held by more affluent households whereas lower income families already spend nearly all their income on essentials such as food, energy, and rent/mortgage payments.

PWLB rates - year to date to 30th September 2022

- 5.9 The yield curve has shifted upwards since August update and PWLB 5 to 50 years Certainty Rates are, generally, in the range of 4.25% to 5.75%. The yield curve is currently inverted. The markets as having built in, already, nearly all the effects on gilt yields of the likely increases in Bank Rate and the poor inflation outlook but markets are volatile and further whipsawing of gilt yields across the whole spectrum of the curve is possible.



	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.95%	2.18%	2.36%	2.52%	2.25%
Date	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
High	5.11%	5.44%	5.35%	5.80%	5.51%
Date	28/09/2022	28/09/2022	28/09/2022	28/09/2022	28/09/2022
Average	2.81%	2.92%	3.13%	3.44%	3.17%
Spread	3.16%	3.26%	2.99%	3.28%	3.26%

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 30 September 2022, 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	2022/23 Estimate Indicator	2022/23 Projected Outturn	RAG Status
Authorised limit for external debt (Capital Strategy 4.2.4)	£223m	£223m	GREEN
Operational boundary for external debt (CS 4.2.4)	£202m	£202m	GREEN
Gross external debt (CS 4.2.2)	£185m	£185m	GREEN
Capital Financing Requirement (CS 2.3.4)	£202m	£202m	GREEN
Debt vs CFR (Capital Financing Requirement) under/(over) borrowing	£17m	£17m	GREEN
Investments (Average)	£3.0m	£2.56m	AMBER
Investment returns expectations	0.25%	0.24%	AMBER
Upper limit for principal sums invested for longer than 365 days			
<i>Maturity structure of fixed rate borrowing - upper limits:</i>			
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	*£9.2m	*£1.4m	AMBER
HRA (Housing Revenue Accounts)	*£16.5m	*£3.5m	AMBER
Regeneration (Levelling Up Fund)	*£4.1m	-	AMBER
Commercial Activities/ non-financial investments	*£3.1m	*£0.5m	AMBER

<i>Ratio of financing costs to net revenue stream (CS 8.1.1):</i>			GREEN
Proportion of Financing Costs to Net Revenue Stream (General Fund)	13.4%	13.4%	GREEN
Proportion of Financing Costs to Net Revenue Stream (HRA)	10.7%	10.7%	GREEN

Key:

- CS – 2022/23 Capital Strategy; *Revised Capital Programme has been updated to take into account ongoing projects that were due to be completed in 2023/24 and the programmes have been reprofiled accordingly.

7. Non-treasury investments

7.1 The non-treasury investment activity includes the Council provision of a financial guarantee through its subsidiary company.

7.2 Investment Company Eastbourne Limited

Investment Company Eastbourne Limited (ICEL) is a private limited company and is incorporated and domiciled in the United Kingdom. The principal activity of the company is to guarantee an external financial liability with Canada Life and the future rental income of Infrastructure Investments (Leicester) Limited ('IIL') by virtue of contractual arrangement.

ICE is included within the consolidated financial statements of the Eastbourne Borough Council and accurately accounted for as 'joint venture' to reflect the joint control over IIL Ltd. The company holds a single investment in its joint venture and exercises joint control over IIL by virtue of the Development and Management Agreement (DAMA). In return for providing the above Guarantee (including rental guarantee), ICE will receive a £0.3m annual guarantee fee.

7.3 The ICEL Board of Directors met on 19th October 2022 and reviewed key financial monitoring (including the guarantee fees payment schedule) in line with the agreed governance arrangements/agreement (DAMA).

8 Economic Background

8.1 As expected, the Bank of England's Monetary Policy Committee kept Bank Rate unchanged and a detailed economic commentary on developments during period ended 30 September 2020 is attached as **Appendix A**.

9 Financial appraisal

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

10 Legal implications

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

11 Risk management implications

- 11.1 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.

12 Equality analysis

- 12.1 Equality issues are considered

13 Environmental sustainability implications

- 13.1 This report notes the treasury management performance of the Council. There are no anticipated environmental implications from this report that would affect the Council's sustainability policy. The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the treasury activities and highlights compliance with the Council's policies previously approved by members.

14 Appendices

- 14.1 Appendix A - Detailed economic commentary
Appendix B – Glossary: Local Authority Treasury Management Terms

15 Background papers

- 15.1 Treasury Management Strategy Statements 2022/23.
<https://democracy.lewes-eastbourne.gov.uk/documents/s23063/Treasury%20Management%20and%20Prudential%20Indicators%20202223%20Capital%20Strategy%20Investment%20Strategy.pdf>

Link Treasury Services Limited - Detailed economic commentary on developments during quarter ended 30th September 2022

1 Economics update

The second quarter of 2022/23 saw:

- GDP in Q1 2022/23 revised upwards to 0.2% q/q from -0.1%, which means the UK economy has avoided recession for the time being;
 - Signs of economic activity losing momentum as production fell due to rising energy prices;
 - CPI inflation ease to 9.9% y/y in August but domestic price pressures showing little sign of abating in the near-term;
 - The unemployment rate fell to a 48-year low of 3.6% due to a large shortfall in labour supply;
 - Bank Rate rise by 100bps over the quarter, taking Bank Rate to 2.25% with further rises to come;
 - Gilt yields surge and sterling fall following the “fiscal event” of the new Prime Minister and Chancellor on 23rd September.
- The UK economy grew by 0.2% in July following an upward revision to Q1’s GDP data (+0.2% q/q), though revisions to historic data left it below pre-pandemic levels.
 - There are signs of higher energy prices creating more persistent downward effects in economic activity. Both industrial production (-0.3% m/m) and construction output (-0.8% m/m) fell in July 2022 for a second month in a row. Although some of this was probably due to the heat wave at the time, manufacturing output fell in some of the most energy intensive sectors (e.g., chemicals), pointing to signs of higher energy prices weighing on production. With the drag on real activity from high inflation having grown in recent months, GDP is at risk of contracting through the autumn and winter months.
 - The fall in the composite PMI from 49.6 in August to a 20-month low of 48.4 in September points to a fall in GDP of around 0.2% q/q in Q3 and consumer confidence is at a record low. Retail sales volumes fell by 1.6% m/m in August, which was the ninth fall in 10 months. That left sales volumes in August just 0.5% above their pre-COVID-19 level and 3.3% below their level at the start of the year. There are also signs that households are spending their excess savings in response to high prices. Indeed, cash in households’ bank accounts rose by £3.2bn in August, which was below the £3.9bn rise in July and much smaller than the 2019 average monthly rise of £4.6bn.
 - The labour market remained exceptionally tight. Data for July and August provided further evidence that the weaker economy is leading to a cooling in labour demand. Labour Force Survey (LFS) employment rose by 40,000 in the three months to July (the smallest rise since February). But a renewed rise in inactivity of 154,000 over the same period meant that the unemployment rate fell from 3.8% in June to a new 48-year low of 3.6%. The single-month data showed that inactivity rose by 354,000 in July itself and there are now 904,000 more inactive people aged 16+ compared to before the pandemic in February 2020. The number of vacancies has started to level off from recent record highs but there have been few signs of a slowing in the upward momentum on wage

growth. Indeed, in July, the 3my/y rate of average earnings growth rose from 5.2% in June to 5.5%.

