

# Audit and Standards Committee

14 November 2022



Lewes District Council

**Time and venue:**

**10:00am in the Ditchling and Telscombe Rooms, Southover House, Southover Road, Lewes, BN7 1AB**

**Membership:**

**Councillor Julian Peterson (Chair); Councillor Adrian Ross (Vice-Chair); Councillors Christine Brett, Phil Davis, Isabelle Linington, Sean MacLeod and Christine Robinson**

**Quorum: 4**

*Published: Tuesday, 1 November 2022*

## Agenda

**1 Minutes (Pages 5 - 10)**

To confirm and sign the minutes of the previous meeting held on 4 July 2022 (attached herewith).

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

**3 Declarations of interest**

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

**4 Urgent items**

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

**5 Written questions from councillors**

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

**6 External Audit progress**

Verbal update by Chief Finance Officer and Council's External Auditor, Deloitte

- 7 Annual report on Covert Surveillance Management (Pages 11 - 36)**  
Report of RIPA Monitoring Officer
- 8 The Annual Audit Letter - 2018/19 External Audit (Pages 37 - 50)**  
Report of Chief Finance Officer
- 9 Treasury Management Monitoring report - Q1 (Pages 51 - 68)**  
Report of Chief Finance Officer
- 10 Treasury Management Monitoring report - Q2 (Pages 69 - 90)**  
Report of Chief Finance Officer
- 11 Internal Audit and Counter Fraud report for the financial year 2022-2023 - 1st April 2022 to 30th September 2022 (Pages 91 - 126)**  
Report of Chief Internal Auditor
- 12 Strategic Risk Register quarterly review (Pages 127 - 138)**  
Report of Chief Internal Auditor
- 13 Amendment to the Annual Governance Statement 2021-22 (Pages 139 - 154)**  
Report of Chief Internal Auditor
- 14 Date of next meeting**  

To note that the next meeting of the Audit and Standards Committee is scheduled to be held on Monday, 16 January 2023, in the Ditchling and Telscombe Rooms, Southover House, Southover Road, Lewes, BN7 1AB, commencing at 10:00am.

## Information for the public

### Accessibility:

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### Public participation:

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

## Information for councillors

### Disclosure of interests:

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

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

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

### Councillor right of address:

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

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

### Other participation:

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

## Democratic Services

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## **Audit and Standards Committee**

**Minutes of the meeting held in the Ditchling and Telscombe Rooms, Southover House, Southover Road, Lewes, East Sussex, BN7 1AB, on 4 July 2022 at 10:00am**

### **Present:**

Councillor Julian Peterson (Chair);

Councillors Adrian Ross (Vice-Chair), Robert Banks (Substitute) and Isabelle Linington

### **Officers in attendance:**

Lee Ewan (Counter Fraud Investigations Manager), Jackie Humphrey (Chief Internal Auditor), Jennifer Norman (Committee Officer, Democratic Services), Ola Owolabi (Deputy Chief Finance Officer - Corporate Finance) and Tim Whelan (Director of Service Delivery)

**Also in attendance (remotely, via Microsoft Teams):** Niren Ramkhelowon (Deloitte) and Ben Sheriff (Deloitte)

### **1 Minutes**

The minutes of the meeting held on 14 March 2022 were submitted and approved, and the Chair was authorised to sign them as a correct record.

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

Apologies had been received from Councillors Christine Brett, Phil Davis, Sean MacLeod and Christine Robinson. It was declared that Councillor Rob Banks would be acting as substitute for Councillor MacLeod for the duration of the meeting.

### **3 Declarations of interest**

There were none.

### **4 Urgent items**

There were none.

### **5 Written questions from councillors**

There were none.

### **6 External Audit of the Statement of Accounts**

The Committee received a verbal update from the Deputy Chief Finance Officer (DCFO) and the Council's External Auditors, Deloitte, in respect of the External Audit of the Statement of Accounts.

The DCFO reminded the Committee that at its previous meeting on 14 March 2022 the External Audit of the 2018/19 Statement of Accounts had not yet been signed off. He confirmed, however, that the External Audit of the 2018/19 Statement of Accounts was signed off on 29 June 2022 and that District Council Officers and Deloitte were working together in respect of the remaining outstanding external audits.

The DCFO welcomed representatives from Deloitte, Mr Sheriff and Mr Ramkhelowon, via Microsoft Teams.

Mr Sheriff discussed various matters on valuation and where his team was in respect of the External Audit of the Statement of Accounts for 2019/20, 2020/21 and 2021/22. He explained that Deloitte was doing its best to recover its position and he thanked the Council's Finance team for their help and support throughout the process.

The Committee queried whether Deloitte had any targeted milestones, outline or timetable as to when the External Audit of the Statement of Accounts for 2019/20, 2020/21 and 2021/22 would be completed.

The DCFO and Mr Sheriff outlined the timetable for the completion of the outstanding audits, noting that they were confident that the timetable could be supported although it would be challenging. The Committee was informed that it should expect the following outstanding external audits at its meeting as follows:

- 2019/20 External Audit of the Statement of Accounts - 12 September 2022
- 2020/21 External Audit of the Statement of Accounts - 14 November 2022
- 2021/22 External Audit of the Statement of Accounts - 16 January 2023

The Chair thanked Deloitte on behalf of the Committee and highlighted that Members were looking forward to the completed audits.

**Resolved:** That the verbal update be noted.

## **7 Arrears Collection Audit**

The Committee received a verbal update from the Director of Service Delivery (DSD) in respect of the Arrears Collection Audit.

The DSD highlighted there were a number of recommendations provided to the Council in respect of the Arrears Collection Audit, including the investigation

and recovery of old debts. He further highlighted that the Council had recruited Officers to complete the debit priorities and that additional temporary resources were being provided by Dukes Bailiffs.

Discussions included at what stage the Council wrote debt off, energy grants, non-engagement from residents in terms of debt recovery and aged debt.

The DSD explained that in terms of aged debt, the Council had set up a recovery hub and targets going forward, and that he was happy to circulate the information to the Committee once it became available.

**Resolved:** That the verbal update be noted.

## **8 Treasury Management Annual Report 2021/22**

The Committee received the Annual Treasury Management report which presented details of Treasury Management activities and the prudential and treasury indicators for 2021/22.

The Deputy Chief Finance Officer (DCFO) summarised the report and its findings.

Discussions included capital expenditures, financing the capital programme, the Council's external debt levels, and the Council's ESG (Environmental, Social and Governance) investments.

The Vice-Chair queried whether all of the Council's deposits were ESG. The DCFO explained that 5 million pounds of the Council's deposits were considered ESG but he could not confirm if the remaining amounts were considered ESG, as the DMO (Debt Management Office) was a government bank.

**Resolved:**

1. That Full Council be recommended (via Cabinet) to agree the Annual Treasury Management report for 2021/22; and
2. That Full Council be recommended (via Cabinet) to approve the 2021/22 Prudential and Treasury Indicators included in the report.

## **9 Post Assurance Review of the First and Second Phase of Covid Business Grants**

The Committee received the report which provided an update on the progress of the work being carried out in respect of the Post Assurance Review of the First and Second Phase of Covid Business Grants.

The CFIM presented the report and discussed its findings.

The Counter-Fraud Investigations Manager (CFIM) explained that the purpose of the report was to provide an update of the work undertaken to verify the coronavirus business support payments administered by Lewes District Council and to establish whether any payments were made in error or were fraudulent.

Discussions included the percentage of incorrect payments in comparison with neighbouring local authorities, grants which were discretionary and errors which were found to be fraudulent.

The Chair thanked the CFIM for his hard work.

**Resolved:** That the report be noted.

#### **10 Internal Audit and Counter Fraud Report for the financial year 2021-2022 - 1 April 2021 to 31 March 2022**

The Committee received the report which provided a summary of the activities of Internal Audit and Counter Fraud a summary of the activities of Internal Audit and Counter Fraud for the financial year 2021-2022 from 1 April 2021 to 31 March 2022.

The Chief Internal Auditor (CIA) summarised the report and discussed its findings.

Discussions included procurement, departmental restructure and counter fraud.

**Resolved:** That the report be noted.

#### **11 Strategic Risk Register Quarterly Review**

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

The Chief Internal Auditor (CIA) summarised the report and its findings, highlighting the June 2022 review by CMT in section 3 of the report.

Discussions included the changes to the SRR as set out in Appendix A, risk of flood and drought and water supply issues.

The Committee thanked the CIA for adding risk on rising energy prices and inflation to the SRR, with the Vice-Chair highlighting concerns about increased related costs to the Council.

**Resolved:** That the report be noted.

#### **12 Annual Governance Statement**

The Committee considered the report which set out the draft 2021/22 Annual Governance Statement (AGS).

The Chief Internal Auditor (CIA) summarised the report and discussed its findings, highlighting that no significant issues had been reported this year.

The CIA highlighted that during discussions with Officers relating to the housing system software being previously identified as a significant issue in the



SRR, it had been decided that the risk would be removed from the SRR as a significant governance issue. During the process, the CIA had mistakenly left a paragraph in the agreed SRR indicating that the housing software remained a significant governance issue. This was incorrect. After consultation with Democratic Services, it was agreed that the amended SRR would be published on the Council's website alongside the previous version which was agreed by the Committee in July 2021.

Discussions included previously requested more detailed breakdown in respect of the manager assurance statement and issues surrounding capacity and workforce shortages

**Resolved:** That the Annual Governance Statement as set out in Appendix 5, be approved.

### **13 Date of next meeting**

That it be noted that the next meeting of the Audit and Standards Committee was scheduled to commence at 10:00am on Monday, 12 September 2022, in the Ditchling and Telscombe Rooms, Southover House, Southover Road, Lewes, East Sussex, BN7 1AB.

The meeting ended at 12.12pm.

Councillor Julian Peterson (Chair)

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<b>Report to:</b>	<b>Audit and Standards Committee</b>
<b>Date:</b>	<b>14 November 2022</b>
<b>Title:</b>	<b>Annual report on Covert Surveillance Management</b>
<b>Report of:</b>	<b>RIPA Monitoring Officer</b>
<b>Ward(s):</b>	<b>All</b>
<b>Purpose of report:</b>	<b>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.</b>
<b>Officer recommendation(s):</b>	<b>(1) To note the covert surveillance summary for September 2021 to September 2022</b> <b>(2) To note the findings of the Investigatory Powers Commissioner's Office Inspection conducted in June 2022</b> <b>(3) To consider and approve the updated Covert Surveillance and CHIS Policy</b> <b>(4) To consider and approve the updated Policy on Acquisition of Communications Data</b>
<b>Reasons for recommendations:</b>	<b>Best practice requires an annual update to the Committee on Covert Surveillance Policy adherence.</b>
<b>Contact Officer(s):</b>	<b>Name: Lee Ewan</b> <b>Post title: Counter-Fraud Investigations Manager and RIPA Monitoring Officer</b> <b>E-mail: <a href="mailto:lee.ewan@lewes-eastbourne.gov.uk">lee.ewan@lewes-eastbourne.gov.uk</a></b> <b>Telephone number: 01323 41523</b>

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## **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 Lewes District 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 14 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 7 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

3.5 Officers have been organised for Oliver Dixon and Tim Whelan in November 2022. 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, one application for Directed Surveillance was authorised in respect of a Tenancy Fraud investigation. However, due to the delays with the court system the application was not seen by a justice of the peace, and subsequently withdrawn following a review of the investigation. No covert human intelligence source (CHIS) or acquisition of communications data request was made or authorised during this period.

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 most 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 Recent use of RIPA for Crown Court case**

5.1 The Council's counter-fraud officers began investigating a suspected fraudulent Right to Buy (RTB) applications relating to a property in the Lewes district. The RTB scheme is available, subject to certain qualification criteria, to secure tenants of local authorities, enabling them to buy their home at a price lower than the full market value. For homes outside of London, the discount is currently up to £87,200.

5.2 Officers had reason to believe that the property named in the application was not the applicant's only or principle home, meaning he did not meet a significant RTB qualification requirement. This amounted to a suspected offence under sections 1 and 2 of the Fraud Act 2006 – fraud by false representation. On conviction, a person guilty of fraud is liable to imprisonment for a term of up to 12 months if sentenced in the magistrates court; or up to 10 years if sentenced in the crown court.

5.3 Despite extensive counter-fraud investigations pointing to the applicant not using the property as his only or principal home, the evidence was thought unlikely to meet the standard of proof required for a criminal conviction, i.e. proof beyond reasonable doubt.

- 5.4 To secure the required level of proof, the investigation officers sought RIPA authorisation to conduct a three-month directed surveillance operation on the exterior of the property in question, by way of covertly mounted vision-only camera, to ascertain the level of usage by the applicant. The internal authorising officer, the Director of Service Delivery, was satisfied the proposed surveillance was necessary for the detection of a suspected crime, and was proportionate in terms of:
- i. all other reasonable non-surveillance lines of enquiry having been pursued already;
  - ii. the minimisation of ‘collateral’ intrusion, i.e. surveillance of person not under investigation.
  - iii. the collection of visual images only, not sound; and
  - iv. the potential saving to the council of between £78,600 and £80,900, if the RTB application were proven to be fraudulent.

Accordingly, the Director authorised the operation.

In July 2019, officers applied for and were granted judicial authority by a district judge to commence the surveillance activity.

- 5.5 Once a local authority has obtained all necessary permissions for directed surveillance, it may lawfully conduct the activity for up to three months, if the circumstances justify the activity remain. With this particular case, the authorising officer reviewed the activity after one and two months from commencement, and concluded it was necessary to continue the surveillance for the full duration in order to be certain that the applicant was not using the property as his only or principle home.
- 5.6 During the three-month surveillance period, the property in the application was shown to have not been occupied by the applicant as a sole or main principle home. This key item of evidence alongside other material established throughout the investigation was deemed sufficient to meet the criminal evidence requirement of beyond reasonable doubt.
- 5.7 In December 2021 a trial at Chichester Crown Court was heard where the applicant was found guilty of fraud by false representation for two separate RTB applications for the same property. Due to delays with the court system, sentencing wasn’t handed down until April 2022 at Lewes Crown Court where the applicant was sentenced to 24 months imprisonment on both counts to run concurrently, suspended for 24 months. The applicant was also required to complete 40 hours of unpaid work within 12 months and pay the council the full prosecution costs of £15,887.00.
- 5.8 In a separate action, the council also recovered the property through civil proceedings which has now been used to re-house a household who had a genuine need of housing.

## **6 Online Surveillance**

- 6.1 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.
- 6.2 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
- 6.3 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.
- 6.4 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.
- 6.5 The RIPA Monitoring Officer is meeting with the relevant Council teams to review the control arrangements and reinforce compliance.
- 6.6 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.

## **7 IPCO Inspection**

- 7.1 In June 2022, an IPCO inspector carried out a desktop 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.
- 7.2 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'.
- 7.3 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'.
- 7.4 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.

7.5 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 gather material and to comply with the safeguarding chapters found within the Home Office Codes of Practice.

7.6 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.

## **8 Financial appraisal**

8.1 There are no financial issues associated with this report.

## **9 Legal implications**

9.1 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.

## **10 Risk management implications**

10.1 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.

## **11 Equality analysis**

11.1 There are no equality issues associated with this report.

## **12 Environmental sustainability implications**

12.1 There are no environmental issues associated with this report.

## **13 Appendices**

13.1 • Appendix A – Covert Surveillance and CHIS Policy

13.2 • Appendix B – Policy on Acquisition of Communication Data



## 14 Background papers

14.1 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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# STRONGER together



Lewes District Council



Working in partnership with **Eastbourne Homes**

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

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

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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 statement<sup>1</sup>.
8. The Councils shall ensure that covert surveillance and/or the use of CHIS is only undertaken where it complies fully with all applicable laws, in particular the:
  - Human Rights Act 1998 (incorporating the fundamental rights and freedoms contained in articles 2 to 14 of the European Convention on Human Rights)
  - Regulation of Investigatory Powers Act 2000 ('RIPA')
  - Protection of Freedoms Act 2012
  - General Data Protection Regulation
  - Data Protection Act 2018
9. The Councils shall, in addition, have due regard to all official guidance and codes of practice, particularly those issued by the Home Office, the Investigatory Powers Commissioner's Office and the Information Commissioner's Office. Of these, the most significant are:
  - Covert Surveillance and Property Interference – Code of Practice (Home Office, August 2018)
  - Covert Human Intelligence Sources – Revised Code of Practice (Home Office, August 2018)
10. In particular, the following guiding principles shall form the basis of all covert surveillance and CHIS activity undertaken by the Councils:
  - (i) Covert surveillance and/or the use of 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.

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<sup>1</sup> 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.

- (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. 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

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**

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

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

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

### 1. Introduction

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

### 2. Communications data

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

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

- 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

- 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.

<b>Report to:</b>	<b>Audit and Standards Committee</b>
<b>Date:</b>	<b>14 November 2022</b>
<b>Report Title:</b>	<b>The Annual Audit Letter - 2018/19 External Audit</b>
<b>Report of:</b>	<b>Chief Finance Officer</b>
<b>Ward(s):</b>	<b>All</b>
<b>Purpose of report:</b>	<b>To inform the Committee of the Annual Audit Letter for 2018/19.</b>
<b>Officer recommendation:</b>	<b>The Committee is recommended to note the Annual Audit Letter for 2018/19.</b>
<b>Reasons for recommendations:</b>	<b>The Council External Auditor is required to provide the Committee with an annual audit letter.</b>
<b>Contact Officer:</b>	<b>Name: Ola Owolabi Post title: Deputy Chief Finance Officer E-mail: <a href="mailto:ola.owolabi@lewes-eastbourne.gov.uk">ola.owolabi@lewes-eastbourne.gov.uk</a> Telephone number: 01273 415083</b>

## **1 Introduction**

- 1.1 The Annual Audit Letter (AAL) attached as Appendix A summarises key issues arising from the work carried out during the final audit. This report contains no new findings or recommendations, and reflects issues already reported within the 2018/19 External Audit Report to the Audit and Standards Committee.
- 1.2 Deloitte issued an unqualified opinion on the Council's financial statements on 29 June 2022. This means that Deloitte confirms that the accounts present a true and fair view of the financial position of the Council as at 31 March 2019 and its income and expenditure for the year then ended. The AAL will be circulated to all Councillors and published on the Council's website on 12 September 2022.

## **2.0 2018/19 Statement of Accounts**

- 2.1 The main message is that the auditors issued an unmodified audit opinion on the 2018/19 financial statements. The audit was conducted in accordance with the NAO Code of Audit Practice and the International Standards on Auditing (UK and Ireland) as adopted by the UK Auditing Practices Board ("APB"). The audit opinion on the accounts reflects the financial reporting framework adopted by the Council, being the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 based on IFRS and other relevant legislation.

2.2 The auditors also issued an unqualified VFM conclusion on 29 June 2022. The ISA 260 report to the Audit and Standard Committee in September 2021 concluded there are no material matters which Deloitte need to report in their Auditor's report on the financial statements with respect to the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources.

### **3 Corporate plan and council policies**

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

### **4 Financial appraisal**

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

### **5 Legal implications**

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

### **6 Risk management implications**

6.1 There are no implications arising from this report.

### **7 Equality analysis**

7.1 Equality issues are considered.

### **8 Appendices**

8.1 Appendix A - Annual Audit Letter on the 2018/19 External Audit - Lewes District Council

### **9 Background papers**

9.1 2018/19 Independent Auditor's (Deloitte) Annual Governance Report on LDC Accounts and Value for Money conclusion report – ISA 260.