- CPI inflation eased from 10.1% in July to 9.9% in August, though inflation has not peaked yet. The easing in August was mainly due to a decline in fuel prices reducing fuel inflation from 43.7% to 32.1%. And with the oil price now just below \$90pb, we would expect to see fuel prices fall further in the coming months.
- However, utility price inflation is expected to add 0.7ppts to CPI inflation in October when the Ofgem unit price cap increases, typically, to £2,500 per household (prior to any benefit payments). But, as the government has frozen utility prices at that level for two years, energy price inflation will fall sharply after October and have a big downward influence on CPI inflation.
- Nonetheless, the rise in services CPI inflation from 5.7% y/y in July to a 30-year high of 5.9% y/y in August suggests that domestic price pressures are showing little sign of abating. A lot of that is being driven by the tight labour market and strong wage growth. CPI inflation is expected to peak close to 10.4% in November and, with the supply of workers set to remain unusually low, the tight labour market will keep underlying inflationary pressures strong until early next year.
- The new Prime Minister and Chancellor have appeared to make a step change in government policy. The government's huge fiscal loosening from its significant tax cuts will add to these domestic inflationary pressures and will leave a legacy of higher interest rates and public debt. Whilst the government's utility price freeze, which could cost up to £150bn (5.7% of GDP) over 2 years, will reduce peak inflation from 14.5% in January next year to 10.4% in November this year, the long list of tax measures announced at the "fiscal event" adds up to a loosening in fiscal policy relative to the previous government's plans of £44.8bn (1.8% of GDP) by 2026/27. These included the reversal of April's national insurance tax on 6th November, the cut in the basic rate of income tax from 20p to 19p in April 2023, the cancellation of next April's corporation tax rise, the cut to stamp duty and the removal of the 45p tax rate, although the 45p tax rate cut announcement has already been reversed.
- Fears that the government has no fiscal anchor on the back of these announcements has meant that the pound has weakened, adding further upward pressure to interest rates. Whilst the pound fell to a record low of \$1.035 on the Monday following the government's "fiscal event", it has since recovered to around \$1.12. That is due to hopes that the Bank of England will deliver a very big rise in interest rates at the policy meeting on 3rd November and the government will lay out a credible medium-term plan in the fiscal statement on 23rd November. Nevertheless, with concerns over a global recession growing, there are downside risks to the pound.
- Since the fiscal event, we now expect the Monetary Policy Committee (MPC) to increase interest rates further and faster, from 2.25% currently to a peak of 5.00% in February 2023 (up from our previous forecast peak of 2.75%). The combination of the government's fiscal loosening, the tight labour market and sticky inflation expectations means we expect the MPC to raise interest rates by 100bps at the policy meetings in November (to 3.25%) and 75 basis points in December (to 4%) followed by further 50 basis point hikes in February and March (to 5.00%). Market expectations for what the MPC will do are volatile. If Bank Rate climbs to these levels the housing market looks very vulnerable, which is one reason why the peak in our forecast is lower than the peak of 5.50% priced into the financial markets at present.

- Gilt yields rose sharply at the end of September as investors demanded a higher risk premium and expected faster and higher interest rate rises to offset the government's extraordinary fiscal stimulus plans. The 30-year gilt yield rose from 3.60% to 5.10% following the "fiscal event", which threatened financial stability by forcing pension funds to sell assets into a falling market to meet cash collateral requirements. In response, the Bank did two things. First, it postponed its plans to start selling some of its quantitative easing (QE) gilt holdings until 31st October. Second, it committed to buy up to £65bn of long-term gilts to "restore orderly market conditions" until 14th October. In other words, the Bank is restarting QE, although for financial stability reasons rather than monetary policy reasons.
- Since the Bank's announcement on 28th September, the 30-year gilt yield has fallen back from 5.10% to 3.83%. The 2-year gilt yield dropped from 4.70% to 4.30% and the 10-year yield fell back from 4.55% to 4.09%.
- There is a possibility that the Bank continues with QE at the long end beyond 14th October or it decides to delay quantitative tightening beyond 31st October, even as it raises interest rates. So far at least, investors seem to have taken the Bank at its word that this is not a change in the direction of monetary policy nor a step towards monetary financing of the government's deficit. But instead, that it is a temporary intervention with financial stability in mind.

The SandP 500 and FTSE 100 climbed in the first half of Q2 2022/23 before falling to their lowest levels since November 2020 and July 2021 respectively. The SandP 500 is 7.2% below its level at the start of the quarter, whilst the FTSE 100 is 5.2% below it as the fall in the pound has boosted the value of overseas earnings in the index. The decline has, in part, been driven by the rise in global real yields and the resulting downward pressure on equity valuations as well as concerns over economic growth leading to a deterioration in investor risk appetite.

MPC meetings 4th August and 22nd September 2022

- In August, the Bank of England's Monetary Policy Committee (MPC) increased Bank Rate to 1.75%, and on 22nd September moved rates up a further 50 basis points to 2.25%. The increase reflected a split vote – five members voting for a 50 basis points increase, three for 75 basis points and one for 25 basis points. The MPC continues to grapple with getting inflation back on track over a three-year horizon.
- Moreover, the UK now has a new Prime Minister, a new Chancellor and new economic policies that seek to grow the UK economy faster than at any time since the 1980s. The central planks to the government's new policies are tax cuts and regulatory simplification. It is too early to say whether such policies will boost growth in the ways intended, but what is clear at this juncture is that the lack of scrutiny of the various projections, ideally by the Office of Budget Responsibility (OBR), and an emphasis upon borrowing to fund the significant cost of the proposals scared the markets.
- Subsequently, the Government has announced that the OBR will scrutinise their spending plans on 23rd November, after the MPC next meets on 3rd November. Naturally, the Bank Rate forecast set out below will be dependent on a more joined-up set of communications from the Bank of England and the government than that which we have seen or heard so far. In addition, the fiscal governance aspects referred to in the OBR's upcoming review in November will need to be suitably couched in reassuring language and analysis to persuade the markets that fiscal rectitude has not been abandoned.

- Of course, what happens outside of the UK is also critical to movement in gilt yields. The US FOMC has led with increases of 300 basis points in the year to date and is expected to increase rates further before the end of the year. Similarly, the ECB has also started to tighten monetary policy, albeit from an ultra-low starting point, as have all the major central banks apart from Japan. Arguably, though, it is US monetary policies that are having the greatest impact on global bond markets.
- What happens in Ukraine will also impact the global economy, but particularly in Europe. The search for alternative providers of energy, other than Russia, will take both time and effort. The weather will also play a large part in how high energy prices stay and for how long.

GLOSSARY

Local Authority Treasury Management Terms

Terms	Descriptions
A (Fitch) Rating	<p>Fitch Ratings publishes credit ratings that are forward-looking opinions on the relative ability of an entity or obligation to meet financial commitments.</p> <p><i>A: High credit quality.</i> 'A' rating denotes expectations of low default risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings.</p>
Bond	A certificate of long-term debt issued by a company, government, or other institution, which is tradable on financial markets
Borrowing	Usually refers to the stock of outstanding loans owed, and bonds issued.
CFR	<p>Capital Financing Requirement. A council's underlying need to hold debt for capital purposes, representing the cumulative capital expenditure that has been incurred but not yet financed.</p> <p>The CFR increases with capital expenditure and decreases with capital finance and MRP.</p>
Capital gain or loss	An increase or decrease in the capital value of an investment, for example through movements in its market price.
CIPFA	The Chartered Institute of Public Finance and Accountancy (CIPFA) is a UK-based international accountancy membership and standard-setting body. The only such body globally dedicated to public financial management.
Collective investment scheme	Scheme in which multiple investors collectively hold units or shares. The investment assets in the fund are not held directly by each investor, but as part of a pool (hence these funds are also referred to as 'pooled funds').
Cost of carry	When a loan is borrowed in advance of need, the difference between the interest payable on the loan and the income earned from investing the cash in the interim.
Counterparty	The other party to a loan, investment or other contract.

Terms	Descriptions
Counterparty limit	The maximum amount an investor is willing to lend to a counterparty, in order to manage credit risk.
Covered bond	Bond issued by a financial institution that is secured on that institution's assets, usually residential mortgages, and is therefore lower risk than unsecured bonds.
CPI	Consumer Price Index - the measure of inflation targeted by the Monetary Policy Committee.
Deposit	A regulated placing of cash with a financial institution. Deposits are not tradable on financial markets.
Diversified income fund	A collective investment scheme that invests in a range of bonds, equity and property in order to minimise price risk, and also focuses on investments that pay income.
Dividend	Income paid to investors in shares and collective investment schemes. Dividends are not contractual, and the amount is therefore not known in advance.
DMADF	Debt Management Account Deposit Facility – a facility offered by the DMO enabling councils to deposit cash at very low credit risk. Not available in Northern Ireland.
DLUHC	Department for Levelling Up, Housing and Communities (<i>formerly known as Ministry of Housing, Communities and Local Government - MHCLG</i>).
DMO	Debt Management Office – an executive agency of HM Treasury that deals with central government's debt and investments.
Equity	An investment which usually confers ownership and voting rights
Floating rate note (FRN)	Bond where the interest rate changes at set intervals linked to a market variable, most commonly 3-month LIBOR or SONIA
FTSE	Financial Times stock exchange – a series of indices on the London Stock Exchange. The FTSE 100 is the index of the largest 100 companies on the exchange, the FTSE 250 is the next largest 250 and the FTSE 350 combines the two
GDP	Gross domestic product – the value of the national aggregate production of goods and services in the economy. Increasing GDP is known as economic growth.
Income Return	Return on investment from dividends, interest and rent but excluding capital gains and losses.

Terms	Descriptions
GILT	Bond issued by the UK Government, taking its name from the gilt-edged paper they were originally printed on.
LIBID	London interbank bid rate - the benchmark interest rate at which banks bid to borrow cash from other banks, traditionally 0.125% lower than LIBOR.
LIBOR	London interbank offer rate - the benchmark interest rate at which banks offer to lend cash to other banks. Published every London working day at 11am for various currencies and terms. Phased out in 2022.
LOBO	Lender's Option Borrower's option
MMF	Money Market Funds. A collective investment scheme which invests in a range of short-term assets providing high credit quality and high liquidity. Usually refers to Constant Net Asset Value (CNAV) and Low Volatility Net Asset Value (LVNAV) funds with a Weighted Average Maturity (WAM) under 60 days which offer instant access, but the European Union definition extends to include cash plus funds
MPC	The Monetary Policy Committee (MPC) decides what monetary policy action the Bank of England will take to keep inflation low and stable.
OBR	The Office for Budget Responsibility was created to provide independent and authoritative analysis of the UK's public finances. It is one of a growing number of official independent fiscal watchdogs around the world.
PMI	Purchasing Managers' Index (PMI) - A composite PMI is the weighted average of manufacturing and service sector PMIs for a given geography or economy, produced by IHS Markit. Weights are derived from official data relating to each sector's contribution to GDP (value added).
Pooled Fund	Scheme in which multiple investors hold units or shares. The investment assets in the fund are not held directly by each investor, but as part of a pool (hence these funds are also referred to as 'pooled funds').
PWLB	Public Works Loan Board – a statutory body operating within the Debt Management Office (DMO) that lends money from the National Loans Fund to councils and other prescribed bodies and collects the repayments. Not available in Northern Ireland.
Quantitative easing (QE)	Process by which central banks directly increase the quantity of money in the economy to promote GDP growth and prevent deflation.

Terms	Descriptions
	Normally achieved by the central bank buying government bonds in exchange for newly created money.
S & P 500	The S&P 500 (also known as the Standard & Poor's 500) is a registered trademark of the joint venture S&P Dow Jones Indices. It is a stock index that consists of the 500 largest companies in the U.S. and is generally considered the best indicator of how U.S. stocks are performing overall.
SME	SME finance is the funding of small and medium-sized enterprises and represents a major function of the general business finance market – in which capital for different types of firms are supplied, acquired, and costed or priced.
SONIA	Sterling overnight interest average – a benchmark interest rate for overnight deposits.
Short-dated	Usually means less than one year
TMSS	Approved Council's Treasury Management Strategy Statement
Total return	The overall return on an investment, including interest, dividends, rent, fees and capital gains and losses.

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Report to:	AUDIT AND GOVERNANCE COMMITTEE
Date:	23rd November 2022
Title:	Internal Audit and Counter Fraud Report for the first half of the financial year 2022-2023 – 1st April 2022 to 30th September 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 half of the financial year 2022-2023 – 1st April 2021 to 30th September 2022.
Officer recommendation(s):	That the update on the work of Internal Audit and Counter-Fraud be noted and members identify any further information requirements.
Reasons for recommendations:	The remit of the Audit and Governance Committee includes the duties to agree an Annual Audit Plan and keep it under review, and to keep under review the probity and effectiveness of internal controls, both financial and operational, including the council's arrangements for identifying and managing risk.
Contact Officer(s):	Name: Jackie Humphrey Post title: Chief Internal Auditor E-mail: jackie.humphrey@lewes-eastbourne.gov.uk Telephone number: 01323 415925

1 Introduction

- 1.1 The remit of the Audit and Governance Committee includes the duties to agree an Annual Audit Plan and keep it under review, and to keep under review the probity and effectiveness of internal controls, both financial and operational, including the council's arrangements for identifying and managing risk.
- 1.2 The quarterly report includes a review of work undertaken by Internal Audit and Counter Fraud.
- 1.3 This report summarises the work carried out by Internal Audit and Counter Fraud for the first half of the financial year 2022-23.

2 Review of the work of Internal Audit carried out in the first half of the financial year 2022-23

- 2.1 During the first half of the financial year the work of the Internal Audit team has been concentrating on completing the annual reviews that have to be carried out. There are 12 of these and they cover the main financial systems.
- 2.2 Two of these have been issued in Final in this quarter along with three other reports on audits from the audit plan. Work has also been carried out on audits requiring follow up and four reports were issued in Final. Three further reports were issued in draft within the quarter.
- 2.3 Appendix A lists all reports that have been issued in the first half of the year.