**Annual Audit Letter on the  
2018/19 External Audit  
Lewes District Council**

July 2022

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# 1. Letter to Members

The Members  
Lewes District Council  
Southover House  
Southover Road  
Lewes  
BN7 1AB

11 August 2022

Dear Members

We have pleasure in setting out this Annual Audit Letter to summarise the key matters arising from the work that we have carried out in respect of the audit for the year ended 31 March 2019.

Although this letter is addressed to the Members of Lewes District Council ("the Council"), it is also intended to communicate the significant issues we have identified in an accessible style to key external stakeholders including members of the public.

This letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Ltd. This is available from [www.psaa.co.uk](http://www.psaa.co.uk).

This letter has been discussed and agreed with the Chief Finance Officer. A copy of the letter will be provided to all Members.

This is our first year as the external auditor of the Council following the transition to the PSAA contract in 2018/19. The audit was impacted by: the timing of receipt of initial draft financial statements after the deadline for 2018/19 audits; prior year adjustments in respect of Capital Receipts in Advance and Capital Grant Unapplied Account; and other issues identified on property valuation and in the quality of the draft financial statements and supporting information for the audit. These led to significant additional audit work being required, with the impact on the timetable further exacerbated by the impact of the Covid-19 pandemic. All these factors led to an extension of the timetable for completing the Statement of Accounts. Our audit opinion was signed on 29 June 2022.

Yours faithfully,



Ben Sheriff  
Key Audit Partner  
for and on behalf of Deloitte LLP  
St Albans, United Kingdom

## 2. Key Messages

Statement of Accounts	
<p><b>Unqualified opinion issued on 29 June 2022</b></p>	<p>In 2018/19 the Authority was required to prepare its Statement of Accounts in accordance with International Financial Reporting Standards (“IFRS”) as defined in the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and other relevant legislation.</p> <p>The first draft of the Statement of Accounts was provided to us in November 2019, after the target date for 2018/19 audit completion and after availability of the audit engagement team, with consequent delays on the audit process.</p> <p>We issued our audit opinion on the financial statements on 29 June 2022. Our opinion was not qualified.</p> <p>Materiality for the Council’s accounts was set at £1.8m.</p>
Value for Money (“VfM”) conclusion	
<p><b>Unqualified conclusion issued on 29 June 2022</b></p>	<p>We are required to base our statutory VFM conclusion on the criteria specified by the National Audit Office. This is an evaluation of whether the Council has in place proper arrangements to ensure properly informed decisions were taken and the Council deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.</p> <p>We issued an unqualified VFM conclusion on 29 June 2022. Our ISA 260 report to the Audit Committee in September 2021 concluded there are no material matters which we need to report in our Auditor’s report on the financial statements with respect to the Council’s arrangements to secure economy, efficiency and effectiveness in the use of resources.</p>
Audit findings	
<p><b>Our Audit Committee reporting included findings from our controls work and recommendations for improvement.</b></p>	<p>International Standards on Auditing (UK) require us to communicate in writing to those charged with governance the significant findings from our audit. Our report to the September 2021 Audit Committee meeting included our findings on internal control weaknesses and recommendations arising from the 2018/19 audit.</p>
Independence and Objectivity	
<p><b>Independence and objectivity</b></p>	<p>In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit partner and audit staff is not impaired.</p>

## 3. Responsibilities and Scope

### Responsibilities of the Council and Auditors

The Council is responsible for maintaining the control environment and accounting records and preparing the accounting statements in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 based on IFRS and other relevant legislation.

We are appointed as the Council's independent external auditors by PSAA, the body responsible for appointing auditors to local public bodies in England where they have opted into this programme.

As the Council's appointed external auditor, we are responsible for planning and carrying out an audit that meets the requirements of the National Audit Office's Code of Audit Practice ("the Code"). Under the Code, we have responsibilities in two main areas:

- auditing the Council's accounts; and
- evaluating whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money ("VFM") conclusion).

These responsibilities are set out in greater detail in the Statement of Responsibilities of Auditors and Audited Bodies. This document can be accessed here: <https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/> .

### The scope of our work

We conducted our audit in accordance with the NAO Code of Audit Practice and the International Standards on Auditing (UK and Ireland) as adopted by the UK Auditing Practices Board ("APB"). The audit opinion on the accounts reflects the financial reporting framework adopted by the Council, being the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 based on IFRS and other relevant legislation.

We conducted our work on the 2018/19 VFM conclusion in line with guidance issued by the National Audit Office in November 2017.

## 4. Audit of the Accounts

Statement of Accounts	
<b>Unqualified opinion issued on 29 June 2022</b>	<p>We issued an unqualified opinion on the Council's 2018/19 accounts on 29 June 2022.</p> <p>Before we give our opinion on the accounts, we are required to report to those charged with governance (here the Audit Committee) any significant matters arising from the audit. To address this requirement, our report was issued to the Audit Committee meeting held on 27 September 2021.</p> <p>The content of these papers including significant matters arising from the audit were discussed with the members of the Audit Committee in meetings during the course of the audit. These papers are available to view online as part of the Committee packs for those meetings.</p>
<b>Materiality</b>	<p>We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.</p> <p>Based on our professional judgement, materiality for the Council's accounts was set at £1.8m which equated to 2% of estimated gross expenditure at the planning stage of the audit. This benchmark was chosen as the Council is a non-profit organisation and total expenditure is a key measure of financial performance for users of the financial statements.</p> <p>We agreed with the Audit Committee that we would report to the Committee all uncorrected audit differences in excess of £90k, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We would also report to the Audit Committee on any uncorrected disclosure matters identified when assessing the overall presentation of the financial statements. For the avoidance of doubt, these matters were identified and communicated to the audit committee in relation to the audit of the 2018/19 Statement of Accounts in the meeting held in September 2021.</p>
<b>Significant Risks</b>	<p>Our audit work was designed to specifically address the significant audit risks presented in further detail below. These significant audit risks were the areas that were deemed to be those with the greatest potential of being materially incorrect in the financial statements and were therefore areas of greater focus for the audit team.</p> <ul style="list-style-type: none"> <li>• <b><u>Valuation of property assets:</u></b> <p>The Council held £316.5m of property assets at 31 March 2019, an increase of £21.8m from prior year. The increase is made up of £12.8m revaluation gain, £9.0m of additions and disposals of £0.9m, offset by depreciation of £8.0m and reversal of depreciation to the gain on revaluation of £8.9m. Investment properties increased from £9.5m to £11.7m, of which £2.9m was additions and the remainder being valuation losses.</p> </li> <li>• <b>Risk identified</b></li> </ul>

A market review is carried out annually by Wilks, Head & Eve (WHE, a member of Chartered Surveyors and Town Planners), on behalf of the Council. Council dwellings, Other Land and Buildings and Surplus Properties are subject to periodic revaluation: all such assets are revalued at 5 year intervals. These were last valued as at 1 April 2014 by the Valuation Office Agency. The next full revaluation is due to be carried out in 2019/20.

Property valuations have been an area of challenge for the Council previously, which resulted in a change in valuer to WHE due to delays over delivery from previous firms.

- **Deloitte response**

- Our testing of the valuations of the Council's property assets involved our property valuation specialists, Deloitte Real Estate (DRE) to review and challenge the valuation undertaken, as well as testing where relevant of inputs to the valuation. We checked that the property valuations included in the financial statements agree to the valuation report. We concluded that the valuations were materially correct, with a number of immaterial uncorrected misstatements identified. We made a number of recommendations to the Council to improve the valuation process in future years.

- **Cut off and Completeness of Expenditure via accruals and provisions:**

We concluded satisfactorily in this area and there are no findings to report.

- **Risk identified**

Under UK auditing standards, there is a presumed risk in respect of revenue recognition due to fraud. We rebutted this risk, and instead identified that the fraud risk lies with the completeness of expenditure and completeness and valuation of accruals. As per Practice note 10 most public bodies are net spending bodies, the risk of material misstatements due to fraud related to expenditure and accruals is high as public sector bodies may manipulate expenditure/ accruals which involve degree of estimations in order to meet externally set targets.

- **Deloitte response**

- We obtained an understanding of the key controls in place in relation to recording completeness of accruals and provisions.
- We tested the completeness of expenditure by performing a detailed review of accruals and provisions.
- As part of this focused testing, we challenged any assumptions made in relation to year end accruals and provisions.
- We reviewed the year on year movement in accruals and provisions and investigated significant movements.
- We tested a detailed sample of expenditure to ensure that there were no instances where items were recorded in the incorrect period especially at year end.

- **Management override of controls:** We concluded satisfactorily in this area. We did not identify any significant bias in the key judgements made by management based on work performed. Furthermore, we did not identify any instances of management override of controls in relation to the specific

	<p>transactions tested based on work performed. There are no other findings to report</p> <ul style="list-style-type: none"> <li>• <b>Risk identified</b> <p>In accordance with ISA 240 (UK) management override is a significant risk. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Council’s controls for specific transactions.</p> </li> <li>• <b>Deloitte response</b> <ul style="list-style-type: none"> <li>○ Significant and unusual transactions: There were no significant or unusual transactions in the period.</li> <li>○ Journals: We obtained an understanding of the controls in place and performed relevant testing.</li> <li>○ The journal entries were selected using computer assisted profiling based on areas which we consider to be of increased interest.</li> <li>○ We completed testing of the appropriateness of journal entries recorded in the general ledger. We tested the appropriateness of other adjustments made in the preparation of financial reporting.</li> <li>○ Accounting estimates: We obtained an understanding of the controls over key accounting estimates and judgements. The key judgements in the financial statements are those selected as significant audit risks and other areas of audit interest: valuation of the Council’s estate and the pension liability. We reviewed accounting estimates for biases that could result in material misstatements due to fraud.</li> </ul> </li> </ul>
<p><b>Overall opinion</b></p>	<p>We issued an unqualified opinion on the Council’s 2018/19 accounts on 29 June 2022. Our opinion confirms that the accounts present a true and fair view of the financial position of the Council as at 31 March 2019 and its income and expenditure for the year then ended.</p>
<p><b>Annual Governance Statement and Other Information</b></p>	
<p><b>No issues were identified in relation to this work</b></p>	<p>As appointed auditors, we review the Annual Governance Statement (“AGS”) and other information presented with the financial statements to check that information is consistent with the financial statements. Following our procedures, the Council issued an addendum to the AGS covering the arrangements over the Council’s subsidiaries and other investments. We do not have any other findings to report in this area.</p>
<p><b>Powers and Duties</b></p>	
<p><b>We did not receive any questions about the accounts or make any public interest reports</b></p>	<p>Under the Local Audit and Accountability Act 2014, auditors have specific powers and duties, including to give electors the opportunity to raise questions about the accounts and to consider and decide upon objections received in relation to the accounts. We did not receive any such questions or objections.</p> <p>We have a duty to consider whether to issue a report in the public interest about something we believe the Council should consider, or if the public should know about.</p> <p>We have not identified any matters that would require us to issue a public interest report.</p>

## 5. Value for Money

### Background and approach

We are required to issue a value for money ("VfM") conclusion within our report on the financial statements. We are required to base our VfM conclusion on criteria specified by the National Audit Office ("NAO") where we are required to be satisfied those proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources. Our assessment is based on the following reporting criterion:

*"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people."*

The following sub-criteria are then used to inform and guide our work and inform our overall judgement although there is no requirement to separate these nor to report against each sub-criteria:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties.

We would emphasise that it is the arrangements in place that we are required to assess, and not the actual decisions made by the Council.

We planned our local programme of work based on our risk assessment, which was informed by a series of risk factors determined by the National Audit Office.

We did not identify any significant risks as part of our risk assessment. Our reporting to the Audit Committee also included our observations in respect of the Council's reserves and the risks looking forward in respect of financial sustainability.

### The VfM conclusion

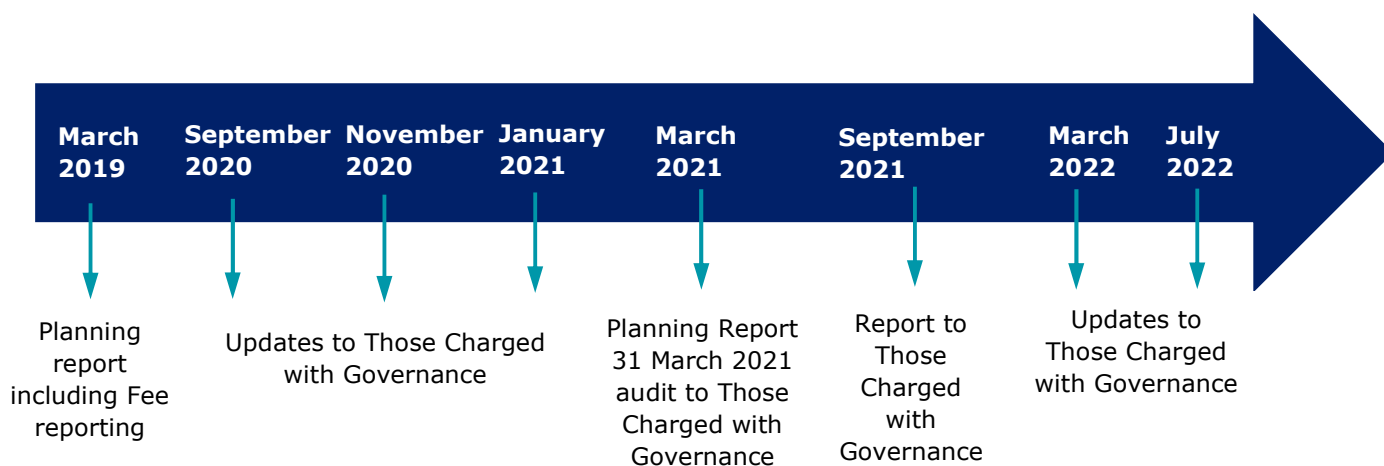
Having performed our work in line with guidance received from the National Audit Office we issued an unqualified value for money conclusion for the 2018/19 financial year.

## 6. Other Matters

### Reports issued

Reports issued during the course of the 2018/19 audit included:

- Planning report including Fee reporting in March 2019;
- Updates on 2018/19 audit to Those Charged with Governance issued in September 2020, November 2020, January 2021 and March 2021;
- Report to Those Charged with Governance on the Planning report of the 20/21 audit of the Council in March 2021;
- Report to Those Charged with Governance on 2018/19 audit of the Council in September 2021;
- Updates on 2018/19 audit to Those Charged with Governance issued in March 2022 and July 2022; and
- This Annual Audit Letter.



### Statement of Responsibilities

The Statement of Responsibilities of Auditors and Audited Bodies issued by PSAA explains the respective responsibilities of auditors and of the audited body and this report is prepared on the basis of, and our audit work is carried out in accordance with, that statement.

The matters raised in this report are only those that came to our attention during our audit and are not necessarily a comprehensive statement of all weaknesses that exist or of all improvements that might be made. You should assess recommendations for improvements for their full implications before they are implemented. In particular, we would emphasise that we are not responsible for the adequacy and appropriateness of the national data and methodology supporting our value for money conclusion as they are derived solely from the National Audit Office.

This report has been prepared for the Members, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other party.

An audit does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the Annual Audit Letter since first published. These matters are the responsibility of the Council but no control procedures can provide absolute assurance in this area.





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<b>Report To:</b>	<b>Audit and Standards Committee</b>
<b>Date:</b>	<b>14 November 2022</b>
<b>Report Title:</b>	<b>Treasury Management Monitoring report - Q1</b>
<b>Report of:</b>	<b>Chief Finance Officer</b>
<b>Ward(s):</b>	<b>All</b>
<b>Purpose of report:</b>	<b>To present details of recent Q1 Treasury Management activity.</b>
<b>Officer Recommendations:</b>	<b>To note and recommend that Cabinet accepts that Treasury Management Activities for the period 1 April to 30 June 2022 has been in accordance with the approved Treasury Strategies.</b>
<b>Reasons for recommendations:</b>	<b>Requirement of CIPFA Treasury Management in the Public Sector Code of Practice (the Code) and this has to be reported to Full Council.</b>
<b>Contact Officer(s):</b>	<b>Name: Ola Owolabi Post title: Deputy Chief Finance Officer E-mail: <a href="mailto:ola.owolabi@lewes-eastbourne.gov.uk">ola.owolabi@lewes-eastbourne.gov.uk</a> Telephone number: 01273 485083</b>

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## **1. Introduction**

- 1.1 The Council's approved Treasury Strategy Statement requires the Audit and Standards Committee to review details of Treasury Strategy transactions against the criteria set out in the Strategy and make observations to Cabinet as appropriate.
- 1.2 The Treasury Strategy Statement also requires the Audit and Standards Committee to review a formal summary report 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 This Council also confirms that it has complied with the requirement under the Code to give prior scrutiny to treasury management reports by the Audit & Standards Committee before they were reported to the full Council.

### **Annual Treasury Management training**

- 1.4 In line with the requirements to ensure an appropriate training for Councillors, a training session on the Treasury Management activities has been arranged to take place on **Monday 24<sup>th</sup> October 2022**, via TEAMS. The virtual training will be delivered by the Council's treasury management advisors – Link Asset Services.

## 2. Treasury Management Activity

- 2.1 The timetable for reporting Treasury Management activity in 2022/23 is shown within the table below. This takes into account the timescale for the publication of each Committee agenda and is on the basis that it is preferable to report on activity for complete months. Any extraordinary activity taking place between the close of the reporting period and the date of the Audit and Standards Committee meeting will be reported verbally at that meeting.

Meeting date	Reporting period for transactions
4 June 2022	2021/22 Annual Report (up to 31 March 2022)
12 September 2022	1 April to 30 June 2022
14 November 2022	1 July to 30 September 2022
16 January 2023	1 October to 31 December 2022
13 March 2023	1 January to 28 February 2023

### 2.2 Fixed Term Deposits pending maturity

The following table shows the fixed term deposits held between 1 April to 30 June 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).

Counterparty	Date From	Date To	Days	Principal £	Int Rate %	Long-term Rating
Standard Charter Sustainable	29/04/2022	29/07/2022	91	5,000,000	1.05	A+
DMO	09/05/2022	09/08/2022	92	5,000,000	0.92	*
Bayerische Landes Bank	16/05/2022	16/08/2022	92	5,000,000	1.16	A-
DMO	16/05/2022	18/07/2022	63	3,500,000	0.93	*
DMO	27/06/2022	30/08/2022	64	5,000,000	1.24	*

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

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

The table below shows the fixed term deposits which have matured between 1 April to 30 June 2022, in maturity date order. It is important to note that the table includes sums reinvested and that in total the Council's investments have not increased by £102.4m over this period.

Counterparty	Date From	Date To	Days	Principal £	Int. Rate %	Long-term rating
DMO	05/01/2022	05/04/2022	90	1,300,000	0.100	*
DMO	02/02/2022	04/04/2022	61	5,000,000	0.250	*
Link - Standard Charter Sustainable	01/03/2022	29/04/2022	59	5,000,000	0.640	A+

Counterparty	Date From	Date To	Days	Principal £	Int. Rate %	Long-term rating
Link - Bayerische Landesbank	14/03/2022	14/04/2022	31	5,000,000	0.600	A-
DMO	25/03/2022	25/04/2022	31	4,000,000	0.550	*
DMO	30/03/2022	01/04/2022	2	7,000,000	0.550	*
DMO	01/04/2022	11/04/2022	10	12,000,000	0.550	*
DMO	05/04/2022	19/04/2022	14	5,000,000	0.550	*
DMO	11/04/2022	25/04/2022	14	3,000,000	0.550	*
Link - Bayerische Landesbank	14/04/2022	16/05/2022	32	5,000,000	0.730	A-
DMO	19/04/2022	03/05/2022	14	7,000,000	0.550	*
DMO	25/04/2022	09/05/2022	14	6,500,000	0.640	*
DMO	03/05/2022	20/05/2022	17	12,600,000	0.815	*
DMO	20/05/2022	27/05/2022	7	3,500,000	0.800	*
DMO	27/05/2022	27/06/2022	31	5,000,000	0.930	*
DMO	01/06/2022	15/06/2022	14	7,500,000	0.800	*
DMO	15/06/2022	28/06/2022	13	8,000,000	1.025	*
<b>Total</b>				<u>102,400,000</u>		

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

At no stage did the total amount held by any counterparty exceed the approved limit set out in the Investment Strategy. The average rate of interest earned on deposits held in the period 1 April to 30 June 2022 was 0.91%, which was below the average bank base rate for the period of 0.99%.