- 2.4 Appendix B lists all the audits which are still subject to follow up reviews. The table shows the results of all follow ups carried out and when the next follow up is due. When all recommendations have been addressed, this will be reported once and then that audit will be removed from the list.
- 2.5 Appendix C lists all the outstanding recommendations against reports after one or more follow ups have been carried out.
- 2.6 Of the audits listed in Appendix C the following should be noted:
- Outstanding after 4 follow ups
- Business Continuity Plans: 1 high risk recommendation outstanding – work is well underway on addressing this last recommendation. The next follow up is due in November.
- Outstanding after 3 follow ups
- Leaseholder Management and Recharges: 1 medium risk recommendation outstanding – work is underway on updating the handbook, consultation is taking place but has been delayed by sickness. A further follow up is currently ongoing.
 - Arrears Collection: 1 low risk recommendation outstanding – an Arrears Collection Strategy is expected to be in place by September. The next follow up is due in October. The committee has been requesting updates from the Lead for Income Maximisation and Welfare. However, these requests are concerning performance rates and are therefore outside the remit of this audit and the Audit and Governance Committee.
 - Procurement: 5 medium recommendations are outstanding – four were addressed between the second and third follow up. The next follow up is due in January.
- Outstanding after 2 follow ups
- Members Allowances: 2 medium recommendations outstanding – at previous follow ups there have not been enough claims to test. Checks will be made and a follow up completed as soon as possible. A further follow up is currently ongoing.
 - Officers Expenses: 1 medium and 6 low risk recommendations outstanding – two low risk recommendations are awaiting a meeting of the Senior Managers' Forum and all the rest need forms to be updated and this is reported as being ongoing in all cases. A further follow up is currently ongoing.
 - Love Clean Streets: 1 high risk remains outstanding, but work is currently ongoing to address this recommendation. The next follow up is due in January.
- 2.7 At the last meeting, the committee questioned when a risk for a recommendation would change from Amber to Red if the recommendation is not addressed or an inadequate response has been received. The risk level given is the risk of this control not being in place. This risk level can therefore not change.
- 2.8 The question around unaddressed recommendations is, however, very pertinent and is an issue that has been recently discussed in the Audit team. The current level of unaddressed recommendations after follow up is fairly unprecedented, particularly those outstanding after a number of follow ups, and so this issue has not been something that needed to be addressed. Undertaking so many follow

ups is also impacting on the team's ability to carry out new audit reviews. Consideration has therefore been given to how to reflect this and the proposal is to lower the assurance level that is given to the whole review. This practice will now begin with immediate effect as further follow ups are carried out. These will be clearly reported to the committee.

- 2.9 The work of the audit team has been impacted by a focus on training the two new Internal Auditors who took up their posts on 10th January 2022 and 9th May 2022. 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 both, therefore, taken more than the allocated time to complete the work and have required support. However, they are both making very good progress and are now requiring less support.
- 2.10 The Audit Manager is undertaking the Operations/Departmental Manager Apprenticeship and has already effectively implemented her new knowledge and skills in recruitment and induction, people management, and performance management.
- 2.11 One member of the Internal Auditor team has resigned and will be leaving their post on 28th October 2022. Authorisation to recruit to the vacant post is being sought.
- 2.12 The work of the team has already been impacted by training and will be further affected by having a temporary vacancy and training any new member of staff appointed. It is therefore inevitable that the full number of audits proposed in the audit plan will not be completed. However, in order for an opinion on the control environment to be given at the end of the year, the important factor is the breadth of work undertaken. This breadth of coverage is continuously monitored to ensure that it is adequate. This breadth is supported by members of the Audit team sitting in on project team meetings and providing feedback (real-time auditing) as well as carrying out requested pieces of ad hoc work/advice for areas and these can feed into the opinion on the control environment.

3 The Stage Door

- 3.1 A second follow up of the Stage Door has just been completed. This follow up found that, since the last follow up, a further four high risk and three medium risk recommendations have been addressed. As good progress is now being made to address recommendations, the assurance level has been raised to Partial.
- 3.2 Appendix C has been updated to reflect the current position but, as the committee have specifically requested an update, a general summary of the current position is given below.
- 3.2 The recommendation regarding stock controls is currently being addressed. Steps had been undertaken to implement changes. However, some processes are still "bedding in" and some training still needs to be undertaken.
- 3.3 Information regarding income taken through tills was being entered manually onto spreadsheets for reconciliations. It was therefore recommended that enquires be made to see if this could be automated. The till software has been updated and progress is being made to produce reports which can be used to reconcile income.
- 3.4 Rental for the gaming machine was being incorrectly coded in the general ledger. This has now been addressed but the relevant e-return still needs to be updated.

- 3.5 At the original review some apparent health and safety issues were identified, and it was recommended that a full review of health and safety be carried out. This has been carried out and an action plan produced. While most issues on the action plan have been address, some actions are outstanding.
- 3.6 It was recommended that all staff working at the Stage Door must attend health and safety training. It is noted that training has been carried out but that, at the time of carrying out the follow up, some staff still needed to undertake the training.
- 3.7 Overall, good progress is being made on all remaining recommendations, but some elements still need to be completed before they are fully addressed.
- 4 Review of the work of Counter Fraud carried out in the second quarter of the financial year 2022-23**
- 4.1 Housing Tenancy – The Counter Fraud team continues to work closely with colleagues in Homes First and Legal - there are currently 27 ongoing sublet/abandonment tenancy cases at various stages. Three properties were returned to council following action by the team, with a net saving of £279,000 (based on £93,000 for each property). One succession application was refused following involvement by the team, and five other cases closed during this quarter with no further action. One case was heard at Hastings Magistrates Court in April, with immediate possession granted due to non-occupation and rent arrears - recovery via bailiff enforcement of this order is due in early October.
- 4.2 Right To Buy - There continues to be a steady volume of Right To Buy applications since autumn 2021. 18 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. 13 applications were vetted during this period and, of those, five applications were withdrawn resulting in a net preventative saving of £436,000.
- 4.3 Housing Applications/Homeless Placement – 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.
- 4.4 National Non-Domestic Rates – Only one Small Business Rate Relief discount was investigated during this quarter with no change to the existing award.
- 4.5 Council Tax – 16 cases have been investigated during the quarter as part of a review of Single Person Discounts, Exemptions and Disregards with a net recoverable income of £2,953.71 generated for the authority and a preventative saving of £4,451.68. A review of Council Tax exemptions/disregards is ongoing and includes work with National Fraud Initiative matching data held between Council Tax Records and Electoral roll, so far 33 cases have been reviewed with a net recoverable income of £3178.33 generated along with a preventative saving of £4957.12 (these figures are included within NFI savings below).
- 4.6 Council Tax Reduction – Four cases have been closed in this year generating a total recoverable income of £455.11 and a preventative saving of £4451.68.
- 4.7 Housing Benefit – The team continue to work closely with the Department for Work and Pensions (DWP) and our colleagues in the benefit section. Due to resources restrictions and pressing need to assess Universal Credit applications, the DWP have limited their capacity to investigate Housing Benefit. Over the 2nd quarter, 12 cases were closed generating a recoverable Housing

Benefit overpayment of £17,884.47 and a preventative saving of £5,569.68. £33.50 was also recovered from historic Additional Penalty collection.

- 4.8 Housing debtors – The team continue to look at debt avoidance where loans have been made to assist with securing housing and have remained outstanding following existing debt recovery methods of contact. This activity has recouped £4,126.67 during this period which otherwise might have been written off. The team have also started assisting the Homes First officers trace former tenants with outstanding re-charges. Three former tenants were traced during this period with an outstanding debt of £3153 owed to the council.
- 4.9 National Fraud Initiative (NFI) – The 2020/21 exercise is gradually nearing completion. The team have cleared a total of 232 cases with errors amounting to £12,455.89 and preventative savings of £5,607.28 during this quarter. Work has now commenced on collecting data for the 2022/23 exercise, NFI have set a deadline for this work of the 18 November 2022.
- 4.10 Data Protection Requests – The team take an active role in supporting colleagues in other organisations to prevent fraud and tackle criminal activity. During the quarter the team dealt with five Data Protection Act requests from the Police and other authorities. In addition, three fit and proper person checks were completed for new or renewal HMO licences and two Gas Safety checks were completed on council properties where the tenant has not responded.
- 4.11 A table showing the savings made by the Counter Fraud team in 2022-2023 can be found at Appendix D. A table has been added to this appendix to give an explanation of how the amounts have been calculated.