#### 2.4 Use of Deposit accounts

In addition to the fixed term deposits, the Council has made use of the following interest bearing accounts in the period covered by this report, with the average amount held being £3.0m generating interest of approximately £6.8k.

	Balance at 30 June 2022 £'000	Average balance £'000	Current interest rate %
Santander Business Reserve Account	£5,000	£5,000	0.49
Lloyds Bank Corporate Account	£2,488	£2,284	0.01
Lloyds Bank Call Account	£2,210	£975	0.05

#### 2.5 Use of Money Market Funds

Details of the amounts held in the two Money Market Fund (MMF) accounts used by the Council are shown below. The approved Investment Strategy allows a maximum investment of £10m in each fund, and at no time was this limit exceeded.

	Balance at 30 June 2022 £'000	Average balance £'000	Average return %
Deutsche Managed Sterling Fund	£0,001	0,001	0.00

#### 2.6 Treasury Bills (T-Bills)

There were no Treasury Bills held as at 30 June 2022, and there was no activity in the period.

## 2.7 Secured Investments

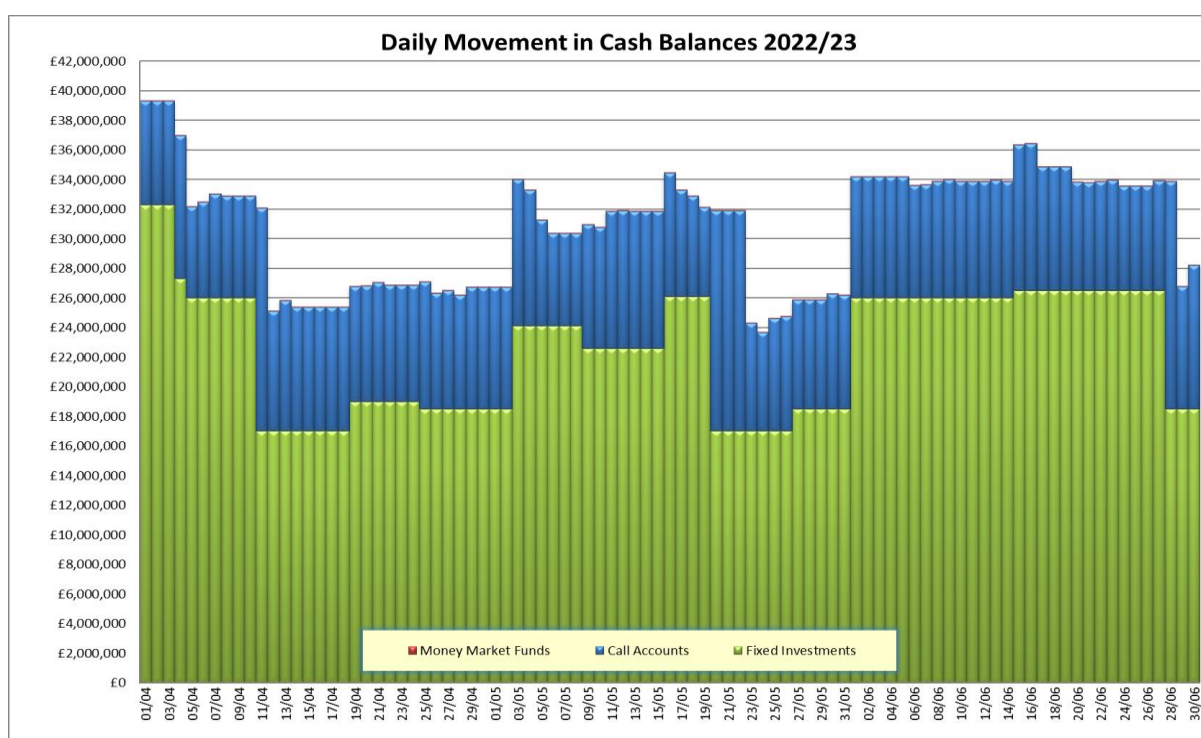
There were no Secured Investments as at 30 June 2022.

## 2.8 Tradeable Investments

There were no Tradeable Investments as at 30 June 2022, and there was no activity in the period.

## 3. Overall investment position

3.1 The chart below summarises the Council's investment position over the period 1 April to 30 June 2022. It shows the total sums invested each day as Fixed Term deposits, amounts held in Deposit accounts and Money Market Funds.



## 4. Annual Investment Strategy

4.1 The Treasury Management Strategy Statement (TMSS) for 2022/23 which includes the Annual Investment strategy, was approved by the Full Council on Monday, 21 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 June 2022, except for the balance held with Lloyds Bank, which exceeded the £5m limit for 3 days during the period.

## 5. Borrowing

- 5.1 The current account with Lloyds Bank generally remained with credit limits throughout most of the period.

### Interest Rate Forecast

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

The latest forecast on 21st June is compared below to the previous forecast (10th May). A comparison of these forecasts shows that PWLB rates have increased generally and show a speed up in the rate of increase in Bank Rate as inflation is now posing a greater risk. The increase in PWLB rates reflects a broad sell-off in sovereign bonds internationally as inflation concerns abound. 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 without pushing the economy into recession.

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 21.06.22												
	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
<b>BANK RATE</b>	1.75	2.25	2.75	2.75	2.75	2.75	2.50	2.50	2.25	2.25	2.25	2.25
3 month ave earnings	2.00	2.50	2.80	2.80	2.80	2.80	2.60	2.50	2.30	2.30	2.20	2.20
6 month ave earnings	2.50	2.80	3.00	3.00	2.90	2.90	2.80	2.70	2.60	2.50	2.40	2.30
12 month ave earnings	3.10	3.20	3.20	3.20	3.00	2.90	2.80	2.60	2.50	2.40	2.40	2.40
5 yr PWLB	3.20	3.30	3.30	3.30	3.30	3.20	3.10	3.00	3.00	3.00	2.90	2.90
10 yr PWLB	3.40	3.50	3.50	3.50	3.50	3.40	3.30	3.20	3.20	3.20	3.10	3.10
25 yr PWLB	3.70	3.70	3.70	3.70	3.70	3.70	3.60	3.50	3.50	3.40	3.40	3.30
50 yr PWLB	3.40	3.40	3.50	3.50	3.40	3.40	3.30	3.20	3.20	3.10	3.10	3.00

Link Group Interest Rate View 10.5.22													
	Jun-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
<b>BANK RATE</b>	1.25	1.50	1.75	2.00	2.00	2.00	2.00	2.00	1.75	1.75	1.75	1.75	1.75
3 month ave earnings	1.20	1.50	1.70	2.00	2.00	2.00	2.00	2.00	1.70	1.70	1.70	1.70	1.70
6 month ave earnings	1.60	1.90	2.10	2.20	2.20	2.20	2.20	2.10	2.00	1.90	1.90	1.90	1.90
12 month ave earnings	2.00	2.20	2.30	2.40	2.40	2.30	2.30	2.20	2.20	2.10	2.10	2.10	2.10
5 yr PWLB	2.50	2.50	2.60	2.60	2.60	2.60	2.60	2.60	2.50	2.50	2.50	2.50	2.50
10 yr PWLB	2.80	2.80	2.90	2.90	2.90	2.90	2.90	2.90	2.80	2.80	2.80	2.80	2.80
25 yr PWLB	3.00	3.10	3.10	3.20	3.20	3.20	3.10	3.10	3.00	3.00	3.00	3.00	3.00
50 yr PWLB	2.70	2.80	2.80	2.90	2.90	2.90	2.80	2.80	2.70	2.70	2.70	2.70	2.70

- LIBOR and LIBID rates ceased at the end of 2021. In a continuation of our 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.

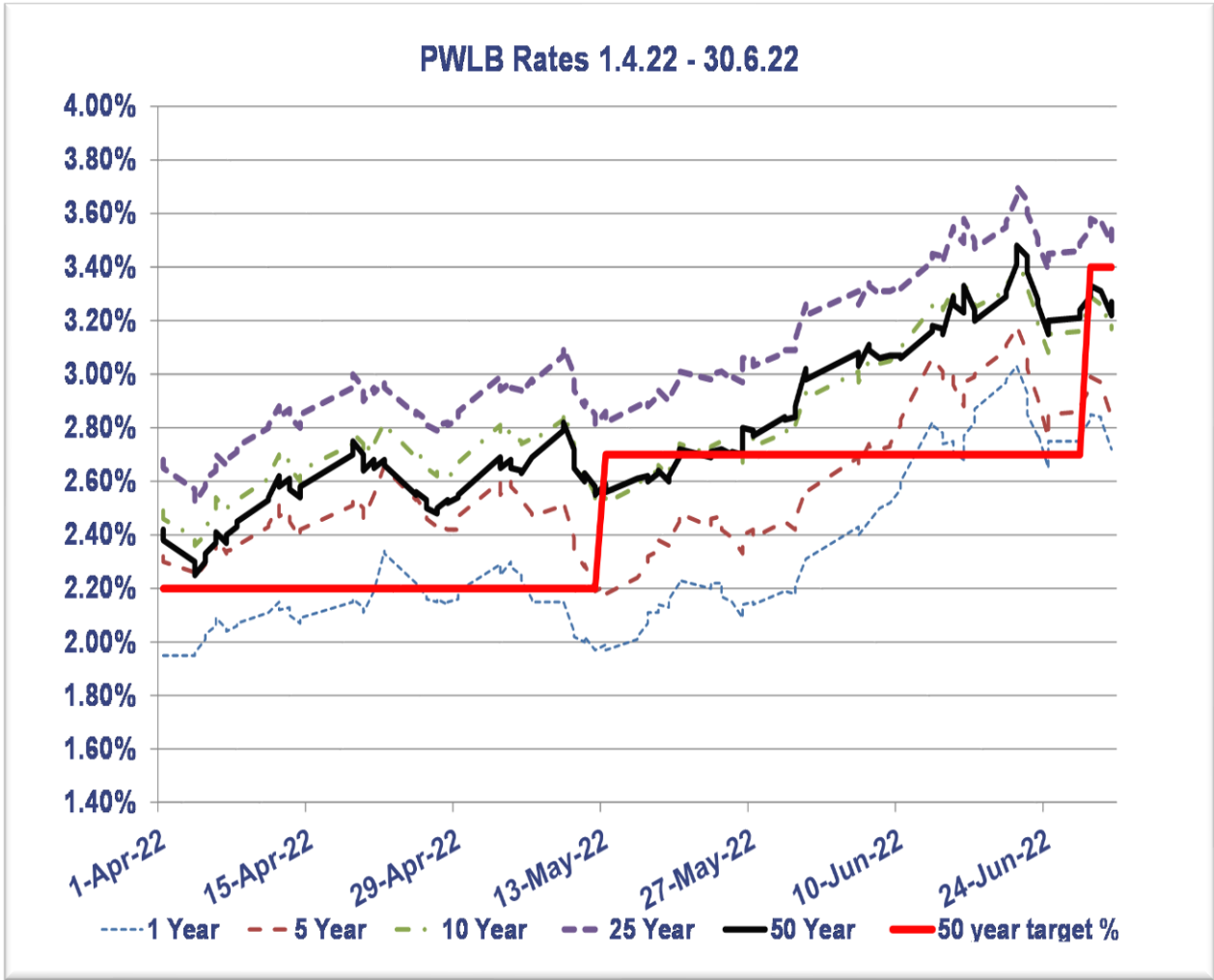
### **Economic background**

- 5.3 Following Russia's invasion of Ukraine in February, global inflationary pressures have intensified sharply, leading to a sizeable deterioration in the outlook for world and UK growth. The economic backdrop in the April-June quarter was characterised by higher oil, gas and commodity prices, fears of rising and persistent inflation and its damaging impact on consumers' cost of living, little indication of an imminent end to Russia-Ukraine hostilities and supply chain bottlenecks exacerbated by war in Ukraine and lockdowns in China.
- 5.4 Added to this was tough rhetoric and action by central bankers globally on fighting inflation through higher interest rates and quantitative tightening even as financial conditions became increasingly difficult for consumers, more so for those whose wages have not kept pace with inflation.
- 5.5 In the UK inflation remained elevated. Ofgem, the energy regulator, increased the energy price cap by 54% in April, equivalent to around £700 for a household with average energy consumption (the cap had already increased 12% back in October 2021). May data showed CPI edging higher to 9.1% while the core CPI rate, which removes energy, fuel and food was 5.9%. RPI rose to 11.7%.
- 5.6 The labour market continued to show signs of tightness as employers struggled to fill vacancies with workers with skill sets matching their requirements. The unemployment rate for April fell to 3.8% and is now below pre-pandemic levels. Pay growth was 6.8% for total pay (including bonuses) and 4.2% for regular pay; however, adjusted for inflation, growth in total pay was just 0.4%, whilst regular pay fell 2.2%.
- 5.7 Unsurprisingly, with disposable income squeezed and another energy cap increase due in October, consumer confidence plummeted to the level last seen during the 2008/09 financial crisis. Quarterly GDP growth was 0.8% in the January-March quarter and the Bank of England now expects a decline of 0.3% in Q2 2022.
- 5.8 Having increased interest rates by 0.25% in April, the Bank of England's Monetary Policy Committee on the 15th of June 2022 voted 6-3 to increase the official Bank Rate by 0.25% to 1.25%. Those members in the minority preferred to increase Bank Rate by 0.5%. Rises in the input and output producer price measures suggest further inflationary pressure is in the pipeline. The Bank of England is therefore unlikely to become complacent, so further rate rises look likely in the near term.
- 5.9 Annual inflation in the US rose to 8.6% in May, the highest in nearly 40 years. The Federal Reserve also stepped up its fight against inflation with a 0.5% hike in rates in May followed by a further increase of 0.75% in June, the latter its most aggressive hike since 1994 and higher than markets expected, taking policy rates to a range of 1.5% - 1.75%.

### **PWLB maturity certainty rates year to date to 30<sup>th</sup> June 2022**

- 5.10 Gilt yields and PWLB rates were on a rising trend between 1<sup>st</sup> April and 30<sup>th</sup> June. The 50 year PWLB target certainty rate for new long-term borrowing started 2022/23 at 2.20% before increasing to 2.70% in May before moving even higher to 3.40% in June.





	1 Year	5 Year	10 Year	25 Year	50 Year
<b>Low</b>	1.95%	2.18%	2.36%	2.52%	2.25%
<b>Date</b>	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
<b>High</b>	3.03%	3.18%	3.41%	3.70%	3.48%
<b>Date</b>	21/06/2022	21/06/2022	21/06/2022	21/06/2022	21/06/2022
<b>Average</b>	2.32%	2.58%	2.84%	3.08%	2.81%
<b>Spread</b>	1.08%	1.00%	1.05%	1.18%	1.23%

## 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 June 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 (CS 4.2.4)	£143.0m	£143.0m	GREEN
Operational boundary for external debt (CS 4.2.4)	£130.0m	£130.0m	GREEN
Gross external debt (CS 4.2.2)	£78.0m	£51.67m	GREEN
Capital Financing Requirement (CS 2.3.4)	£109.7m	£96.0m	GREEN
Debt vs CFR under/(over) borrowing	£31.7m	£44.3m	GREEN
Investments (Average)	£3.0m	£3.0m	GREEN
Investment returns expectations	1.0%	0.96%	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
*Capital expenditure (CS 2.1.3)			
General Fund	£35.7m	2.1m	AMBER
HRA	£18.3m	1.1m	AMBER
Commercial Activities/ non- financial investments	£3.1m	0.3m	AMBER
<i>Ratio of financing costs to net revenue stream (CS 8.1.1):</i>			
Proportion of Financing Costs to Net Revenue Stream (General Fund)	4.2%	4.2%	GREEN
Proportion of Financing Costs to Net Revenue Stream (HRA)	11.0%	11.0%	GREEN

Key: CS – 2022/23 Capital Strategy; \*Revised Capital Programme including 2021/22 slippages

## 7. Non-treasury investments

The non-treasury investment activity includes loans to Council-owned companies or the purchase of property assets for the purpose of income generation.

### 7.1 Lewes Housing Investment Company -

Lewes Housing Investment Company (LHIC) is a wholly owned subsidiary of the Council. Incorporated in July 2017, LHIC was established to acquire, improve, and let residential property at market rents. A capital allocation of £2.5m was approved

as potential commercial loan funding to facilitate property purchases. At 31 March 2022, a total of £2,065 working capital has been drawn down. The balance has been rolled forward into 2022/23. There have been no transactions during the period 1 April 2022 to 30 June 2022.

## 7.2 **Aspiration Homes LLP –**

Aspiration Homes LLP (AH) is a limited liability Partnership owned equally by Lewes District Council and Eastbourne Borough Council. Incorporated in June 2017, AH was established for the purpose of developing housing to be let at affordable rent. A capital allocation of £17.5m was approved as potential commercial loan funding to AH to facilitate property purchases. At 31 March 2022, a total of £3,043,855 has been drawn down for the purchase of Gray's School, Newhaven, and Caburn Field, Ringmer. The balance has been rolled forward into 2022/23.

A working Capital facility loan of £100,000 has been agreed, at an interest rate of 2% above Base Rate. As at 31 March 2022, £20,000 of the working Capital facility loan had been drawn down. There have been no transactions during the period 1 April 2022 to 30 June 2022.

## 8. **Environmental, Social and Governance Investment - update**

8.1 The Cabinet at its meeting on 3 February 2022 approved the 2022/23 Treasury Management and Investment Strategy, which include Non-Specified investments in Green Energy Bonds and/or other ESG products that met the Council's internal and external due diligence criteria.

8.2 While a wide range of ESG investment are currently limited, there are expectation to see more banks and funds providing specific products over the coming years. As this area continues to develop and become more prominent, the Council in conjunction with the treasury management advisor (Link Asset Services) will continue to monitor ESG investment opportunities within the parameters of the Council's counterparty criteria and in compliance with the DLUHC Investment Guidance (i.e., prioritising security, liquidity before yield).

8.3 The Council holds a £5m deposit balance within the Standard Chartered Bank Sustainable Time Deposit, which function just like a normal Time Deposit. The difference is in the sustainable impact where the deposits are referenced against qualifying sustainable loans and projects of Standard Chartered that meet their Green and Sustainable Product Framework. These loan and project assets include green financing, sustainable infrastructure projects, microfinance, and access to finance for SME business banking. It addresses the long-term environmental challenges such as climate change, health, and financial inclusion plus being dedicated towards financing sustainable loans and projects aligned to the United Nation's Sustainable Development Goals.

## 9. **Economic Background**

9.1 As expected, the Bank of England's Monetary Policy Committee continue to increase the Bank Rate and a detailed economic commentary on developments during period ended 30 June 2022 is attached as **Appendix A**.

## **10. Financial Appraisal**

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

## **11. Risk Management Implications**

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

## **12. Equality Analysis**

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

## **13. Legal Implications**

13.1 There are no legal implications from this report.

## **14. Environmental sustainability implications**

14.1 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.