5 Financial appraisal

- 5.1 There are no financial implications relating to expenditure arising from this report. Details of savings generated by the Counter Fraud team are included in Appendix D.

6 Legal implications

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

7 Risk management implications

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

8 Equality analysis

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

9 Environmental sustainability implications

Not applicable

10 Appendices

Appendix A – List of reports issued during the year

Appendix B – Position of audits requiring follow up

Appendix C – Recommendations outstanding after follow-ups

Appendix D – Counter Fraud savings

LIST OF ALL REPORTS ISSUED DURING THE FIRST HALF OF 2022-23

Follow Up Reports Issued In Current Year For Audits Completed In Previous Years

AUDIT	FOLLOW UP	DATE FOLLOW UP ISSUED	ASSURANCE LEVEL	
Officers Expenses	Second	12.04.22	Substantial	See Appendix B for full details
Use of Social Media	First	09.05.22	Full	All recommendations addressed
Business Continuity Planning	Fourth	11.05.22	Substantial	See Appendix B for full details
Stage Door	First	16.05.22	Minimal	See Appendix B for full details
Love Clean Streets	First	20.05.22	Partial	See Appendix B for full details
Arrears Collection	Third	24.05.22	Substantial	See Appendix B for full details
Implementation of Housing Software	Third	16.06.22	Full	All recommendations addressed
Leaseholder Management and Recharges	Third	27.06.22	Substantial	See Appendix B for full details
Fly Tipping	Third	13.07.22	Full	All recommendations addressed
Love Clean Streets	Second	22.09.22	Partial	See Appendix B for full details
Film Liaison Unit	First	28.09.22	Minimal	See Appendix B for full details
Procurement	Third	30.09.22	Partial	See Appendix B for full details

Audit Reports Issued In Current Year

AUDIT	FINAL DATE	FINAL ASSURANCE LEVEL	FIRST FOLLOW-DUE
Treasury Management 2021-22	07.04.22	Substantial	N/A
Housing Rents 2021-22	23.06.22	Substantial	N/A
Payroll 2021-22	28.06.22	Substantial	N/A
Council Tax 2021-22	29.06.22	Substantial	N/A
Theatres 2021-22	01.07.22	Partial	N/A
Contract Management	03.08.22	Partial	December 22
Sovereign Centre	17.08.22	Partial	December 22
Rent Sense	15.09.22	Partial	January 23
Benefits 2021-22	30.09.22	Substantial	N/A

Draft Reports Issued In the Current Year That Are Awaiting Responses

AUDIT	DATE DRAFT ISSUED
Leaseholder Management and Recharges – 4 th Follow up	22.09.22
Furloughing – 1 st Follow up	28.09.22
Members Allowances – 3 rd Follow up	22.09.22

Key to assurance levels

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.

APPENDIX B – Quarterly Report on Internal Audit and Counter Fraud Work

POSITION OF AUDITS REQUIRING FOLLOW UP

AUDIT	FINAL DATE	FINAL ASSURANCE LEVEL	FIRST FOLLOW-UP DATE	FIRST FOLLOW UP ASSURANCE LEVEL	SECOND FOLLOW-UP DATE	SECOND FOLLOW UP ASSURANCE LEVEL	THIRD FOLLOW-UP DATE	THIRD FOLLOW- UP ASSURANCE LEVEL	FOURTH FOLLOW UP DATE	FOURTH FOLLOW UP ASSURANCE LEVEL	FIFTH FOLLOW UP
Business Continuity Plans	06.11.20	Minimal	21.05.21	Partial	19.08.21	Partial	20.12.21	Partial	11.05.22	Substantial	Nov 22
Procurement	09.12.20	Partial	26.07.21	Partial	16.12.21	Partial	30.09.22	Partial	Jan 23		
Leaseholder Management and Recharges	11.12.20	Partial	10.09.21	Substantial	24.03.22	Substantial	27.06.22	Substantial	Draft issued		
Arrears Collection	06.01.21	Partial	06.09.21	Partial	18.01.22	Partial	24.05.22	Substantial	Oct 22		
Members Allowances	12.01.21	Substantial	14.07.21	Substantial	22.12.21	Substantial	Draft issued				
Officers Expenses	02.02.21	Substantial	09.11.21	Substantial	21.04.22	Substantial	Ongoing				
Fly Tipping	26.03.21	Partial	22.09.21	Partial	09.02.22	Substantial	13.07.22	Full			
Stage Door	15.11.21	Minimal	16.05.22	Minimal	Ongoing						
Love Clean Streets	16.12.21	Partial	20.05.22	Partial	22.09.22	Partial	Jan 23				
Furloughing	06.12.21	Full	Draft issued								
Regeneration Projects	06.12.21	Substantial	Oct 22	Delayed to take into account the impact of inflation							
Film Liaison Unit	27.01.22	Minimal	28.09.22	Minimal	Jan 23						
Information Governance	07.02.22	Partial	Ongoing								
Covid – New ways of working	11.02.22	Partial	Ongoing								
Construction Industry Tax	16.02.22	Partial	Ongoing								
Contract Management	03.08.22	Partial	Dec 22								
Sovereign Centre	17.08.22	Partial	Dec 22								
Rent Sense	15.06.22	Partial	Jan 23								

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RECOMMENDATIONS FROM AUDIT REPORTS WHICH REMAIN OUTSTANDING AFTER FOLLOW UP

COLOUR KEY

High Risk
Medium Risk
Low Risk

REPORTS ISSUED 20/21

AUDIT	Original Assurance Level	High	Medium	Low	Latest Follow Up Date	Number of Follow Up	Assurance Level at Follow Up	High	Medium	Low	Next Follow Up Due	Outstanding recommendations	Client Comment
Business Continuity Planning November 20	Minimal	4	0	0	11.05.22	Fourth	Substantial	1	0	0	Nov 22	Business Continuity Plans for every department must be completed and adopted as soon as possible. (6 months)	<p>The Emergency Planning Officer is producing guidance for Heads of Service on how to convert their completed Business Impact Assessments into Business Continuity Plans.</p> <p><u>Audit comment</u></p> <p>The overarching Business Continuity Plan is in place and progress is well underway with producing both Business Impact Assessments and Business Continuity Plans for departments. As the guidance needs to be given and the plans written, a further review of the departmental plans will be carried out in six months.</p>

Appendix C – Quarterly Report on Internal Audit and Counter Fraud Work

AUDIT	Original Assurance Level	High	Medium	Low	Latest Follow Up Date	Number of Follow Up	Assurance Level at Follow Up	High	Medium	Low	Next Follow Up Due	Outstanding recommendations	Client Comment
Procurement December 2020	Partial	0	11	0	30.09.22	Third	Partial	0	5	0	Jan 23	Performance against the Procurement Forward Plan must be monitored and reported. (6 months)	With the Forward Plan only recently established monitoring has not taken place. Management of the Contracts Register is a key element of the Forward Plan and its monitoring
												Policies and procedures must clearly state that where corporate contracts exist these, and no other company, must be used. (12 months)	Amendments to the Contract Procedure Rules are still being worked on.
												Non-compliance of raising purchase orders must be monitored and persistent offenders reported to the head of the relevant service area. (6 months)	Lead up work to 'No PO – No pay' project has either been completed or under way. A provisional date of 01/11/22 has been set, after which suppliers' invoices without a PO will no longer be accepted and suppliers will be asked to resubmit with PO number supplied.
												A note must be added to guidance on raising invoices reminding officers to: • check the contracts register to consider whether their order could fall under the	This has not been actioned yet. Apologies for delay. A general email will be sent out to all CAFI users reminding them of this and also to update our, "How to raise a PO" instructions on the web.