## **15. Appendices**

15.1 Appendix A - Detailed economic commentary

15.2 Appendix B - 2022/23 Q1 Capital Programme

15.3 Appendix C - GLOSSARY - Local Authority Treasury Management Terms

## **16. Background Papers**

16.1 Treasury Strategy Statements 2022/23.

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

#### 1 Economics update

- The second quarter of 2022 saw:
  - GDP fall by 0.1% m/m in March and by 0.3% m/m in April;
  - An easing rather than a collapse in the composite Purchasing Managers Index (PMI);
  - A further rise in Consumer Price Index (CPI) inflation to a new 40-year high of 9.1% in May;
  - The first signs that the weakening in economic activity is filtering into a slightly looser labour market;
  - Bank Rate rise to 1.25%, taking it to its highest level since the Global Financial Crisis;
  - Gilt yields caught up in the global surge in bond yields triggered by May's strong rise in US inflation;
  - Rising global bond yields and concerns over growth drive a global sell-off in equity markets.
- Following the 0.1% m/m fall in GDP in March and the 0.3% m/m contraction in April, the economy is now moving towards a recession (two quarters of falling output in a row). Indeed, GDP would need to rise by 0.4-0.5% m/m in both May and June to prevent the economy from contracting in Q2 as a whole. That said, without the joint wind down of the COVID-19 Test and Trace and vaccination programme, GDP would have risen by 0.2% m/m and 0.1% m/m in March and April respectively. That's hardly strong, but it suggests the underlying momentum is not quite as weak as the headline figures imply.
- There is not much evidence that higher inflation and higher interest rates have yet become a big drag on activity. Services output did fall by 0.3% m/m in April. But output in consumer-facing services, conversely, rose by a solid 2.3% m/m in April. And although the Office for National Statistics (ONS) said that some of the 1.0% m/m fall in manufacturing output was linked to the drag on activity from higher prices, it also said that some of the 0.4% m/m drop in construction output in April was a drop back after the boost in the wake of February's Storm Eunice.
- The fact that the composite PMI didn't fall in June also suggests that in Q2 (Apr – June) real GDP has softened rather than collapsed. The S&P Global/CIPS all-sector PMI for June was unchanged from its level of 53.1 in May, signalling tepid but positive growth. According to the Lloyd's barometer, business confidence in May also remained remarkably resilient.
- Despite the fall in the GfK composite measure of consumer confidence to a new record low of -41 in June, April's £1.4bn rise in consumer credit suggests households appear to have turned to credit to support their spending as the cost-of-living squeeze has intensified. Meanwhile, the household saving rate held steady at 6.8% in Q1 in line with its long-term average and we expect households to lower their saving rate further when the bigger falls in real incomes come in Q2 and Q3 to cushion the blow to spending.

- The Chancellor's latest fiscal support of £10.3bn (0.5% of GDP), which comprised £15.3bn of handouts to households, partly funded by a £5bn tax on the profits of oil and gas producers, will help support GDP in the second half of the year. And with the Prime Minister and the Chancellor desperately needing to boost their popularity, some tax cuts may be announced in the Autumn Budget.
- There have been early signs that the recent weakening in economic activity is filtering through into a slightly looser labour market. The unemployment rate edged up from 3.7% in the three months to March to 3.8%. The single-month data showed that employment fell by 254,000 in April and the unemployment rate rose from 3.5% to 4.2%. And the upward march in the number of job vacancies slowed, with the three-month average only rising from 1.296m in April to 1.300m in May. A seasonal adjustment of the single-month data implies that vacancies fell in May for the first time since COVID-19 was rife in December.
- At the same time, a 1.8% m/m fall back in average earnings in April meant that the 3myy rate of earnings eased from 7.0% in March to 6.8% in April. And a lot of the 0.5% m/m rise in earnings excluding bonuses was probably due to the 6.6% rise in the National Living Wage on 1<sup>st</sup> April. The 3myy rate of earnings excluding bonuses stayed at 4.2%.
- That said, conditions in the labour market remain exceptionally tight. The unemployment rate is still close to its recent 47-year low, and there is the same number of unemployed people as job vacancies and at 6.8% in April, the 3myy rate of average earnings is at a 10-year high (although it is still falling in real terms) and is well above the 3.0-3.5% that is broadly consistent with the 2.0% inflation target (assuming that productivity growth is 1.0-1.5%).
- CPI inflation rose from 9.0% in April to a new 40-year high of 9.1% in May and it is not yet close to its peak. The increase in CPI inflation in May was mainly due to a further leap in food price inflation from 6.7% to a 13-year high of 8.5%. With the influence of increases in agricultural commodity prices yet to fully feed into prices on the supermarket shelves, we think that food price inflation will rise above 10% in September. And with two-thirds of the observation period for the Ofgem price cap having now passed, something like a 40% rise in utility prices is pretty much baked in the cake for October. The further rise in core producer price inflation, from 13.9% to 14.8%, suggests that core goods CPI inflation will probably rise to 14% before long. We think that will take CPI inflation to a peak of around 10.5% in October.
- The rise in services CPI inflation from 4.7% in April to 4.9% in May suggests that domestic price pressures are still strengthening.
- There now seems to be an even greater likelihood that second-round effects, whereby high inflation feeds back into higher price and wage expectations, keep inflation higher for longer. For some time, the Monetary Policy Committee (MPC) has placed a lot of weight on the results of the Bank of England's monthly Decision Maker Panel which asks businesses how they expect to change their prices and wages over the next year. May's survey revealed that businesses still expect to raise their selling prices by 6.0% and their wages by 4.8% over the next year. Meanwhile, XpertHR said that pay settlements across the economy stayed at a 30-year high of 4.0% in May. The government appears to be contemplating raising public sector pay by up to 5%. And the 7.1% pay rise granted to some railway workers sets a high bar for the negotiations that led to train strikes across large parts of the country in mid-June.

- The MPC has now increased interest rates five times in as many meetings and raised rates to their highest level since the Global Financial Crisis. Even so, coming after the Fed raised rates by 75 basis points (bps) in June and a handful of other central banks have recently raised rates by 50bps, the Bank of England's action is relatively dovish. The MPC's decision not to follow the Fed and raise rates by more makes some sense. The UK's status as a larger importer of commodities, which have jumped in price, means that households in the UK are now facing a much larger squeeze on their real incomes.
- But the MPC's new guidance is that if there are signs of "more persistent inflationary pressures" it will, "if necessary, act forcefully in response". We expect the MPC to continue to raise rates in steps of 25bps rather than 50bps. We think the MPC will raise rates from 1.25% now to a peak of 2.75% next year. That's higher than the peak of 2.00% forecast by economists, but lower than the peak priced into the financial markets.
- Gilt yields have been caught up in the global surge in bond yields triggered by the surprisingly strong rise in CPI inflation in the US in May. The rises in two-year gilt yields (to a peak of 2.37% on 21<sup>st</sup> June) and 10-year yields (to a peak of 2.62%) took them to their highest level since 2008 and 2014 respectively. And in response to signs that central banks (particularly the US Fed) are going to raise interest rates faster to get on top of inflation, we now think that 10-year gilt yields will reach a peak of 2.70% (up from 2.39% currently) this year and into 2023.
- While the S&P 500 is 8.4% below its level a month ago, the FTSE 100 is 5.7% below it. Part of the sell-off has been driven by the rapid rise in global bond yields and the resulting downward pressure on equity valuations as well as concerns over economic growth.
- Finally, the pound has already weakened from \$1.37 and €1.21 earlier this year to \$1.21 and €1.16. A lot of these moves have been driven by concerns over the outlook for the global economy and the resulting poor performance of risky assets, which has increased the demand for the dollar relative to sterling. If interest rates rise faster and further in the US than in the UK, rate differentials and a worsening in risk appetite will push the pound even lower, from \$1.21 now to \$1.18 by the end of 2022. We don't expect the pound to fall by as much against the euro (from €1.16 to €1.14 next year). But once global inflation and global interest rates peak, the pound will probably benefit from the return of risk appetite. It may rise to \$1.25 by the end of 2023 and to \$1.30 by the end of 2024.
- After the Bank of England became the first major western central bank to put interest rates up in this upswing in December, it has quickly followed up its first 0.15% rise by a further four 0.25% rises to 1.25%, in what is very likely to be a series of increases repeated throughout the rest of 2022 and into 2023.

	Original Programme 2022/23	2021/22 Underspend B/F	Cabinet Approved variations	Revised 2022/23 Programme	Q1 Actual Spend 2022-23	Q1 Variance 2022/23
	£	£	£	£	£	£
<b>THE CAPITAL PROGRAMME 2022/23</b>						
<b>HRA HOUSING INVESTMENT CAPITAL PROGRAMME</b>						
Construction of New Dwellings						
- New Acquisitions & New Build	9,336,000	3,938,040	-	13,274,040	-	13,274,040
- Newhaven Police Station Redevelopment	-	-	-	-	612,951	- 612,951
- Newhaven Fire Station Redevelopment	-	-	-	-	750	- 750
-The Lynchetts, Lewes	-	-	-	-	5,155	- 5,155
- Oakfield House, Plumpton Green	-	-	-	-	4,754	- 4,754
<b>Improvements to Stock</b>	3,565,000	1,470,144	-	5,035,144	-	5,035,144
- Heating Improvement Programme	-	-	-	-	119,699	- 119,699
- Roofing & Chimney Works	-	-	-	-	240	- 240
- Structural Works	-	-	-	-	52,072	- 52,072
- Electrical T & R	-	-	-	-	74,176	- 74,176
<b>Improvements to Stock - OTHER - not included in survey</b>						
- Adaptations for Disabled Tenants	-	-	-	-	157,483	- 157,483
<b>Total HRA Housing</b>	<b>12,901,000</b>	<b>5,408,184</b>	<b>-</b>	<b>18,309,184</b>	<b>1,027,279</b>	<b>17,281,905</b>
<b>GF HOUSING INVESTMENT CAPITAL PROGRAMME</b>						
Mandatory Disabled Facilities Grants	1,487,000	172,238	-	1,659,238	24,200	1,635,038
Private Sector Housing Grants	-	-	-	-	-	-
- Emergency Repair Grants	-	-	-	-	515	- 515
<b>Total General Fund Housing</b>	<b>1,487,000</b>	<b>172,238</b>	<b>-</b>	<b>1,659,238</b>	<b>24,715</b>	<b>1,634,523</b>
<b>Loans to Housing Companies</b>						
- Aspiration Homes LLP (Loan for Delivery of Mixed Tenure Homes)	1,000,000	419,055	-	1,419,055	-	1,419,055
<b>Total Loans to Housing Companies</b>	<b>1,000,000</b>	<b>419,055</b>	<b>-</b>	<b>1,419,055</b>	<b>-</b>	<b>1,419,055</b>
<b>TOTAL HOUSING</b>	<b>15,388,000</b>	<b>5,999,477</b>	<b>-</b>	<b>21,387,477</b>	<b>1,051,994</b>	<b>20,335,483</b>
<b>GENERAL FUND NON HOUSING CAPITAL PROGRAMME</b>						
<b>JTP</b>						
Recovery and Reset Programme	430,000	621,736	-	1,051,736	-	1,051,736
<b>Total JTP</b>	<b>430,000</b>	<b>621,736</b>	<b>-</b>	<b>1,051,736</b>	<b>-</b>	<b>1,051,736</b>
<b>Regeneration</b>						
Commercial Property Acquisition & Development	2,000,000	-	-	2,000,000	-	2,000,000
<b>North Street Quarter, Lewes</b>						
NSQ - North Street Quarter	300,000	71,614	-	228,386	-	228,386
NSQ - Springman House	100,000	-	-	100,000	-	100,000
Asset Development Newhaven (November 2017) (September 2018)	-	652,932	-	652,932	-	652,932
Newhaven High Street- Newhaven Re-imagining	4,165,870	3,163,706	-	7,329,576	325,723	7,003,853
Construction of Avis Way Depot, Newhaven (July 2018)	1,300,000	32,680	-	1,332,680	-	1,332,680
The Sidings, Railway Quay, Newhaven	-	154,417	-	154,417	21,784	132,633
- UTC (Newhaven)	1,534,090	724,350	-	2,258,440	503,023	1,755,417
Caburn House, Lewes Refurbishment	170,000	90,376	-	260,376	176,548	83,828
The Friars Redevelopment, Lewes	1,000,000	-	-	1,000,000	-	1,000,000
Re-connecting our Town: Pedestrian Gateway	3,906,510	307,951	-	4,214,461	94,517	4,119,944
Re-connecting our Town: Wayfinding & Visitor Trails	-	-	-	-	5,800	- 5,800
An Active Community: Fort Road Recreation Ground	-	-	-	-	8,974	- 8,974
An Active Community: Newhaven Football Club	-	-	-	-	215,999	- 215,999
Destination Newhaven: Newhaven Port	-	-	-	-	41,500	- 41,500
Newhaven Fishing Landing Stages:	2,183,480	810,380	-	2,993,860	-	2,993,860
Unit 7 Oak Estate – Newhaven Processing Facility	-	-	-	-	672,100	- 672,100
Newhaven West Beach Restaurant	-	-	-	-	-	-
<b>Total Regeneration</b>	<b>16,659,950</b>	<b>5,865,178</b>	<b>-</b>	<b>22,525,128</b>	<b>2,065,968</b>	<b>20,459,160</b>
<b>Asset Management</b>						
Asset Management Block Allocation	1,920,000	452,928	-	2,372,928	-	2,372,928
Lewes (Stanley Turner Recreation Ground Improvements) (Feb 2018)	-	-	-	-	3,549	- 3,549
Car Parks - (Capital Maintenance Programme)	-	-	-	-	4,810	- 4,810
Flint Walls Repairs (November 2015)	-	-	-	-	16,200	- 16,200
Newhaven Fort Refurbishment	-	-	-	-	1,155	- 1,155
Public Conveniences	-	-	-	-	22,918	- 22,918
Changing Places Toilets	-	-	-	-	-	-



<b>Total Asset Management</b>	<b>1,920,000</b>	<b>452,928</b>	<b>-</b>	<b>2,372,928</b>	<b>48,631</b>	<b>2,324,297</b>
<b>Indoor Leisure Facilities - Major Repairs and Improvements (Block)</b>	80,000	461,322	-	541,322	-	541,322
Lewes, Peacehaven & Downs (Leisure Centres), Seahaven Swim and	641,200	-	-	641,200	-	641,200
Seahaven Swim and Fitness, Newhaven Priority Works	-	-	-	-	7,864	7,864
<b>Total Indoor Leisure Facilities</b>	<b>721,200</b>	<b>461,322</b>	<b>-</b>	<b>1,182,522</b>	<b>7,864</b>	<b>1,174,658</b>
Local Energy Schemes	2,000,000	-	-	2,000,000	-	2,000,000
OVESCO- Ouse Valley Solar Farm	-	62,000	-	62,000	38,000	24,000
<b>Total Energy Schemes</b>	<b>2,000,000</b>	<b>62,000</b>	<b>-</b>	<b>2,062,000</b>	<b>38,000</b>	<b>2,024,000</b>
<b>Community Infrastructure</b>	900,000	-	-	900,000	7,389	892,611
<b>Total Community Infrastructure Levy (CIL)</b>	<b>900,000</b>	<b>-</b>	<b>-</b>	<b>900,000</b>	<b>7,389</b>	<b>892,611</b>
<b>Service Delivery</b>						
Vehicle & Plant Replacement Programme	227,000	89,660	720,000	1,036,660	-	1,036,660
- Other Equipment	-	-	-	-	15,058	15,058
- MOT Test Equipment (Roller Brake Tester and Headlamp Aligner)	-	-	-	-	7,485	7,485
<b>Total Service Delivery</b>	<b>227,000</b>	<b>89,660</b>	<b>720,000</b>	<b>1,036,660</b>	<b>22,543</b>	<b>1,014,117</b>
<b>Specialist</b>	136,000	57,225	-	193,225	-	193,225
<b>Total Specialist Projects</b>	<b>136,000</b>	<b>57,225</b>	<b>-</b>	<b>193,225</b>	<b>-</b>	<b>193,225</b>
<b>Coastal Defence Works</b>	100,000	394,280	-	494,280	-	494,280
<b>Total Coastal Defence Works</b>	<b>100,000</b>	<b>394,280</b>	<b>-</b>	<b>494,280</b>	<b>-</b>	<b>494,280</b>
<b>Parks, Pavilions etc - Remedial works</b>	962,300	44,077	-	1,006,377	-	1,006,377
<b>Open Space</b>	180,000	40,010	-	220,010	-	220,010
New Crematorium & Green Burial Facility (Biodiversity)	2,000,000	20,000	-	2,020,000	-	2,020,000
<b>Total Parks, Pavilions, Open Space- Biodiversity</b>	<b>3,142,300</b>	<b>104,087</b>	<b>-</b>	<b>3,246,387</b>	<b>-</b>	<b>3,246,387</b>
IT Block Allocation	150,000	253,615	-	403,615	-	403,615
Finance				-		
Finance Transformation (Feb 2019)	150,000	179,310	-	329,310	-	329,310
<b>Total General Fund Non Housing Capital Programme</b>	<b>26,536,450</b>	<b>8,541,341</b>	<b>720,000</b>	<b>35,797,791</b>	<b>2,190,395</b>	<b>33,607,396</b>
				-		-
<b>TOTAL OVERALL CAPITAL PROGRAMME</b>	<b>41,924,450</b>	<b>14,540,818</b>	<b>720,000</b>	<b>57,185,268</b>	<b>3,242,389</b>	<b>53,942,879</b>

## GLOSSARY

### Local Authority Treasury Management Terms

Terms	Descriptions
<b>Bond</b>	A certificate of long-term debt issued by a company, government, or other institution, which is tradable on financial markets
<b>Borrowing</b>	Usually refers to the stock of outstanding loans owed, and bonds issued.
<b>CFR</b>	<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>
<b>Capital gain or loss</b>	An increase or decrease in the capital value of an investment, for example through movements in its market price.
<b>Collective investment scheme</b>	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').
<b>Cost of carry</b>	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.
<b>Counterparty</b>	The other party to a loan, investment or other contract.
<b>Counterparty limit</b>	The maximum amount an investor is willing to lend to a counterparty, in order to manage credit risk.
<b>Covered bond</b>	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.
<b>CPI</b>	Consumer Price Index - the measure of inflation targeted by the Monetary Policy Committee.
<b>Deposit</b>	A regulated placing of cash with a financial institution. Deposits are not tradable on financial markets.

<b>Terms</b>	<b>Descriptions</b>
<b>Diversified income fund</b>	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.
<b>Dividend</b>	Income paid to investors in shares and collective investment schemes. Dividends are not contractual, and the amount is therefore not known in advance.
<b>DMADF</b>	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.
<b>DLUHC</b>	Department for Levelling Up, Housing and Communities ( <i>formerly known as Ministry of Housing, Communities &amp; Local Government - MHCLG</i> ).
<b>DMO</b>	Debt Management Office – an executive agency of HM Treasury that deals with central government’s debt and investments.
<b>Equity</b>	An investment which usually confers ownership and voting rights
<b>Floating rate note (FRN)</b>	Bond where the interest rate changes at set intervals linked to a market variable, most commonly 3-month LIBOR or SONIA
<b>FTSE</b>	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
<b>GDP</b>	Gross domestic product – the value of the national aggregate production of goods and services in the economy. Increasing GDP is known as economic growth.
<b>Income Return</b>	Return on investment from dividends, interest and rent but excluding capital gains and losses.
<b>GILT</b>	Bond issued by the UK Government, taking its name from the gilt-edged paper they were originally printed on.
<b>LIBID</b>	London interbank bid rate - the benchmark interest rate at which banks bid to borrow cash from other banks, traditionally 0.125% lower than LIBOR.
<b>LIBOR</b>	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.  Due to be phased out by 2022.

<b>Terms</b>	<b>Descriptions</b>
<b>LOBO</b>	Lender's Option Borrower's option
<b>MMF</b>	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
<b>Pooled Fund</b>	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').
<b>PWLB</b>	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.
<b>Quantitative easing (QE)</b>	Process by which central banks directly increase the quantity of money in the economy to promote GDP growth and prevent deflation. Normally achieved by the central bank buying government bonds in exchange for newly created money.
<b>SONIA</b>	Sterling overnight interest average – a benchmark interest rate for overnight deposits.
<b>Short-dated</b>	Usually means less than one year
<b>TMSS</b>	Approved Council's Treasury Management Strategy Statement
<b>Total return</b>	The overall return on an investment, including interest, dividends, rent, fees and capital gains and losses.

<b>Report To:</b>	<b>Audit and Standards Committee</b>
<b>Date:</b>	<b>14 November 2022</b>
<b>Report Title:</b>	<b>Treasury Management Monitoring report - Q2</b>
<b>Report of:</b>	<b>Chief Finance Officer</b>
<b>Ward(s):</b>	<b>All</b>
<b>Purpose of report:</b>	<b>To present details of recent Q2 Treasury Management activity.</b>
<b>Officer Recommendations:</b>	<b>To note and recommend that Cabinet accepts that Treasury Management Activities for the period 1 July to 30 September 2022 has been in accordance with the approved Treasury Strategies.</b>
<b>Reasons for recommendations:</b>	<b>Requirement of CIPFA Treasury Management in the Public Sector Code of Practice (the Code) and this has to be reported to Full Council.</b>
<b>Contact Officer(s):</b>	<b>Name: Ola Owolabi Post title: Deputy Chief Finance Officer E-mail: <a href="mailto:ola.owolabi@lewes-eastbourne.gov.uk">ola.owolabi@lewes-eastbourne.gov.uk</a> Telephone number: 01273 485083</b>

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## **1. Introduction**

- 1.1 The Council's approved Treasury Strategy Statement requires the Audit and Standards Committee to review details of Treasury Strategy transactions against the criteria set out in the Strategy and make observations to Cabinet as appropriate.
- 1.2 The Treasury Strategy Statement also requires the Audit and Standards Committee to review a formal summary report 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 This Council also confirms that it has complied with the requirement under the Code to give prior scrutiny to treasury management reports by the Audit & Standards Committee before they were reported to the full Council.

### **Annual Treasury Management training**

- 1.4 In line with the CIPFA requirements to ensure an appropriate training for Councillors, a training session on the Treasury Management activities took place on Monday 24<sup>th</sup> October 2022, via TEAMS. The virtual training was delivered by the Council's treasury management advisors – Link Asset Services.

## 2. Treasury Management Activity

- 2.1 The timetable for reporting Treasury Management activity in 2022/23 is shown within the table below. This takes into account the timescale for the publication of each Committee agenda and is on the basis that it is preferable to report on activity for complete months. Any extraordinary activity taking place between the close of the reporting period and the date of the Audit and Standards Committee meeting will be reported verbally at that meeting.

Meeting date	Reporting period for transactions
4 June 2022	2021/22 Annual Report (up to 31 March 2022)
12 September 2022	1 April to 30 June 2022
<b>14 November 2022</b>	<b>1 July to 30 September 2022</b>
16 January 2023	1 October to 31 December 2022
13 March 2023	1 January to 28 February 2023

### 2.2 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).

Counterparty	Date From	Date To	Days	Principal £	Int Rate %	Long-term Rating
DMO	15/07/2022	17/10/2022	94	2,000,000	1.560	*
Cornwall Council	10/08/2022	10/10/2022	61	5,000,000	1.720	*
DMO	30/08/2022	31/10/2022	62	4,000,000	1.950	*
Standard Charter Sustainable	30/08/2022	30/11/2022	92	5,000,000	2.310	A+
DMO	06/09/2022	06/02/2023	153	1,000,000	2.500	*
Bayerische Landes Bank	16/09/2022	16/12/2022	91	5,000,000	2.690	A-
DMO	27/09/2022	27/01/2023	122	2,000,000	2.960	*

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

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

The table below shows the fixed term deposits which have matured 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 £	Int. Rate %	Long-term rating
Standard Charter Sustainable	29/04/2022	29/07/2022	91	5,000,000	1.050	A+
DMO	09/05/2022	09/08/2022	92	5,000,000	0.920	*
Bayerische Landes Bank	16/05/2022	16/08/2022	92	5,000,000	1.160	A-
DMO	16/05/2022	18/07/2022	63	3,500,000	0.930	*
DMO	27/06/2022	30/08/2022	64	5,000,000	1.240	*
DMO	01/07/2022	26/07/2022	25	5,000,000	1.050	*
DMO	12/07/2022	12/08/2022	31	1,000,000	1.150	*
DMO	18/07/2022	04/08/2022	17	1,500,000	1.085	*
DMO	26/07/2022	01/08/2022	6	5,000,000	1.050	*
Standard Charter Sustainable	29/07/2022	30/08/2022	32	5,000,000	1.430	A+
DMO	01/08/2022	04/08/2022	3	10,000,000	1.135	*
DMO	04/08/2022	09/08/2022	5	6,000,000	1.400	*
DMO	09/08/2022	10/08/2022	1	14,000,000	1.550	*
DMO	10/08/2022	26/08/2022	16	9,000,000	1.550	*
DMO	15/08/2022	22/08/2022	7	2,000,000	1.550	*
Bayerische Landes Bank	16/08/2022	16/09/2022	31	5,000,000	1.640	A-
DMO	26/08/2022	12/09/2022	17	8,000,000	1.560	*
DMO	01/09/2022	08/09/2022	7	7,000,000	1.550	*
DMO	08/09/2022	12/09/2022	4	7,500,000	1.550	*
DMO	13/09/2022	27/09/2022	14	2,500,000	1.730	*
DMO	14/09/2022	26/09/2022	12	700,000	1.700	*

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

At no stage did the total amount held by any counterparty exceed the approved limit set out in the Council's Investment Strategy. The average rate of interest earned on deposits held in the period 1 July to 30 September 2022 was 1.6%, which was higher than the average bank base rate for the period of 1.31%.

#### 2.4 Use of Deposit accounts

In addition to the fixed term deposits, the Council has made use of the following interest bearing accounts in the period covered by this report, with the average amount held being £3.11m generating interest of approximately £9.4k.

	Balance at 30 September 2022 £'000	Average balance £'000	Current interest rate %
Santander Business Reserve Account	£5,000	£5,000	0.83
Lloyds Bank Corporate Account	£497	£2,284	0.01
Lloyds Bank Call Account	£410	£2,035	0.15

#### 2.5 Use of Money Market Funds

Details of the amounts held in the Money Market Fund (MMF) accounts used by the Council are shown below. The approved Investment Strategy allows a maximum investment of £10m in each fund, and at no time was this limit exceeded.

	Balance at 30 September 2022 £'000	Average balance £'000	Average return %
Deutsche Managed Sterling Fund	£0	£0.007	0.00

## 2.6 Treasury Bills (T-Bills)

There were no Treasury Bills held as at 30 September 2022, and there was no activity in the period.

## 2.7 Secured Investments

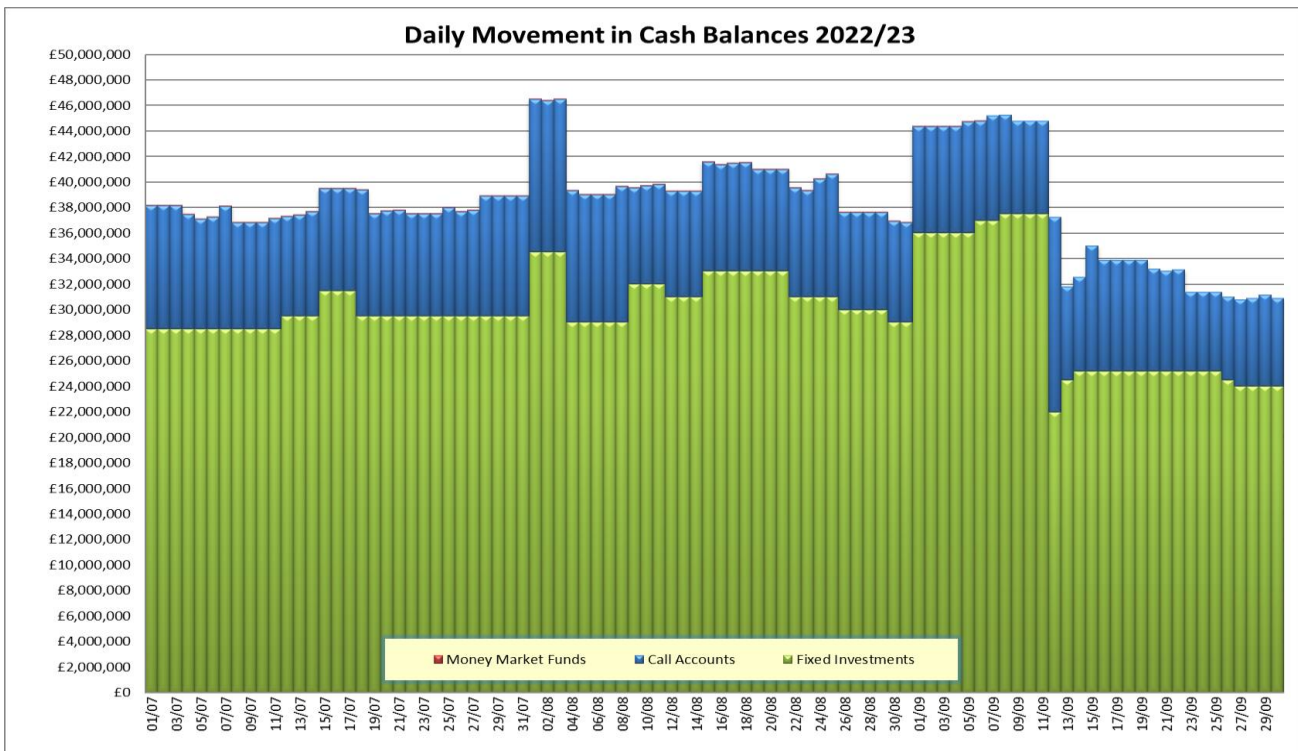
There were no Secured Investments as at 30 September 2022.

## 2.8 Tradeable Investments

There were no Tradeable Investments as at 30 September 2022, and there was no activity in the period.

## 3. Overall investment position

3.1 The chart below summarises the Council's investment position over the period 1 July to 30 September 2022. It shows the total sums invested each day as Fixed Term deposits, amounts held in Deposit accounts and Money Market Funds.



## 4. Annual Investment Strategy

4.1 The Treasury Management Strategy Statement (TMSS) for 2022/23 which includes the Annual Investment strategy, was approved by the Full Council on Monday, 21 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 7 days during the period.

## 5. Borrowing

- 5.1 The current account with Lloyds Bank generally remained within credit limits throughout most of the period.

### Interest Rate Forecast

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

The latest 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.

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
<b>BANK RATE</b>	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

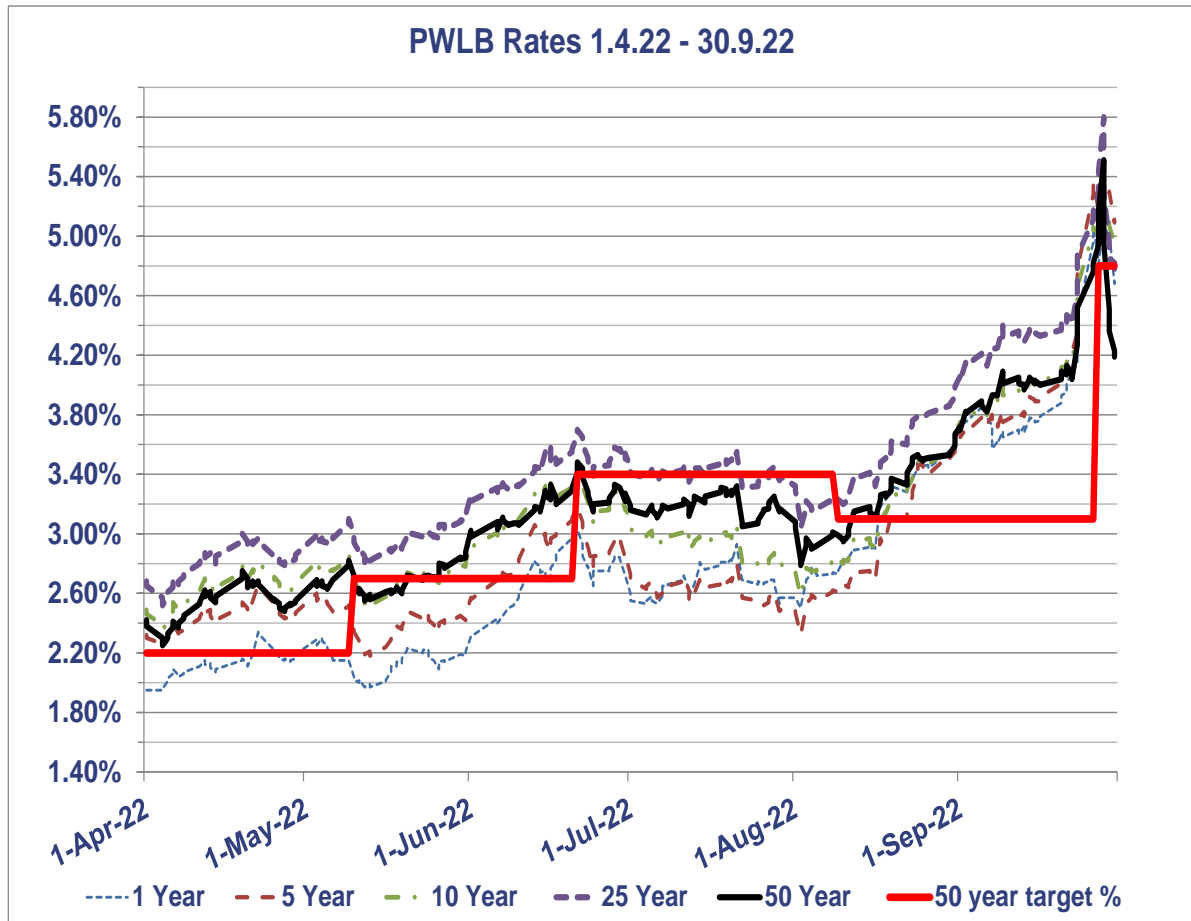
- LIBOR and LIBID rates ceased at the end of 2021. In a continuation of our previous forecasts, Links money market yield forecasts are based on expected average earnings by local authorities for 3 to 12 months.
- Links forecasts for average earnings are averages i.e., rates offered by individual banks 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

- 5.3 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.
- 5.4 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.
- 5.5 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.
- 5.6 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.
- 5.7 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 30<sup>th</sup> September 2022

- 5.8 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%.
- 5.9 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
<b>Low</b>	1.95%	2.18%	2.36%	2.52%	2.25%
<b>Date</b>	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
<b>High</b>	5.11%	5.44%	5.35%	5.80%	5.51%
<b>Date</b>	28/09/2022	28/09/2022	28/09/2022	28/09/2022	28/09/2022
<b>Average</b>	2.81%	2.92%	3.13%	3.44%	3.17%
<b>Spread</b>	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 (CS 4.2.4)	£143.0m	£143.0m	GREEN
Operational boundary for external debt (CS 4.2.4)	£130.0m	£130.0m	GREEN
Gross external debt (CS 4.2.2)	£78.0m	£51.67m	GREEN
Capital Financing Requirement (CS 2.3.4)	£109.7m	£96.0m	GREEN
Debt vs CFR under/(over) borrowing	£31.7m	£44.3m	GREEN
Investments (Average)	£3.0m	£3.11m	GREEN
Investment returns expectations	1.0%	1.6%	GREEN
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
<i>*Capital expenditure – Appendix B</i>			
General Fund	£27.3m	4.2m	AMBER
HRA	£11.6m	1.8m	AMBER
Commercial Activities/ non- financial investments	£3.1m	0.1m	AMBER
<i>Ratio of financing costs to net revenue stream (CS 8.1.1):</i>			
Proportion of Financing Costs to Net Revenue Stream (General Fund)	4.2%	4.2%	GREEN
Proportion of Financing Costs to Net Revenue Stream (HRA)	11.0%	11.0%	GREEN

*Key: CS – 2022/23 Capital Strategy; \*Revised Capital Programme include the 2021/22 slippages and exclude projected carry forward into 2023/24 - details attached as Appendix B.*

## **7. Non-treasury investments**

The non-treasury investment activity includes loans to Council owned companies or the purchase of property assets for the purpose of income generation.

### **7.1 Lewes Housing Investment Company**

Lewes Housing Investment Company (LHIC) is a wholly owned subsidiary of the Council. Incorporated in July 2017, LHIC was established to acquire, improve, and let residential property at market rents. A capital allocation of £2.5m was approved as potential commercial loan funding to facilitate property purchases. At 30 September 2022, a total of £2,065 working capital has been drawn down. The balance has been rolled forward into 2022/23. There have been no transactions during the period 1 April 2022 to 30 September 2022.

### **7.2 Aspiration Homes LLP**

Aspiration Homes LLP (AH) is a limited liability Partnership owned equally by Lewes District Council and Eastbourne Borough Council. Incorporated in June 2017, AH was established for the purpose of developing housing to be let at affordable rent. A capital allocation of £17.5m was approved as potential commercial loan funding to AH to facilitate property purchases. At 30 September 2022, a total of £3,043,855 has been drawn down for the purchase of Gray's School, Newhaven, and Caburn Field, Ringmer. The balance has been rolled forward into 2022/23. There have been no transactions during the period 1 April 2022 to 30 September 2022.

A working Capital facility loan of £100,000 has been agreed, at an interest rate of 2% above Base Rate. As at 30 September 2022, £20,000 of the working Capital facility loan had been drawn down. There have been no transactions during the period 1 April 2022 to 30 September 2022.

## **8. Environmental, Social and Governance Investment - update**

- 8.1 The Cabinet at its meeting on 3 February 2022 approved the 2022/23 Treasury Management and Investment Strategy, which include Non-Specified investments in Green Energy Bonds and/or other ESG products that met the Council's internal and external due diligence criteria.
- 8.2 While a wide range of ESG investment are currently limited, there are expectation to see more banks and funds providing specific products over the coming years. As this area continues to develop and become more prominent, the Council in conjunction with the treasury management advisor (Link Asset Services) will continue to monitor ESG investment opportunities within the parameters of the Council's counterparty criteria and in compliance with the DLUHC Investment Guidance (i.e., prioritising security, liquidity before yield).
- 8.3 The Council holds a £5m deposit balance within the Standard Chartered Bank Sustainable Time Deposit, which function just like a normal Time Deposit. The difference is in the sustainable impact where the deposits are referenced against

qualifying sustainable loans and projects of Standard Chartered that meet their Green and Sustainable Product Framework.

8.4 These loan and project assets include green financing, sustainable infrastructure projects, microfinance, and access to finance for SME business banking. It addresses the long-term environmental challenges such as climate change, health, and financial inclusion plus being dedicated towards financing sustainable loans and projects aligned to the United Nation's Sustainable Development Goals.

## 8.5 Sustainable Development Goals



## 9. Economic Background

9.1 As expected, the Bank of England's Monetary Policy Committee continue to increase the Bank Rate and a detailed economic commentary on developments during period ended 30 September 2022 is attached as **Appendix A**.

## 10. Financial Appraisal

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

## 11. Risk Management Implications

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

## **12. Equality Analysis**

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

## **13. Legal Implications**

- 13.1 There are no legal implications from this report.

## **14. Environmental sustainability implications**

- 14.1 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.