Appendix C – Quarterly Report on Internal Audit and Counter Fraud Work

AUDIT	Original Assurance Level	High	Medium	Low	Latest Follow Up Date	Number of Follow Up	Assurance Level at Follow Up	High	Medium	Low	Next Follow Up Due	Outstanding recommendations	Client Comment
												<p>remit of a supplier with whom the organisation has an outstanding contract. Where a corporate contract exists these, and no other company, must be used</p> <p>• prompt officers to consider using suppliers already set up on the creditors system for a similar product</p> <p>(3 months)</p>	
												<p>The ability to expand the “Types” facility within Creditors must be investigated and if possible use of “Types” implemented across EBC, LDC, EHL and SEESL.</p> <p>(6 months)</p>	To date, a meeting has not been arranged.
<p>Leaseholder Management and Recharges</p> <p>December 2020</p>	Partial	0	2	0	28.06.22	Third	Substantial	0	1	0	Draft issued	<p>The Leaseholder Handbook must be reviewed and updated.</p> <p>(6 months)</p>	<p>The first draft was completed in April 2022.</p> <p>The resident representative responsible for the EBC leaseholder consultation has been in hospital. This has halted the consultation process for EBC, we are currently looking for a suitable replacement.</p> <p>If the consultations for the new handbook have not</p>

Appendix C – Quarterly Report on Internal Audit and Counter Fraud Work

AUDIT	Original Assurance Level	High	Medium	Low	Latest Follow Up Date	Number of Follow Up	Assurance Level at Follow Up	High	Medium	Low	Next Follow Up Due	Outstanding recommendations	Client Comment
													been completed by August, then we will look to publish an interim leaseholder handbook online.
Arrears Collection January 2021	Partial	2	2	3	24.05.22	Third	Substantial	0	0	1	Oct-22	An overarching corporate arrears collection strategy must be drawn up and adopted, under which the separate policies for the individual debt streams sit, to ensure council departments responsible for collecting monies are acting in accordance with approved guidelines. (3 months)	An overarching corporate arrears collection strategy will be considered and adopted. It is expected that this will be completed by September 2022.
Members Allowances January 2021	Substantial	0	3	0	22.12.21	Second	Substantial	0	2	0	Draft issued	All expenditure must be evidenced by official VAT receipts. Where expenditure includes VAT, reimbursement must be claimed through the creditors system. (1 month)	<u>Audit Comment</u> No claims including VAT had been made by the time of the follow up so this could not be checked
												All expenditure must be charged to the correct general ledger code. (1 month)	<u>Audit Comment</u> Testing at follow up revealed one claim had been incorrectly coded

Appendix C – Quarterly Report on Internal Audit and Counter Fraud Work

AUDIT	Original Assurance Level	High	Medium	Low	Latest Follow Up Date	Number of Follow Up	Assurance Level at Follow Up	High	Medium	Low	Next Follow Up Due	Outstanding recommendations	Client Comment
Officers Expenses February 2021	Substantial	2	2	11	12.04.21	Second	Substantial	0	1	6	Ongoing	The Reimbursement of Officers Expenses via Creditors claim form must be updated to include a link to up to date relevant council rules. (3 months)	An initial start has been made on an updated claim form.
												Officers expenses claims forms should be amended to have a tick box to be completed to show that a VAT receipt has been attached and a disclaimer that expenses claims may be questioned if there is no VAT receipt or the receipt is illegible. (3 months)	An initial start has been made on an updated claim form.
												Consideration should be given to listing the most regularly used detail codes on the instructions tab of the Officers Expenses claim form. (e.g. travel, subsistence, equipment etc) and a note to cross reference this put onto the form itself. (3 months)	An initial start has been made on an updated claim form.

Appendix C – Quarterly Report on Internal Audit and Counter Fraud Work

AUDIT	Original Assurance Level	High	Medium	Low	Latest Follow Up Date	Number of Follow Up	Assurance Level at Follow Up	High	Medium	Low	Next Follow Up Due	Outstanding recommendations	Client Comment
												<p>A field must be added to the car mileage claim form to indicate if the mileage is undertaken by cycle rather than car.</p> <p>(3 months)</p>	<p>An initial start has been made on an updated claim form.</p>
												<p>The mileage claim form must be changed to ask for the total mileage as calculated by AA route planner and not ask for mileometer readings. A screen dump of the AA route planner showing the route and total mileage should also be asked for on the claim and no claim processed unless a screen dump was sent with the claim.</p> <p>(3 months)</p>	<p>An initial start has been made on an updated claim form.</p>
												<p>Claims for off-peak travel between Lewes and Eastbourne must be paid at the post 9am return rail fare once the appropriate Easit discount has been applied regardless of whether the officer claiming used the Easit discount in accordance with the Travel Policy.</p>	<p>Deputy Chief Finance Officer confirmed that due to unforeseen meeting rearrangements the item was not raised at the last Senior Managers Forum.</p> <p>Deputy Chief Finance Officer confirmed that it will be added to next meeting's agenda.</p>

Appendix C – Quarterly Report on Internal Audit and Counter Fraud Work

AUDIT	Original Assurance Level	High	Medium	Low	Latest Follow Up Date	Number of Follow Up	Assurance Level at Follow Up	High	Medium	Low	Next Follow Up Due	Outstanding recommendations	Client Comment
												(1 month)	
												<p>Detail codes quoted on expense claim forms must be checked, prior to payment being made, to ensure that where the claim is relates to an obvious cost (e.g. subsistence) the correct code has been used.</p> <p>(3 months)</p>	<p>Deputy Chief Finance Officer confirmed that due to unforeseen meeting rearrangements the item was not raised at the last Senior Managers Forum.</p> <p>Deputy Chief Finance Officer confirmed that it will be added to next meeting's agenda.</p>

Appendix C – Quarterly Report on Internal Audit and Counter Fraud Work

REPORTS ISSUED 21/22

AUDIT	Original Assurance Level	High	Medium	Low	Latest Follow Up Date	Number of Follow Up	Assurance Level at Follow Up	High	Medium	Low	Next Follow Up Due	Outstanding recommendations	Client Comment
Stage Door November 21	Minimal	7	8	2	21.10.22	Second	Partial	1	4	0	Feb 23	Measures must be put in place to ensure stock controls are effective, and stock is strictly controlled. (3 months)	In progress Laptop in place New stock control procedures and processes in place and being implemented. Purchase Orders are now being completed on time and by TSD staff. Touch Office updated. Tablet purchased exclusively for stock movement and working across all sites. This is only just bedding in with some issues that still need refining. Touch Office training for 3 out of 5 supervisors, 2 to follow shortly. Bar staff need training. More frequent stock takes happening
												Consideration should be given to the purpose of the information collated, how much of the information is simply being copied into spreadsheets and IT consulted to establish whether a program can be written to automate part of the process. (3 months)	In progress Touch Office update is complete but reports not seen by auditor. Streamlining of information collated, in progress. IT to be contacted once streamlining complete.

Appendix C – Quarterly Report on Internal Audit and Counter Fraud Work

AUDIT	Original Assurance Level	High	Medium	Low	Latest Follow Up Date	Number of Follow Up	Assurance Level at Follow Up	High	Medium	Low	Next Follow Up Due	Outstanding recommendations	Client Comment
												Automatic Machine Services Ltd must be contacted as soon as possible to resolve the query concerning the rental fee, once resolved the discrepancies in the general ledger must be corrected. (3 months)	In progress Ledger code has been updated, however the corresponding E-return code still needs to be updated.
												A review of Health and Safety at The Stage Door Public House must be undertaken, and a plan of action developed to deal with the issues identified. (3 months)	In progress Many of the issues on the H&S report have been addressed. Still some outstanding issues.
												All staff working at the Stage Door Public House must attend Health and Safety training. (3 months)	In progress Some training complete, others still to happen. Auditor needs to see Training spreadsheet.
Love Clean Streets Application December 21	Partial	3	1	0	22.09.22	Second	Partial	1	0	0	Jan 23	A new contract must be negotiated with BBITS for the use of the Love Clean Streets service, in accordance with the Contract Procedure Rules. The contract must be passed through Legal Services. (3 months)	Going to work with Procurement and Legal Services to obtain a contract for the service.

Appendix C – Quarterly Report on Internal Audit and Counter Fraud Work

AUDIT	Original Assurance Level	High	Medium	Low	Latest Follow Up Date	Number of Follow Up	Assurance Level at Follow Up	High	Medium	Low	Next Follow Up Due	Outstanding recommendations	Client Comment
Film Liaison Unit January 22	Minimal	13	2	0	28.09.22	First	Minimal	9	1	0	Jan 23	A contract between LDC and Sussex Film Office must be drawn up through Legal Services.	<i>Details on the service carried out on behalf of the council supplied to Legal Services by Destinations Manager. Legal Services have identified the type of contract required for the service and its value. It is likely that three quotes from other providers will need to be sought to assure best value, though the details of this are yet to be confirmed</i>
												Governance, service standards and performance monitoring must be included in the contract.	Initial contact made and information on the service supplied. Contract details to be defined in due course
												The Terms and Conditions issued by SFO on behalf of the council must be reviewed and agreed by Legal Services.	Initial contact made and information on the service supplied. Contract details to be defined in due course.
												The invoicing process detailed in the contract and the invoicing process actually followed, must be aligned and the contract reworded as appropriate under the advice of the council's Legal Services department.	Initial contact made and information on the service supplied. Contract details to be defined in due course.

Appendix C – Quarterly Report on Internal Audit and Counter Fraud Work

AUDIT	Original Assurance Level	High	Medium	Low	Latest Follow Up Date	Number of Follow Up	Assurance Level at Follow Up	High	Medium	Low	Next Follow Up Due	Outstanding recommendations	Client Comment
												The permit cost schedule must be agreed by the council and any administration fees clearly defined within the contract.	Not started
												There must be regular timetabled meetings to monitor the contract and to inform an annual meeting to discuss the extension of the contract, any changes to the contract, the performance over the previous year and any plans for the following year.	Initial contact made and information on the service supplied. Contract details to be defined in due course.
												A specific, easily accessible folder must be created for contract and monitoring related documents.	This will happen once the contact is in place.
												Procedures for the Film Liaison Unit must be drawn up and aligned across both councils.	Written procedures have been written but will need to be aligned with the contract once it is in place.
												End of year reconciliation, between permits granted, invoices received from SFO and paid over the year, must be carried out.	Evidence of an end of year meeting was in place but no report. The next stage of Fame updates should provide the ability to complete this task with ease.

Appendix C – Quarterly Report on Internal Audit and Counter Fraud Work

AUDIT	Original Assurance Level	High	Medium	Low	Latest Follow Up Date	Number of Follow Up	Assurance Level at Follow Up	High	Medium	Low	Next Follow Up Due	Outstanding recommendations	Client Comment
												The contract must be updated to include consideration of environmental, sustainability and carbon neutral policies when decisions are being made between the council and SFO, and when permits are being granted.	Initial contact made and information on the service supplied. Contract details to be defined in due course.

Appendix D – Quarterly report on Audit and Counter Fraud work

INCOME AND SAVINGS ACROSS THE CURRENT FINANCIAL YEAR

Areas of 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	0	0	£279,000.00	0	0	0	0	0	£279,000.00
Right To Buy value saved through intervention	0	£689,000.00	0	£436,000.00	0	0	0	0	0	£1,125,000.00
Housing intervention/fraud	0	£12,000.00	0	0	0	0	0	0	0	£12,000.00
Revenues										
National Non Domestic Rates	£16,280.58	0	0	0	0	0	0	0	£16,280.58	0
Council Tax	£27,573.48	0	£2,953.71	0	0	0	0	0	£30,527.19	0
Value of ongoing Council Tax increase per week	0	£22,205.76	0	£4,451.68	0	0	0	0	0	£26,657.44
Council Tax Penalties	0	0	0	0	0	0	0	0	0	0
CTR & Housing Benefit										
Council Tax Reduction	£4,742.16	0	£455.11	0	0	0	0	0	£5,197.27	0
Council Tax Reduction weekly incorrect benefit	0	£144.00	0	£2,545.28	0	0	0	0	0	£2,689.28
Housing Benefit	£3,576.85	0	£17,884.47	0	0	0	0	0	£21,461.32	0
Housing Benefit weekly incorrect benefit	0	£3,441.60	0	£5,569.68	0	0	0	0	0	£9,011.28
Income from Administrative penalty collection	£32.48	0	£33.50	0	0	0	0	0	£65.98	0
NFI										
Overpayments identified	0	0	£12,455.89	0	0	0	0	0	£12,455.89	0
Weekly incorrect benefit identified	0	0	0	£5,607.28	0	0	0	0	0	£5,607.28
TOTALS	£52,205.55	£726,791.36	£33,782.68	£733,173.92	£0	£0	£0	£0	£85,988.23	£1,459,965.20

Appendix D – Quarterly report on Audit and Counter Fraud work

Explanation of Savings Recorded	
Tenancy Housing	
Recovery of council properties	Value of £93k per returned property based on NFI estimate
Right To Buy value saved through intervention	Value based on the discount saved for each withdrawn application (varies)
Housing intervention/fraud	Value based on an estimate of emergency placement costs £12k or removal from housing waiting list £3,400
Revenues	
National Non Domestic Rates	Value based on the outstanding liable bills now due following Counter-Fraud intervention
Council Tax	Value based on the outstanding liable bills now due following Counter-Fraud intervention
Value of ongoing Council Tax increase per week	Estimate of the amount saved based on a calculation of the length of undetected fraud - 32 weeks
Council Tax Penalties	Value of £70 or £280 penalty added to Council Tax Bill where discount/exemption fraud is found
CTR & Housing Benefit	
Council Tax Reduction	Value based on the re-assessment of entitlement following Counter-Fraud intervention
Council Tax Reduction weekly incorrect benefit	Weekly incorrect benefit - estimate of the amount saved based on the length of undetected fraud - 32 weeks
Housing Benefit	Value based on the re-assessment of entitlement following Counter-Fraud intervention
Housing Benefit weekly incorrect benefit	Weekly incorrect benefit - estimate of the amount saved based on the length of undetected fraud - 32 weeks
Income from Administrative penalty collection	The amount collected from Administrative Penalties following Dep for Work and Pension investigation
NFI	
Overpayments identified	Value of any overpayments detected in this quarter
Weekly incorrect benefit identified	Weekly incorrect benefit - estimate of the amount saved based on the length of undetected fraud - 32 weeks