## **15. Appendices**

- 15.1 Appendix A - Detailed economic commentary
- 15.2 Appendix B - 2022/23 Q2 Capital Programme
- 15.3 Appendix C - GLOSSARY - Local Authority Treasury Management Terms

## **16. Background Papers**

- 16.1 Treasury Strategy Statements 2022/23.

### Link Treasury Services Limited - Detailed economic commentary on developments during quarter ended 30<sup>th</sup> 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 fall 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 23<sup>rd</sup> 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 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 6<sup>th</sup> 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 3<sup>rd</sup> November and the government will lay out a credible medium-term plan in the fiscal statement on 23<sup>rd</sup> 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 31<sup>st</sup> October. Second, it committed to buy up to £65bn of long-term gilts to "restore orderly market conditions" until 14<sup>th</sup> 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 28<sup>th</sup> 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 14<sup>th</sup> October or it decides to delay quantitative tightening beyond 31<sup>st</sup> 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 S&P 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 S&P 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 4<sup>th</sup> August and 22<sup>nd</sup> September 2022**

- In August, the Bank of England's Monetary Policy Committee (MPC) increased Bank Rate to 1.75%, and on 22<sup>nd</sup> 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 23<sup>rd</sup> November, after the MPC next meets on 3<sup>rd</sup> 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.

Summary	Original Programme 2022/23 £	Updated 2022/23 Programme £	Budget to be carried forward to 2023-24 £	Q2 Actual Spend 2022-23 £	Q2 Variance £
<b>HRA HOUSING INVESTMENT CAPITAL PROGRAMME</b>					
<b>Construction of New Dwellings</b>					
- New Acquisitions & New Build	0	3,309,889		1,260	3,308,629
- Saxonbury Redevelopment	100,000	0		0	0
- Newhaven Police Station Redevelopment	3,900,000	1,800,000	2,100,000	631,098	1,168,902
- Newhaven Fire Station Redevelopment	900,000	750,000	150,000	3,401	746,599
- Long Park Corner	0	0		0	0
-The Lynchetts, Lewes	500,000	6,000	494,000	5,552	448
- Oakfield House, Plumton Green	20,000	20,000		4,754	15,246
- Mill Road, Ringmer	520,000	180,000	340,000	0	180,000
- Ringmer Infills, Broyle Close	950,000	0	950,000	397	-397
- Ringmer Infills, Kiln Road	950,000	-950,000		398	-950,398
-Rusbridge Cottage, Lewes	500,000		500,000	399	-399
-2-6 Fort Road, Newhaven	700,000	0	700,000	0	0
-Self Build Pilot Programme (Buckwell Court & Walds	150,000	0	150,000	0	0
-Sustainability Initiative Pilot Scheme	146,000	296,000		0	296,000
<b>Total Construction of New Dwellings</b>	<b>9,336,000</b>	<b>5,411,889</b>	<b>5,384,000</b>	<b>647,258</b>	<b>4,764,631</b>
<b>Improvements to Stock</b>	<b>3,100,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
- Fire Precaution Works	0	332,000		0	332,000
- Heating Improvement Programme	0	950,000		439,124	510,876
- Kitchen & Bathroom Renewals	0	775,000		88,022	686,978
- Roofing & Chimney Works	0	415,000		69,558	345,442
- Structural Works	0	1,445,000		170,213	1,274,787
- Window & Door Replacement Programme	0	796,500		0	796,500
- Electrical T & R	0	750,000		111,292	638,708
-Warden Call Systems Upgrade	0	36,500		0	36,500
<b>Total Improvement to Stock</b>	<b>3,100,000</b>	<b>5,500,000</b>	<b>0</b>	<b>878,208</b>	<b>4,621,792</b>
<b>Adaptations for Disabled Tenants</b>	<b>415,000</b>	<b>586,628</b>	<b>0</b>	<b>279,512</b>	<b>307,116</b>
<b>Housing Estates Recreation and Play Areas</b>	<b>50,000</b>	<b>98,515</b>	<b>0</b>	<b>0</b>	<b>98,515</b>
<b>TOTAL HRA HOUSING INVESTMENT CAPITAL PROG</b>	<b>12,901,000</b>	<b>11,597,032</b>	<b>5,384,000</b>	<b>1,804,978</b>	<b>9,792,054</b>
<b>GF HOUSING INVESTMENT CAPITAL PROGRAMME</b>					
<b>General Fund Housing Grant Funded</b>					
Mandatory Disabled Facilities Grants	1,352,000	1,405,920		102,020	1,303,900
Private Sector Housing Grants	135,000	253,318		4,962	248,356
- Emergency Repair Grants	0	0		0	0
<b>Total General Fund Housing Grant Funded</b>	<b>1,487,000</b>	<b>1,659,238</b>	<b>0</b>	<b>106,982</b>	<b>1,552,256</b>
<b>Loans to Housing Companies</b>					
- Aspiration Homes LLP (Loan for Delivery of Mixed Te	1,000,000	1,419,055		0	1,419,055
<b>Total Loans to Housing Companies</b>	<b>1,000,000</b>	<b>1,419,055</b>	<b>0</b>	<b>0</b>	<b>1,419,055</b>
<b>TOTAL GF HOUSING INVESTMENT CAPITAL PROGR</b>	<b>2,487,000</b>	<b>3,078,293</b>	<b>0</b>	<b>106,982</b>	<b>2,971,311</b>
<b>TOTAL HOUSING</b>	<b>15,388,000</b>	<b>14,675,325</b>	<b>5,384,000</b>	<b>1,911,960</b>	<b>12,763,365</b>
<b>GF NON HOUSING CAPITAL PROGRAMME</b>					
<b>Recovery and Stabilisation</b>					
Recovery and Reset Programme	430,000	1,051,736		0	1,051,736
<b>Total Recovery and Stabilisation</b>	<b>430,000</b>	<b>1,051,736</b>	<b>0</b>	<b>0</b>	<b>1,051,736</b>
<b>Regeneration</b>					
Commercial Property Acquisition & Development	2,000,000	2,000,000		0	2,000,000
NSQ - North Street Quarter	300,000	228,386		6,466	221,920
NSQ - Springman House	100,000	100,000		0	100,000
Asset Development Newhaven (November 2017) (Sept	0	0	652,932	0	0
Newhaven Square Co-Op - Demolition	0	0		7,596	-7,596
Newhaven High Street- Newhaven Re-imagining	4,165,870	3,617,814	3,175,157	651,463	2,966,351
Construction of Avis Way Depot, Newhaven (July 2018)	1,300,000	0	1,332,680	0	0
The Sidings, Railway Quay, Newhaven	0	68,252		28,884	39,368
- UTC (Newhaven)	1,534,090	2,258,440		687,839	1,570,601
Caburn House, Lewes Refurbishment	170,000	260,376		332,150	-71,774
The Friars Redevelopment, Lewes	1,000,000	0	1,000,000	0	0
Re-connecting our Town: Pedestrian Gateway	3,906,510	94,517		94,517	0
Re-connecting our Town: Wayfinding & Visitor Trails	0	61,936		18,300	43,636
Building our Economic Strength: Social Enterprise Incub	0	446,223		0	446,223
Building our Economic Strength: Business Grants Progra	0	10,000	190,000	0	10,000
Re-imagining our Town Centre: Community & Creative H	0	241,425		0	241,425
An Active Community: Eastside Recreation Ground	0	273,700		0	273,700
An Active Community: Fort Road Recreation Ground	0	0		19,537	-19,537
An Active Community: Newhaven Football Club	0	786,800		725,110	61,690

An Active Community: Denton Island Slipway	0	115,500		0	115,500
Destination Newhaven: Newhaven Port	0	876,150		92,000	784,150
Maintaining Maritime Vitality: Marine Gateway	0	905,000		0	905,000
Newhaven Fishing Landing Stages:	2,183,480	344,153	1,839,327	0	344,153
Unit 7 Oak Estate – Newhaven Processing Facility	0	1,044,323		672,100	372,223
Newhaven West Beach Restaurant	0	186,000		0	186,000
<b>Total Regeneration</b>	<b>16,659,950</b>	<b>13,918,995</b>	<b>8,190,096</b>	<b>3,335,962</b>	<b>10,583,032</b>
<b>Asset Management</b>					
Asset Management Block Allocation	100,000	100,000		2,963	97,038
Lewes (Stanley Turner Recreation Ground Improvement)	0	5,980		3,549	2,431
Stanley Turner Changing Room_Club House	100,000	250,000	100,000	0	250,000
Car Parks - (Capital Maintenance Programme)	50,000	5,000	52,500	4,710	290
Chapel Street Car Park	50,000	50,000		0	50,000
Cliff Tops @ Peacehaven (June 2017)	0	42,000		0	42,000
Market Tower/Square	150,000	150,000	50,000	0	150,000
Flint Walls Repairs (November 2015)	30,000	31,939		21,455	10,484
Robinson Road Depot - Priority Works (July 2018)	800,000	850,000		0	850,000
Newhaven Fort Bridge (September 2019)	10,000	37,000		36,291	709
Newhaven Fort Refurbishment	50,000	50,000		1,705	48,295
187/2 Fisher Street	150,000	150,000		0	150,000
School Hill House	150,000	150,000		0	150,000
Newhaven Square - Unit	80,000	80,000		0	80,000
Newhaven Square - roof works	100,000	100,000		0	100,000
Public Conveniences	100,000	199,150		86,367	112,783
<b>Total Asset Management</b>	<b>1,920,000</b>	<b>2,251,069</b>	<b>202,500</b>	<b>157,039</b>	<b>2,094,030</b>
<b>Indoor Leisure Facilities</b>					
Indoor Leisure Facilities - Major Repairs and Improvement	721,000	1,182,522		65,635	1,116,887
<b>Total Indoor Leisure Facilities</b>	<b>721,000</b>	<b>1,182,522</b>	<b>0</b>	<b>65,635</b>	<b>1,116,887</b>
<b>Energy Schemes</b>					
Local Energy Schemes	2,000,000	2,000,000		0	2,000,000
OVESCO- Ouse Valley Solar Farm	0	62,000		38,000	24,000
<b>Total Energy Schemes</b>	<b>2,000,000</b>	<b>2,062,000</b>	<b>0</b>	<b>38,000</b>	<b>2,024,000</b>
<b>Community Infrastructure</b>					
	900,000	1,020,000		7,389	1,012,611
<b>Total Community Infrastructure Levy (CIL)</b>	<b>900,000</b>	<b>1,020,000</b>	<b>0</b>	<b>7,389</b>	<b>1,012,611</b>
<b>Service Delivery</b>					
Vehicle & Plant Replacement Programme	227,000	122,715		0	122,715
Waste & Recycling Review	0	720,000		478,000	242,000
- Vehicle Refurbishment W&R Review	0	0		0	0
- Other Equipment	0	113,360		61,522	51,838
- MOT Test Equipment (Roller Brake Tester and Head)	0	7,485		7,485	0
<b>Total Service Delivery</b>	<b>227,000</b>	<b>963,560</b>	<b>0</b>	<b>547,007</b>	<b>416,553</b>
<b>Specialist Projects</b>					
Flood Alleviation Project	136,000	193,225		0	193,225
<b>Total Specialist Projects</b>	<b>136,000</b>	<b>193,225</b>	<b>0</b>	<b>0</b>	<b>193,225</b>
<b>Coastal Defence Works</b>					
Coastal Defence Works	100,000	494,280		0	494,280
Newhaven / Peacehaven Coastal Park	60,000	60,000		0	60,000
<b>Total Coastal Defence Works</b>	<b>160,000</b>	<b>554,280</b>	<b>0</b>	<b>0</b>	<b>554,280</b>
<b>Parks, Pavilions, Open Space- Biodiversity</b>					
Parks, Pavilions etc - Remedial works	602,300	602,300		0	602,300
Cockshut Stream (Stanley Turner Diversion)	40,000	300,000		0	300,000
New Crematorium & Green Burial Facility (Biodiversity)	2,000,000	2,020,000		0	2,020,000
Play Areas Full Refurbishment	360,000	360,000		0	360,000
Bell Lane Rain Garden	10,000	10,000		0	10,000
Funds for local groups for Biodiversity Projects	7,500	7,500		0	7,500
Wildlife Planting / Habitat creation in parks	30,000	30,000		0	30,000
Land for Biodiversity	20,000	20,000		0	20,000
Creation of wildflower seed areas	7,500	7,500		0	7,500
Tree Planting	5,000	5,000		0	5,000
<b>Total Parks, Pavilions, Open Space- Biodiversity</b>	<b>3,082,300</b>	<b>3,362,300</b>	<b>0</b>	<b>0</b>	<b>3,362,300</b>
<b>IT Block Allocation</b>					
IT Block Allocation	150,000	403,615		23,339	380,276
Finance Transformation (Feb 2019)	150,000	329,310		0	329,310
<b>Total General Fund Non-Housing Capital Prog.</b>	<b>26,536,250</b>	<b>27,292,612</b>	<b>8,392,596</b>	<b>4,174,372</b>	<b>23,118,240</b>
		0			0
<b>Total Overall Capital Programme</b>	<b>41,924,250</b>	<b>41,967,937</b>	<b>13,776,596</b>	<b>6,086,332</b>	<b>35,881,605</b>
<b>Capital Programme Financing</b>					
Borrowing	14,993,680	14,917,167			
Capital Receipts	5,242,180	5,242,180			
Reserves	11,431,000	11,431,000			
Capital Grants (HM Government)	7,905,590	7,905,590			
Capital Grants (Non-Governmental Public Bodies)	1,452,000	1,452,000			
CIL Contributions	900,000	1,020,000			
	<b>41,924,450</b>	<b>41,967,937</b>			

## GLOSSARY

### Local Authority Treasury Management Terms

Terms	Descriptions
<b>Bond</b>	A certificate of long-term debt issued by a company, government, or other institution, which is tradable on financial markets
<b>Borrowing</b>	Usually refers to the stock of outstanding loans owed, and bonds issued.
<b>CFR</b>	<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>
<b>Capital gain or loss</b>	An increase or decrease in the capital value of an investment, for example through movements in its market price.
<b>CIPFA</b>	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.
<b>Collective investment scheme</b>	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').
<b>Cost of carry</b>	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.
<b>Counterparty</b>	The other party to a loan, investment or other contract.
<b>Counterparty limit</b>	The maximum amount an investor is willing to lend to a counterparty, in order to manage credit risk.
<b>Covered bond</b>	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.
<b>CPI</b>	Consumer Price Index - the measure of inflation targeted by the Monetary Policy Committee.

<b>Terms</b>	<b>Descriptions</b>
<b>Deposit</b>	A regulated placing of cash with a financial institution. Deposits are not tradable on financial markets.
<b>Diversified income fund</b>	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.
<b>Dividend</b>	Income paid to investors in shares and collective investment schemes. Dividends are not contractual, and the amount is therefore not known in advance.
<b>DMADF</b>	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.
<b>DLUHC</b>	Department for Levelling Up, Housing and Communities ( <i>formerly known as Ministry of Housing, Communities &amp; Local Government - MHCLG</i> ).
<b>DMO</b>	Debt Management Office – an executive agency of HM Treasury that deals with central government's debt and investments.
<b>Equity</b>	An investment which usually confers ownership and voting rights
<b>Floating rate note (FRN)</b>	Bond where the interest rate changes at set intervals linked to a market variable, most commonly 3-month LIBOR or SONIA
<b>FTSE</b>	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
<b>GDP</b>	Gross domestic product – the value of the national aggregate production of goods and services in the economy. Increasing GDP is known as economic growth.
<b>Income Return</b>	Return on investment from dividends, interest and rent but excluding capital gains and losses.
<b>GILT</b>	Bond issued by the UK Government, taking its name from the gilt-edged paper they were originally printed on.
<b>LIBID</b>	London interbank bid rate - the benchmark interest rate at which banks bid to borrow cash from other banks, traditionally 0.125% lower than LIBOR.

<b>Terms</b>	<b>Descriptions</b>
<b>LIBOR</b>	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.  Due to be phased out by 2022.
<b>LOBO</b>	Lender's Option Borrower's option
<b>MMF</b>	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
<b>MPC</b>	The Monetary Policy Committee (MPC) decides what monetary policy action the Bank of England will take to keep inflation low and stable.
<b>OBR</b>	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.
<b>PMI</b>	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).
<b>Pooled Fund</b>	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').
<b>PWLB</b>	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.
<b>Quantitative easing (QE)</b>	Process by which central banks directly increase the quantity of money in the economy to promote GDP growth and prevent deflation. Normally achieved by the central bank buying government bonds in exchange for newly created money.
<b>SME</b>	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.



<b>Terms</b>	<b>Descriptions</b>
<b>SONIA</b>	Sterling overnight interest average – a benchmark interest rate for overnight deposits.
<b>Short-dated</b>	Usually means less than one year
<b>TMSS</b>	Approved Council's Treasury Management Strategy Statement
<b>Total return</b>	The overall return on an investment, including interest, dividends, rent, fees and capital gains and losses.

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<b>Report to:</b>	<b>Audit and Standards Committee</b>
<b>Date:</b>	<b>14 November 2022</b>
<b>Title:</b>	<b>Internal Audit and Counter Fraud report for the financial year 2022-2023 – 1<sup>st</sup> April 2022 to 30<sup>th</sup> September 2022</b>
<b>Report of:</b>	<b>Chief Internal Auditor</b>
<b>Ward(s):</b>	<b>All</b>
<b>Purpose of report:</b>	<b>To provide a summary of the activities of Internal Audit and Counter Fraud for the first half of the financial year 2022-2023 – 1<sup>st</sup> April 2021 to 30<sup>th</sup> September 2022.</b>
<b>Officer recommendation(s):</b>	<ol style="list-style-type: none"><li><b>1) That the information in this report be noted and that the Committee identify any further information requirements.</b></li><li><b>2) The Committee is requested to consider and adopt the Audit Charter.</b></li><li><b>3) The Committee is requested to consider and adopt the Code of Ethics for Internal Auditors.</b></li></ol>
<b>Reasons for recommendations:</b>	<p><b>The remit of the Audit and Standards Committee includes the duties to agree an Annual Audit Plan and keep it under review, and to keep under review the probity and effectiveness of internal controls, both financial and operational, including the council’s arrangements for identifying and managing risk.</b></p> <p><b>The Public Sector Internal Audit Standards expect the Audit Charter to be periodically reviewed and brought to the Audit and Standards Committee for approval.</b></p> <p><b>The Public Sector Internal Audit Standards expect Internal Auditors to abide by a code of ethics. For best practice the Internal Audit team hold their own Code of Ethics for Internal Auditors: the Audit and Standards Committee are requested to evidence this best practice by reviewing and approving the Code.</b></p>
<b>Contact Officer(s):</b>	<b>Name: Jackie Humphrey</b> <b>Post title: Chief Internal Auditor</b> <b>E-mail: <a href="mailto:jackie.humphrey@lewes-eastbourne.gov.uk">jackie.humphrey@lewes-eastbourne.gov.uk</a></b> <b>Telephone number: 01323 415925</b>

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## **1 Introduction**

- 1.1** The remit of the Audit and Standards Committee includes the duties to agree an Annual Audit Plan and keep it under review, and to keep under review the probity and effectiveness of internal controls, both financial and operational, including the council’s arrangements for identifying and managing risk.
- 1.2** The quarterly report includes a review of work undertaken by Internal Audit and Counter Fraud.

1.3 As the Committee meeting in September was cancelled, 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 to concentrate on completing the annual reviews that have to be carried out. There are 11 of these and they cover the main financial systems.

2.2 Four of these have been issued in Final in the first half of the year with a further one being issued in Draft. Two other audits have had reports issued in Final. Follow up reviews have also been undertaken and during the first half of the year 11 reports were issued in Final along with three others issued in Draft.

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: 2 medium risk recommendations outstanding – looking to establish a leaseholder panel for consultations. Will publish an interim handbook if not completed by August. 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.
- Procurement: 5 medium risk recommendations 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 been too few claims to test. 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 recommendation remains outstanding but work is currently ongoing to address this recommendation. The next follow up is due in January.

2.7 As can be seen, the number of follow up reports being issued has greatly increased. This is the result of the current level of unaddressed recommendations after follow up, which is fairly unprecedented. The number of those where recommendations are outstanding after several follow ups have been undertaken has raised an issue of how this should 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.

2.8 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 10<sup>th</sup> January 2022 and 9<sup>th</sup> 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.

2.9 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.

2.10 One member of the Internal Auditor team has tendered their resignation and will be leaving their post on 28<sup>th</sup> October 2022. Authorisation to recruit to the vacant post is being sought.

2.11 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 Review of the work of Counter Fraud carried out in the first half of the financial year 2022-23**

3.1 Housing Tenancy – At the end of September there were 49 cases of sublet/abandonment at various stages. In the first quarter, one property was returned, resulting in a net saving of £93,000. In the second quarter, one case has resulted in a signed notice to quit with the property due to be returned to the council in the third quarter. Following joint action by Homes First and the Counter-Fraud team, one other property is also due to be returned.

- 3.2 Right To Buy – During the first quarter, four applications were withdrawn with a further two withdrawn in the second quarter. The net saving from these withdrawals is £509,800. There are 22 previously withdrawn applications still requiring a home visit to verify residential status.
- 3.3 Housing Applications/Homeless Placement – The Counter-Fraud team continues to work with Homes First to implement additional Counter-Fraud measures to ensure the limited housing stock that is available will only be allocated to those in genuine need.
- 3.4 National Non-Domestic Rates – As part of the review of Small Business Grant Fund applications, discrepancies of Small Business Rate Relief and liable rate payer have been found. During the first half of the year, one case was investigated and resulted in an amendment to the business rates account. This generated £15,903.06 additional income for the authority.
- 3.5 Council Tax – 25 cases have been investigated where discounts/exemptions were being claimed which have resulted in rebilling with a net recoverable income of £59,200.74 generated for the authority and a preventative saving of £23,500.80. A review of Council Tax exemptions/disregards is ongoing and includes work with National Fraud Initiative (NFI) matching data held between Council Tax Records and Electoral roll. So far, 64 cases have been reviewed with a net recoverable income of £5,860.75 generated along with a preventative saving of £14,921.44 (these figures are included within NFI savings below).
- 3.6 Council Tax Reduction – Four cases are currently under investigation.
- 3.7 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. However, this has begun to change, with 13 cases closed in this period with 1 case generating an overpayment of £295.61 and a weekly incorrect saving of £20.80
- 3.8 National Fraud Initiative – The 2020/21 exercise is gradually nearing completion, except for the Council Tax discount data matches detailed above. Work has now commenced on collecting data for the 2022/23 exercise, NFI have set a deadline for the completion of this work by the middle of November 2022.
- 3.9 Data Protection Requests – The team take an active role in supporting colleagues in other organisations to prevent fraud and tackle criminal activity. During the first half of the year the team have dealt with 14 Data Protection requests from the Police and other authorities.
- 3.10 Covid-19 Business Grants – Work continues on undertaking post verification checks, to include evidence sampling of random cases selected by the Department for Business, Energy and Industrial Standards.
- 3.11 A trial at Chichester Crown Court was heard in December 2021 where a former Lewes District Council tenant was found guilty of two counts of fraud for two separate Right to Buy applications. The sentence hearing was delayed until April 2022 where the judge handed down a 24-month prison sentence for each offence to run concurrently, this is suspended for 24 months. The former tenant was also required to complete 40 hours of unpaid work within 12 months, pay a victim surcharge order and prosecution costs of £15,887.

The Counter-Fraud, Legal and Homes First teams put a significant amount of work into this case which is only the second ever Right To Buy criminal prosecution made by the council.

The property has already been returned to the council following a successful civil court case in 2021 and is now being used by a family with a genuine housing need.

- 3.12 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.

#### **4 Updating Policies**

- 4.1 Work is currently underway to ensure that the suite of policies for Internal Audit and Counter-Fraud are reviewed and updated where appropriate. As these are updated they will be brought to the committee to be considered and approved.
- 4.2 The Public Sector Internal Audit Standards expect the Internal Audit function to hold an Audit Charter which covers the powers, role and authority of the Internal Audit function. The Standards also expect the Charter to be approved by the committee. The Charter has been subject to a review and is therefore brought to the committee for approval. The Audit Charter can be found at Appendix E.
- 4.3 The Public Sector Internal Audit Standards expect Internal Audits to abide by a code of ethics as set out in the Standards. For best practice, Internal Audit hold their own Code of Ethics for Internal Auditors based on the Standards and this has also been reviewed. Whilst bringing this Code to the committee is not required within the Standards, committee are asked to approve the Code to evidence best practice. The Code of Ethics for Auditors can be found at Appendix F.
- 4.4 The committee is requested to consider and approve both the Audit Charter and the Code of Ethics for Internal Auditors.

#### **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**

- 9.1 Not applicable.

**10 Appendices**

- 10.1 Appendix A – List of reports issued during the year
- 10.2 Appendix B – Position of audits requiring follow up
- 10.3 Appendix C – Recommendations outstanding after follow-ups
- 10.4 Appendix D – Counter Fraud savings
- 10.5 Appendix E – Audit Charter
- 10.6 Appendix F – Code of Ethics for Internal Auditors

**11 Background papers**

- 11.1 None.



**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
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	Partial	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	Full	N/A
Contracts Management	03.08.22	Partial	December 22
Rent Sense	15.09.22	Partial	January 23

**Draft Reports Issued In the Current Year That Are Awaiting Responses**

AUDIT	DATE DRAFT ISSUED
Leaseholder Management and Recharges – 4 <sup>th</sup> Follow Up	22.09.22
Members Allowances – 3 <sup>rd</sup> Follow Up	22.09.22
Benefits 2021-22	26.09.22
Furloughing – 1 <sup>st</sup> Follow Up	28.09.22

**Key to assurance levels**

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

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	Partial	24.03.22	Partial	27.06.22	Partial	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			
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						
Use of Social Media	02.02.22	Partial	09.05.22	Full							
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								
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
<p><b>Business Continuity Planning</b></p> <p>November 20</p>	Minimal	4	0	0	11.05.22	<b>Fourth</b>	Substantial	1	0	0	Nov 22	<p>Business Continuity Plans for every department must be completed and adopted as soon as possible.</p> <p>(6 months)</p>	<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
<b>Procurement</b> 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 remit of a supplier with whom the organisation has an outstanding contract.	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
												Where a corporate contract exists these, and no other company, must be used • prompt officers to consider using suppliers already set up on the creditors system for a similar product  (3 months)	
												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.  (6 months)	To date, a meeting has not been arranged.
<b>Leaseholder Management and Recharges</b>  December 2020	Partial	0	3	0	28.06.22	Third	Partial	0	2	0	Draft issued	The Leaseholder Charges, Handbook, Legal and General Leasehold scheme and Permission for Alterations form must be made available on the councils’ website, for LDC Leaseholders.  (6 months)	The first draft was completed in April 2022. We are looking to establish a leaseholder panel that can lead the LDC leaseholder consultations at the moment. If the consultations for the new handbook have not been completed by August, then we will look to publish an interim leaseholder handbook online.

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
												A Leaseholder Handbook must be made available on the council's website.  (6 months)	The first draft was completed in April 2022. We are looking to establish a leaseholder panel that can lead the LDC leaseholder consultations at the moment. If the consultations for the new handbook have not been completed by August, then we will look to publish an interim leaseholder handbook online.
<b>Arrears Collection</b>  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.
<b>Members Allowances</b>  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



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
												All expenditure must be charged to the correct general ledger code. (1 month)	Audit Comment Testing at follow up revealed one claim had been incorrectly coded
Officers Expenses February 2021	Substantial	2	2	11	12.04.22	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>(1 month)</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
												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.  (3 months)	Deputy Chief Finance Officer confirmed that due to unforeseen meeting rearrangements the item was not raised at the last Senior Managers Forum.  Deputy Chief Finance Officer confirmed that it will be added to next meeting's agenda.

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
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
<b>Film Liaison Unit</b> 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 polices 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
<b>Tenancy Housing</b>										
Recovery of council properties	0	£93,000.00	0	0	0	0	0	0	0	£93,000.00
Right To Buy value saved through intervention	0	£335,400.00	0	£174,400.00	0	0	0	0	0	£509,800.00
Housing intervention/fraud	0	0	0	0	0	0	0	0	0	
<b>Revenues</b>										
National Non Domestic Rates	0	0	£15,903.06	0	0	0	0	0	£15,903.06	0
Council Tax	£33,460.07	0	£25,740.67	0	0	0	0	0	£59,200.74	0
Value of ongoing Council Tax increase per week	0	£15,492.16	0	£8,008.64	0	0	0	0	0	£23,500.80
Council Tax Penalties	0	0	0	0	0	0	0	0	0	0
<b>CTR &amp; Housing Benefit</b>										
Council Tax Reduction	0	0		0	0	0	0	0	0	0
Council Tax Reduction weekly incorrect benefit	0	0	0		0	0	0	0	0	0
Housing Benefit	0	0	£295.61	0	0	0	0	0	£295.61	0
Housing Benefit weekly incorrect benefit	0	0	0	£20.80	0	0	0	0	0	£20.80
Income from Administrative penalty collection	0	0	0	0	0	0	0	0	0	0
<b>NFI</b>										
Overpayments identified	0	0	£5,860.75	0	0	0	0	0	£5,860.75	0
Weekly incorrect benefit identified	0	0	0	£14,921.44	0	0	0	0	0	£14,921.44
<b>TOTALS</b>	<b>£33,460.07</b>	<b>£443,892.16</b>	<b>£47,800.09</b>	<b>£197,350.88</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>	<b>£81,260.16</b>	<b>£641,243.04</b>

Appendix D – Quarterly report on Audit and Counter Fraud work

<b>Explanation of Savings Recorded</b>	
<b>Tenancy Housing</b>	
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
<b>Revenues</b>	
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
<b>CTR &amp; Housing Benefit</b>	
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
<b>NFI</b>	
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



# STRONGER together



Lewes District Council



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<b>Document name:</b>	<b>Internal Audit Charter</b>
<b>Document type:</b>	Charter
<b>Authority(ies) covered:</b>	Aligned
<b>Responsible (Executive Lead):</b>	Chief Finance Officer
<b>Accountable (Operational Lead):</b>	Chief Internal Auditor
<b>Version (e.g. first draft, final report):</b>	Final
<b>Approved by:</b>	LDC Audit and Standards Committee and EBC Audit and Governance Committee (September 2021)
<b>Date of publication:</b>	
<b>Revision due:</b>	
<b>Final Equality and Fairness Analysis (EaFA) report approved by:</b>	Not applicable
<b>Date final EaFA report approved:</b>	Not applicable

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## **1. Powers**

- 1.1 The Audit and Standards Committee, Lewes District Council, and the Audit and Governance Committee, Eastbourne Borough Council, (the committees) have established Internal Audit with the authority, purpose, responsibilities and duties as are set out in this Charter.
- 1.2 The committees empower Internal Audit to be able to conduct its work in accordance with the agreed plan, with free and unfettered access to people and information, consistent with the purpose, responsibilities and duties as set out in this Charter and any other matters that may be delegated by the Audit Committee to Internal Audit from time to time.

## **2. Role and Mandate**

- 2.1 Internal Audit is an independent and objective, assurance and consulting activity forming part of the system of governance and internal control.
- 2.2 The primary role of Internal Audit is to help the Corporate Management Team (CMT) and the committees to protect the assets, reputation and sustainability of the councils. Internal Audit will achieve this through assessing whether all significant risks are identified and appropriately reported to CMT and the committees, assessing whether they are adequately controlled and by assisting senior management to improve the effectiveness of governance, risk management and internal controls.
- 2.3 It assists the councils in accomplishing their objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of their risk management, control and governance processes.

## **3. Authority**

- 3.1 Internal Audit, with strict accountability for confidentiality and safeguarding records and information, is authorised full, free and unrestricted access to any of the business records, physical properties and personnel pertinent to carrying out any engagement.
- 3.2 All employees are requested to assist the internal audit activity in fulfilling its roles and responsibilities.

## **4. Organisation**

- 4.1 The Chief Internal Auditor (CIA) will communicate with, and report quarterly, to the audit committees.
- 4.2 The CIA reports functionally to the Chief Finance Officer.
- 4.3 The CIA also has right of access directly to the Chief Executive, the Chairs of the Audit Committees and the Head of Legal Services should this be deemed necessary.
- 4.4 All work undertaken by the audit team is carried out in accordance with the Public Sector Internal Audit Standards.

## **5. Independence and Objectivity**

- 5.1 The internal audit activity will remain free from interference by any element in the organisation, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessarily independent and objective service.
- 5.2 Internal auditors will have no direct operational responsibility or authority over any of the activities audited. They will therefore not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair an internal auditor's judgement.
- 5.3 Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. Internal auditors must not allow themselves to be unduly influenced, by their own interests or by others, in forming judgements.
- 5.4 The CIA will confirm to the audit committees, at least annually, the organisational independence of the internal audit activity.

## **6. Responsibilities**

- 6.1 The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the councils' governance, risk management and internal control processes in relation to the defined goals and objectives.
- 6.2 Internal Audit is responsible for evaluating all processes (Audit Universe) including governance processes and risk management processes with its approach set out in 7 and 8.
- 6.3 Internal Audit may perform consulting and advisory services related to governance, risk management and control as appropriate. Other areas of consultancy may be considered.
- 6.4 Internal Audit is responsible for reporting significant risk exposures and control issues, identified through its work, to the committees.

## **7. Internal Audit Plan**

- 7.1 At least annually the CIA will submit an internal audit plan to the committee to review and approve.
- 7.2 Internal Audit's plan will be risk based and aligned to the councils' objectives where appropriate.
- 7.3 The CIA will report any resourcing limitations within the team, and their impact, to the committees.
- 7.4 The internal audit plan will be developed using the Audit Universe and by identifying areas of risk or current concern. The suggested plan will be considered by CMT before submission to the committees for approval.
- 7.5 Progress against the plan will be reported quarterly to the committees.
- 7.6 The scope of internal audit will include:

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

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

## **8. Reporting and Monitoring**

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

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

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

## **9. Periodic Assessment**

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

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

## **10. Quality Assurance and Improvement Programme**

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

## Appendix E – Quarterly report on Audit and Counter Fraud work

and effectiveness of the internal audit activity and identifies opportunities for improvement.

### **11. Review of the Charter**

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

# STRONGER together



Lewes District Council



Working in partnership with Eastbourne Homes

<b>Document name:</b>	<b>Code of Ethics for Internal Auditors</b>
<b>Document type:</b>	Policy
<b>Authority(ies) covered:</b>	Aligned
<b>Responsible (Executive Lead):</b>	Chief Finance Officer
<b>Accountable (Operational Lead):</b>	Chief Internal Auditor
<b>Version (e.g. first draft, final report):</b>	First Draft Update
<b>Approved by:</b>	
<b>Date of publication:</b>	
<b>Revision due:</b>	
<b>Final Equality and Fairness Analysis (EaFA) report approved by:</b>	Not applicable
<b>Date final EaFA report approved:</b>	Not applicable

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## **CODE OF ETHICS FOR INTERNAL AUDITORS**

### **Introduction**

The Code of Ethics is a comprehensive statement of the values and principles that should guide the daily work of the Internal Audit function.

This code does not supersede or replace the requirements of the councils' terms and conditions of employment or other relevant codes and policies.

### **Code of Ethics**

Internal Auditors are expected to behave ethically and uphold the following principles issued by the Relevant Internal Audit Standard Setters as the Public Sector Internal Audit Standards (PSIAS).

<b>Integrity</b>	the integrity of internal auditors establishes trust and this provides the basis for reliance on their judgement.
<b>Objectivity</b>	internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.
<b>Confidentiality</b>	internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.
<b>Competency</b>	internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.

### **Rules of Conduct**

Internal auditors...

Integrity	<ul style="list-style-type: none"><li>• shall perform their work with honesty, diligence and responsibility</li><li>• shall observe the law and make disclosures expected by the law and the profession</li><li>• shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organisation</li><li>• shall respect and contribute to the legitimate and ethical objectives of the organisation</li></ul>
Objectivity	<ul style="list-style-type: none"><li>• shall not participate in any activity or relationship that may impair or be presumed to impair the unbiased assessment. This participation includes those</li></ul>

- activities or relationships that may be in conflict with the interests of the organisation
- shall not accept anything that may impair or be presumed to impair their professional judgement
  - shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.
- Confidentiality
- shall be prudent in the use and protection of information acquired in the course of their duties
  - shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation
- Competency
- shall engage only in those services for which they have the necessary knowledge, skills and experience
  - shall perform internal audit services in accordance with the Public Sector Internal Audit Standards
  - shall continually improve their proficiency and the effectiveness and quality of their services.

### **Due Professional Care**

Auditors are also expected to exercise due professional care as follows:

#### Principles of due professional care

Due professional care is:

- working with competence and diligence – it does not imply infallibility
- the use of audit skills, knowledge and judgement based on appropriate experience, training (including CPD), ability, integrity and objectivity
- respecting and understanding confidentiality.

Adherence to these standards will contribute to demonstrating that due professional care has been exercised.

#### Responsibilities of the individual auditor

Individual auditors are personally responsible for applying due professional care to their own work and conducting themselves appropriately. They should:

- be fair and not allow prejudice or bias to override objectivity
- declare any interest that could be perceived to be conflicting or could potentially lead to conflict
- not accept any gifts, hospitality, inducements or other benefits for employees, clients, suppliers or other third parties (other than as may be allowed by the organisation's policy)

- use all reasonable care in obtaining sufficient, relevant and reliable evidence on which to base their conclusions, professional judgements and recommendations
- be alert to the possibility of intentional wrongdoing, errors and omissions, poor value for money, failure to comply with management policy and conflicts of interest
- have sufficient knowledge to identify indicators that fraud or corruption may have been committed
- disclose all material facts known to them which, if not disclosed, could distort their reports or conceal unlawful practice, subject to confidentiality requirements
- not use information they obtain in the course of their duties for personal benefit or gain.

#### Responsibilities of the Chief Internal Auditor and Audit Manager

The Chief Internal Auditor and Audit Manager should develop a monitoring and review programme to ensure that due professional care is achieved and maintained.

The Chief Internal Auditor and Audit Manager should ensure that procedures are in place for individual auditors to disclose any suspicions of fraud, corruption or improper conduct.

The Chief Internal Auditor and Audit Manager should make provision to avoid potential conflicts of interest and for the appropriate training and continuing professional development of all internal audit staff.

#### Working Relationships

The work of internal audit means that auditors are involved with a wide range of relationships. The quality of these relationships impacts on the effective delivery of service as well as the reputation and independence of the function.

#### Management

Management (and staff at all levels) need to have confidence in the integrity, independence and capability of internal audit. It is important to build co-operative relationships with management but these must not detract from auditors reporting control issues where necessary. Audit work must be planned in conjunction with management to ensure timings are acceptable unless unannounced visits are necessary. It is also important to keep managers abreast of the ongoing work and any major observations that will be noted in the report.

### Other internal auditors

Where auditors need to work with internal auditors from another organisation the roles and responsibilities of each and the level of reliance on each others work should be agreed.

### External Auditors

Internal audit provides assurance within the councils whereas external audit is responsible for giving an independent opinion on the organisation's financial statements and its use of resources.