Report to:	AUDIT AND GOVERNANCE COMMITTEE
Date:	23rd November 2022
Title:	IT and Communications Risks
Report of:	Chief Internal Auditor
Ward(s):	All
Purpose of report:	To provide answers to questions raised by the committee around IT and communication risks.
Officer recommendation(s):	That the information provided be noted and members identify any further information requirements.
Reasons for recommendations:	The remit of the Audit and Governance Committee includes the duty to keep under review the probity and effectiveness of internal controls, both financial and operational, including the council's arrangements for identifying and managing risk.
Contact Officer(s):	Name: Jackie Humphrey Post title: Chief Internal Auditor E-mail: jackie.humphrey@lewes-eastbourne.gov.uk Telephone number: 01323 415925

1 Introduction

- 1.1 The remit of the Audit and Governance Committee includes the duty 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 At the meeting of this committee held on 28th September 2022, the members requested a report relating to the robustness and reliability of the council's IT and communications systems and that proportionate mitigation of those risks is mitigated.

2 IT and Communications Risks

- 2.1 In order to answer the questions raised, the following officers were requested to provide the information which has been collated into this report.
 - Communications Lead
 - Transformation Programme Manager
 - Insurance Officer
 - Head of Customer First
 - Head of ICT
- 2.2 The issues raised were around certain risks within the Strategic Risk Register and therefore this report is laid out using these risks as headers.
- 2.3 It is felt that the responses regarding IT security should be exempt from publication on the grounds of prevention of crime. The responses can therefore be found at **Exempt** Appendix A. **Should members wish to discuss this**

appendix they will need to resolve to move to exclude the press and public first.

2.4 SR_007 – Impact of an event under the Civil Contingencies Act

Q. Bad weather can affect power and water supply. There is also the current energy crisis which could see black outs in the winter. What plans does the council have for mitigating the risk of a power outage, with particular reference to staff working from home?

A. If there was a power outage at the Town Hall only, then staff would be decanted to other buildings where power is not affected. These include the Point and other buildings in the Devonshire Quarter at Eastbourne, Southover House in Lewes and the Port office in Newhaven. Also, staff could be asked to work from home.

Unless it was unsafe to do so, a member of staff would be retained on reception to manually record enquiries for logging when the power returns.

If the outage covers Lewes and Eastbourne, or is county-wide, then it would have a far greater impact as staff could not be decanted and would not be able to work from home, unless they live in another part of the country. The scenario for a county-wide outage sits with the Sussex Resilience Forum and they are waiting for central governance guidance. They are also planning to hold an exercise in the next few weeks.

One solution would be to purchase and maintain a generator but there is no current capacity for all staff to attend one office.

In terms of getting information out to the public the council's social media platforms and website would be used to push messages. It is also possible to enable short term messages on our telephone system to advise that the council is experiencing issues. These are only effective if the public are able to receive the messages on their own devices. Eastbourne's telephone system has a fail over to Lewes. The council would also be regurgitating information pushed out by the electricity companies and there are schemes where the council encourage residents to sign up to updates directly from them in the case of them being vulnerable.

For sheltered housing the Neighbourhood Caseworkers would ensure customers are informed and looked after.

In an absolute worse-case scenario, decisions would have to be made about which services the council could continue to provide in such circumstances.

2.5 SR_010 – Data Protection

Q. As well as maintaining the data risk on the council's systems, there are risks through the use of subcontractors.

i. How is the council insured against the risk?

ii. How would the council manage the reputation risk arising?

A. i. Data protection breaches are covered, under the council's Officials' Indemnity policy (current period of cover 1 April 2022 – 31 March 2023)

The council's cover is as follows (*excerpt from policy wording follows*):

A. Data Protection

The insurer will indemnify the insured for legal costs and expenses incurred with the insurer's prior consent, and all sums the insured is required to pay as damages to an individual arising from proceedings brought against the insured under:

- a) Sections 168 and 169 of the Data Protection Act 2018
- b) Article 82 of Regulations (EU) 2016/679 (General Data Protection Regulation)

Provided always that:

- i) The insurer shall not be liable under this extension for:
 - 1) fines, penalties, liquidated, punitive or exemplary damages
 - 2) The costs of notifying any person regarding loss of personal data
 - 3) The cost of replacing, reinstating, rectifying or erasing any personal data
 - 4) Any deliberate or intentional criminal act or omission giving rise to any claim under this extension committed by the insured
- ii) The liability of the insurer under this extension shall not exceed £1,000,000 in any one period of insurance. (*excerpt ends*)

In addition to the Council's own insurance, our data sharing agreements with third parties such as subcontractors processing personal data on our behalf include indemnity provisions. These ensure that where the data breach has occurred due to an integrity or confidentiality failure on their part, they indemnify the Council against the legal costs arising from any civil claims pursued by injured parties.

A ii. In the event of such a breach, the Council would follow the notification requirements under articles 33 and 34 of the UK GDPR. In parallel, ICO (Information Commissioner's Office) guidance would be followed; key items on their checklist would ensure that –

- We have a process to inform affected individuals about a breach when their rights and freedoms are at high risk. (We would typically do this via direct communication with those affected.)
- We would inform affected individuals without undue delay.
- We would notify the ICO of a breach within 72 hours of becoming aware of it, even if we do not have all the details yet.
- We would provide advice to these customers help them protect themselves from its effects.
- We may also consider notifying third parties such as the police, insurers, professional bodies, or bank or credit card companies who can help reduce the risk of financial loss to individuals.

Furthermore, we would be open and transparent in our response to any media, customer or other relevant enquiries about the breach, how it occurred, the steps we have taken including notifying the ICO and other relevant bodies and the further steps we will take to reduce the risk of future breaches.

2.6 Further information provided by IT

IT holds a risk register but this does not include sub-contractors. The Head of ICT stated that “we only used trusted partners that have been fully vetted”.

An exercise has also been undertaken to ensure that none of the sub-contractors have any services or ties with Russia.

All redundant IT equipment goes for disposal and is not recycled. The equipment is destroyed to military grade so that no data can be recovered. Once destruction is complete, a certificate to confirm destruction is provided to the council.

3 **Financial appraisal**

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

4 **Legal implications**

- 4.1 In relation to paragraph 2.5 Ai above, Article 82 of the UK GDPR confers on persons the right to receive compensation from any organisation whose infringement of this Regulation has caused them material or non-material damage. Section 168 of the Data Protection Act 2018 provides that “non-material damage” includes distress.

Section 169 of the 2018 Act provides an equivalent means of redress for persons affected by any organisation’s failure to comply with the Act.

Responses given in Appendix A comply with the confidentiality and integrity principle specified in UK GDPR Article 5(1)(f), namely:

‘Personal data shall be processed in a manner that ensures appropriate security of the personal data, including protection against unauthorised or unlawful processing and against accidental loss, destruction or damage, using appropriate technical or organisational measures’.

Legal advice provided 27.10.22

Legal ref: 011515-EBC-OD

5 **Risk management implications**

- 5.1 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.

6 **Equality analysis**

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

7 **Environmental sustainability implications**

Not applicable

8 **Appendices**

Appendix A – IT responses (EXEMPT)

By virtue of paragraph(s) 7 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

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