There should be mutual recognition and respect leading to a joint improvement in performance. It is also important to avoid any duplication in work. It should be possible for both parties to rely on each other's work thereby enabling them to evaluate, review and only re-perform where necessary.

The Chief Internal Auditor and Audit Manager should meet regularly with a representative of the external auditors to consult on and co-ordinate their plans and discuss how work can be tailored to satisfy each party's responsibilities in areas of common interest.

### Other regulators and inspectors

The Chief Internal Auditor and Audit Manager should seek to establish a dialogue with the agencies that may interact with the organisation, with a view to exchanging relevant information.

### Elected members

The Chief Internal Auditor and Audit Manager must establish and maintain good working relationships and channels of communications with members.

### **The Seven Principles of Public Life**

In addition internal auditors must have regard to the Seven Principles of Public Life which the Committee of Standards of Public Life believes should apply to all the public services. These are:

- Selflessness: holders of public office should act solely in terms of the public interest. They should not do so in order to gain financial or other benefits for themselves, their family or their friends.
- Integrity: holders of public office should not place themselves under any financial or other obligation to outside individuals or organisations that might seek to influence them in the performance of their official duties.
- Objectivity: in carrying out public business, including making public appointments, awarding contracts, or recommending individuals for rewards and benefits, holders of public office should make choices on merit.

Appendix F – Quarterly Report on Audit and Counter Fraud work

- Accountability: holders of public office are accountable for their decisions and actions to the public and must submit themselves to whatever scrutiny is appropriate to their office.
- Openness: holders of public office should be as open as possible about all the decisions and actions that they take. They should give reasons for their decisions and restrict information only when the wider public interest clearly demands.
- Honesty: holders of public office have a duty to declare any private interests relating to their public duties and to take steps to resolve any conflicts arising in a way that protects the public interest.
- Leadership: holders of public office should promote and support these principles by leadership and example.

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<b>Report to:</b>	<b>Audit and Standards Committee</b>
<b>Date:</b>	<b>14 November 2022</b>
<b>Title:</b>	<b>Strategic Risk Register quarterly review</b>
<b>Report of:</b>	<b>Chief Internal Auditor</b>
<b>Ward(s):</b>	<b>All</b>
<b>Purpose of report:</b>	<b>To report to Committee the outcomes of the quarterly review of the register by Corporate Management Team.</b>
<b>Officer recommendation(s):</b>	<b>To receive and note the update to the Strategic Risk Register.</b>
<b>Reasons for recommendations:</b>	<b>The Council is committed to proper risk management and to regularly updating the committee with regard to the Strategic Risk Register.</b>
<b>Contact Officer(s):</b>	<b>Name: Jackie Humphrey Post title: Chief Internal Auditor E-mail: <a href="mailto:Jackie.humphrey@lewes-eastbourne.gov.uk">Jackie.humphrey@lewes-eastbourne.gov.uk</a> Telephone number: 01323 415925</b>

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## **1 Introduction**

- 1.1 The Strategic Risk Register is a high level document that records the key risks facing the council: those risks that would prevent the authority from achieving its overall strategies and objectives.
- 1.2 Maintaining the Strategic Risk Register is a vital part of the governance arrangements of the authority and, as such, it is overseen by the Corporate Management Team who review it on a quarterly basis.
- 1.3 The risk register shows the risk, a description of the risk, the risk score if no action is taken (original risk score), the internal controls put in place to mitigate the risk and the risk score after these controls are in place (current risk score).
- 1.4 The risk register is brought to the committee when any changes have been made to it following review by the Corporate Management Team.

## **2 Process**

- 2.1 The Strategic Risk Register is the top level of the risk management process. Whilst the Strategic Risk Register is considered quarterly at the Corporate Management Team, this is simply a review of the register itself.
- 2.2 There are many different risks and pieces of work that feed into the Strategic Risk Register. These are managed and monitored on a day to day basis within the relevant sections and departments.
- 2.3 The quarterly meeting of the Corporate Management Team to discuss the Strategic Risk Register allows the relevant Director/Assistant Director to provide feedback on risks in their area. This information is then used to consider changes that may need to be made to the Strategic Risk Register.

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

### **3 August 2022 Review**

3.1 The Strategic Risk Register was taken to Corporate Management Team on 24<sup>th</sup> August 2022 for the quarterly review.

3.2 SR\_022 – “Changes to the economic environment makes the council economically less stable”. Corporate Management Team considered the wording of the description number 4. “Covid 19 has had a serious impact on the council’s finances”. It is felt that the greater threat to council finances is now from the issues of the slowing economy and rising inflation. The wording has therefore been altered to read, “Inflation affecting council costs is having a significant impact on the council’s finances”.

3.3 SR\_024 – “The employment market provides unsuitable employment base for the needs of the organisation”. Corporate Management Team are aware of there being a general issue with recruitment across all sectors currently. The effect of this has become more noticeable to the council. This risk has therefore been fully reviewed and the following amendments have been made to update the information.

- The risk description was “Employment market unable to fulfil recruitment and retention requirements of the council resulting in a decline in performance standards and an increase in service costs”. This has been altered to read, “Employment market unable to fulfil recruitment, and council unable to retain staff, resulting in a decline in performance standards and an increase in service costs”.
- A new internal control has been added to reflect the current steps being taken. This reads “Maximising flexibility around recruitment and retention”.
- It was decided to increase the likelihood score from 3 (likely) to 5 (almost certain) but it was felt that the impact should remain at (moderate).

3.4 SR\_027 – “Council materially impacted by the medium to long-term effects of an event under the Civil Contingencies Act”. The Committee raised questions around this risk and Corporate Management Team discussed these and considered that the mitigating actions listed and agreed to add two more. These are:

“Funds set aside to help fund responses to an event” and “Working with the Environment Agency on climate change measures”.

3.5 The changes can be seen on the Strategic Risk Register at Appendix A.

### **4 Financial appraisal**

4.1 There are no financial implications arising from this report.

### **5 Legal implications**

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



**6 Risk management implications**

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

**7 Equality analysis**

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

**8 Appendices**

- 8.1 Appendix A - Strategic Risk Register

**9 Background papers**

- 9.1 None.

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# Strategic Risk Register (Lewes)



**Report Type:** Risks Report  
**Generated on:** 31 August 2022

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

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Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
SR_021	No political and partnership continuity/consensus with regard to organisational objectives.	Sudden changes of political objectives at either national or local level renders the organisation, its current corporate plan and Medium-Term Financial Strategy, unfit for purpose.	4	4	16	<u>Reduces Likelihood</u> 1. Create inclusive governance structures which rely on sound evidence for decision making.  <u>Reduces Impact</u> 2. Annual review of corporate plan and Medium-Term Financial Strategy.  3. Creating an organisational architecture that can respond to changes in the environment.	Chief Executive	2	3	6	Amber	01-Nov-2022

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
SR_022	Changes to the economic environment makes the council economically less sustainable.	<ol style="list-style-type: none"> <li>1. Economic development of the district suffers.</li> <li>2. Council objectives cannot be met.</li> <li>3. Council will need to provide a new service for inspecting imports at the port.</li> <li>4. Inflation affecting council costs is having a significant impact on the council's finances.</li> <li>5. The council's Recovery and Stabilisation programme fails to meet its objectives.</li> <li>6. Rising energy prices and inflation affecting the cost of living will affect the ability of customers to pay rent and council tax.</li> </ol>	5	5	25	<p><u>Reduces Impact</u></p> <ol style="list-style-type: none"> <li>1. Robust Medium-Term Financial Strategy reviewed annually and monitored quarterly. Refreshed in line with macroeconomic environment triennially.</li> <li>2. Creating an organisational architecture that can respond to changes in the environment.</li> <li>3. Working with the port authority to provide support, advice and to help explore funding options.</li> </ol> <p><u>Reduces Likelihood</u></p> <ol style="list-style-type: none"> <li>5. Regular monitoring of the progress and outcomes of the Recovery and Stabilisation programme.</li> </ol>	Chief Finance Officer	4	5	20	Red	01-Nov-2022
SR_023	Unforeseen socio-economic and/or demographic shifts creating significant	<ol style="list-style-type: none"> <li>1. Unsustainable demand on services.</li> <li>2. Service failure.</li> </ol>	5	5	25	<p><u>Reduces Likelihood and Impact</u></p> <ol style="list-style-type: none"> <li>1. Grounding significant corporate decisions based on up-to-date, robust, evidence</li> </ol>	Director of Service Delivery	3	3	9	Amber	01-Nov-2022

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
	changes of demands and expectations.	<p>3. Council structure unsustainable and not fit for purpose.</p> <p>4. Heightened likelihood of fraud.</p> <p>5. Failure to support Newhaven Port Authority in the changes could result in an economic downturn in the town.</p>				<p>base. (e.g. Census; Corporate Plan Place Surveys; East Sussex in Figures data modelling).</p> <p>2. Ensuring community and interest group engagement in policy development (e.g. Neighbourhood Management Schemes; Corporate Consultation Programme).</p> <p>3. Working with the Port Authority to provide support, advice and to help explore funding options.</p>						
SR_024	The employment market provides unsustainable employment base for the needs of the organisation.	Employment market unable to fulfil recruitment, and council unable to retain staff, resulting in a decline in performance standards and an increase in service costs.	4	4	16	<p><u>Reduces Likelihood</u></p> <p>1. Changes increase non-financial attractiveness of the council to current and future staff.</p> <p>2. Appropriate reward and recognition policies reviewed on a regular basis.</p> <p><u>Reduces Likelihood and Impact</u></p> <p>3. Pursuit of mutually beneficial shared service arrangements.</p> <p>4. Maximising flexibility around recruitment and retention</p>	Asst Director for HR and Transformation	5	2	10	Amber	01-Nov-2022

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
SR_025	Not being able to sustain a culture that supports organisational objectives and future development.	<ol style="list-style-type: none"> <li>1. Decline in performance.</li> <li>2. Higher turnover of staff.</li> <li>3. Decline in morale.</li> <li>4. Increase in absenteeism.</li> <li>5. Service failure.</li> <li>6. Increased possibility of fraud.</li> <li>7. The council's Recovery and Stabilisation programme fails to meet its objectives.</li> </ol>	4	4	16	<p><u>Reduces Likelihood</u></p> <ol style="list-style-type: none"> <li>1. Build an organisational culture that supports equality and inclusivity through communication and support.</li> </ol> <p><u>Reduces Likelihood and Impact</u></p> <ol style="list-style-type: none"> <li>2. Continue to develop our performance management capability to ensure early intervention where service and/or cultural issues arise.</li> <li>3. Continue to develop communications through ongoing interactions with staff.</li> <li>4. Regular monitoring of the progress and outcomes of the Recovery and Stabilisation programme.</li> </ol>	Asst Director for HR and Transformation	3	4	12	Amber	01-Nov-2022
SR_026	Council prevented from delivering services for a prolonged period of time.	<ol style="list-style-type: none"> <li>1. Denial of access to property.</li> <li>2. Denial of access to technology/information.</li> <li>3. Denial of access to people.</li> </ol>	5	5	25	<p><u>Reduces Likelihood</u></p> <ol style="list-style-type: none"> <li>1. Adoption of best practice IT and Asset Management policies and procedures.</li> </ol> <p><u>Reduces Likelihood and Impact</u></p> <ol style="list-style-type: none"> <li>2. The council has created a more flexible, less locationally dependent service architecture.</li> </ol>	Chief Executive	2	4	8	Amber	01-Nov-2022

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
						<u>Reduces Impact</u> 3. Regularly reviewed and tested Business Continuity Plans and updated contingency plans actioned.  4. Regularly reviewed and tested Disaster Recovery Plan.						
SR_027	Council materially impacted by the medium to long term effects of an event under the Civil Contingencies Act.	1. Service profile of the council changes materially as a result of the impact of the event. 2. Cost profile of the council changes materially as a result of the impact of the event. 3. Work adversely affected by reduced staff numbers owing to effects of pandemic virus. 4. Emergency caused by a climate change event (e.g. increased flooding risks)	5	5	25	<u>Reduces Likelihood and Impact</u> 1. Working in partnership with other public bodies. 2. Robust emergency planning and use of council's emergency powers. 3. Working with the Environment Agency on climate change measures  <u>Reduces Impact</u> 4. Ongoing and robust risk profiling of local area (demographic and geographic). 5. Review budget and reserves in light of risk profile. 6. Funds set aside to help fund responses to an event.	Chief Executive	2	3	6	Amber	01-Nov-2022

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
						<u>Reduces Likelihood</u> 7. Adoption of, and action taken to implement, the council's Climate Change and Sustainability Strategy.						
SR_028	Failure to meet regulatory or legal requirements.	1. Trust and confidence in the council is negatively impacted. 2. Deterioration of financial position as a result of regulatory intervention/penalties. 3. Deterioration of service performance as a result of regulatory intervention/penalties.	3	4	12	<u>Reduces Likelihood</u> 1. Developing, maintaining and monitoring robust governance framework for the council. 2. The council has adopted and published an Asset Management Strategy (AMS) that set out how the council uses its land and property assets effectively to deliver its service and the rules by which the council can purchase assets in the future. These strategies are updated on a yearly basis as part of the Capital and Medium-Term Financial Strategies. 3. Ensure there is full understanding the impact of new legislation. 4. All managers are required to abide by the council's procurement rules.	Chief Executive	2	4	8	Amber	01-Nov-2022



Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
						<p><u>Reduces Likelihood and Impact</u></p> <p>5. Building relationships with regulatory bodies.</p> <p>6. Develop our Performance Management capability to ensure early intervention where service and/or cultural issues arise.</p> <p>7. Ensure that fire risk regulations are adhered to and that Fire Risk Assessments are regularly reviewed.</p>						
SR_029	Commercial enterprises and investments do not deliver financial expectations or do not meet governance requirements.	<p>1. Unfamiliar activity with staff inexperienced in this area</p> <p>2. Council finances affected if projects do not meet financial expectations.</p> <p>3. Reputational damage if governance procedures are inadequate.</p> <p>4. Failure to abide by company law.</p>	5	5	25	<p><u>Reduces Likelihood</u></p> <p>1. Hire suitably qualified/experienced staff to give legal and specialist support.</p> <p>2. Up, or re, -skill staff to maximise commercial opportunities.</p> <p><u>Reduces Likelihood and Impact</u></p> <p>3. Ensure that projects meet core principles.</p> <p>4. Ensure governance processes are set up and adhered to.</p>	<p>Director of Regeneration and Planning</p> <p>And</p> <p>Chief Executive</p>	3	3	9	Amber	01-Nov-2022

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
SR_030	The council suffers a personal data breach by inadequate handling of data or by an IT incident.	1. Trust and confidence in the council is negatively impacted. 2. Deterioration of financial position as a result of regulatory intervention/penalties. 3. Deterioration of service performance as a result of regulatory intervention/penalties. 4. Increased probability of compensation claims by persons affected by a personal data breach.	3	4	12	<u>Reduces Likelihood</u> 1. Ongoing corporate training for data protection. 2. Ensure all staff complete the e-learning Data Protection course. 3. Ensure that the Data Protection Policy is regularly reviewed. 4. Ensure the Data Protection Officer is afforded the resources to discharge their statutory functions. 5. Ensure that managers regularly remind staff of their responsibilities under data protection, including personal data breach reporting arrangements. 6. Ensure the suite of IT policies is kept up to date. 7. Ensure that IT security is in place and regularly tested. <u>Reduces Impact</u> 8. Incident management procedures to mitigate loss or breach of data are in place.	Chief Executive	2	4	8	Amber	02-Aug-2022

<b>Report to:</b>	<b>Audit and Standards Committee</b>
<b>Date:</b>	<b>14 November 2022</b>
<b>Title:</b>	<b>Amendment to the Annual Governance Statement 2021-22</b>
<b>Report of:</b>	<b>Chief Internal Auditor</b>
<b>Ward(s):</b>	<b>All</b>
<b>Purpose of report:</b>	<b>To seek the Committee's approval of the amended Annual Governance Statement for 2021-22.</b>
<b>Officer recommendation(s):</b>	<b>To comment and approve the amended Annual Governance Statement for 2021-22.</b>
<b>Reasons for recommendations:</b>	<b>To meet the Council's legal requirement to produce an Annual Governance Statement.</b>
<b>Contact Officer(s):</b>	<b>Name: Jackie Humphrey</b> <b>Post title: Chief Internal Auditor</b> <b>E-mail: <a href="mailto:jackie.humphrey@lewes-eastbourne.gov.uk">jackie.humphrey@lewes-eastbourne.gov.uk</a></b> <b>Telephone number: 01323 415925</b>

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## **1 Introduction**

1.1 Corporate governance involves everyone in local government. Two definitions are:

“Ensuring the organisation is doing the right things, in the right way, for the right people, in an open, honest, inclusive and timely manner” – Audit Commission.

“How the local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. It comprises the systems and processes, and cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities.” – CIPFA/SOLACE

1.2 The council has a legal requirement to produce an Annual Governance Statement each year in accordance with the Accounts and Audit Regulations, 2015. The statement accompanies the Statutory Statement of Accounts once adopted.

1.3 The Audit and Standards Committee is tasked with overseeing the risk management, internal control and reporting to the council. A key component of this work is to approve the Annual Governance Statement.

## **2 Background**

2.1 The Annual Governance Statement was brought to the committee in July and was agreed. However, following the meeting, it was noted that in updating and trying to improve the layout, a couple of paragraphs had been missed out of the new version. For this reason, the amended Annual Governance Statement has been brought back to the committee for review and approval.

## **3 Missing Paragraphs**

3.1 Both missing paragraphs are from the section “Review of Effectiveness” which begins on page six of the Annual Governance Statement.

- 3.2 The first paragraph is “Managing the Risk of Fraud and Corruption”. This paragraph explains five principles of the Code of Practice on Managing the Risk of Fraud and Corruption (Cipfa) and includes a brief statement on how these are met.
- 3.3 The second paragraph is the “Financial Management Code”. Local authorities are expected to disclose compliance with the Financial Management Code and identify any outstanding areas for improvement or change.
- 3.4 These paragraphs have been reinstated and can be found in the attached, updated Annual Governance Statement.

#### **4. Improving the Process**

- 4.1 Historically, there has been limited input to the Annual Governance Statement, with reliance being placed on the Chief Internal Auditor to check for relevant updates from senior management.
- 4.2 For the 2022-23 Annual Governance Statement, some new processes are being put in place to ensure that there is better input into collating information. Regular quarterly meetings have been set up with the Head of Legal Services and Monitoring Officer, the Head of Democratic Services, and the Governance and Compliance Head and Group Company Secretary. A meeting has also been set up with the Deputy Chief Finance Officer toward the end of the year to discuss financial issues and the Financial Management Code. Other meetings will be set up with appropriate managers to discuss any other areas necessary.

#### **5 Actions**

- 5.1 The changes referred to in paragraph 3 have been highlighted on the attached, amended, Annual Governance Statement.
- 5.2 The committee is asked to review and consider these updates and approve the amended Annual Governance Statement.
- 5.3 Once agreed, the statement will be passed to the Leader and the Chief Executive to sign. Once signed the statement will be published on the council’s website.

#### **6 Financial appraisal**

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

#### **7 Legal implications**

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

#### **8 Risk management implications**

- 8.1 Failure to produce an Annual Governance Statement, and to maintain proper assurance arrangements to support its production, can reduce the likelihood of the council meeting its objectives, and attract criticism from the council’s stakeholders and the council’s external auditor. The Audit and Standards Committee review of the Annual Governance Statement significantly reduces these risks.

#### **9 Equality analysis**

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

**10 Environmental sustainability implications**

10.1 Not applicable.

**11 Appendices**

11.1 Appendix 1 - Annual Governance Statement

**12 Background Papers**

12.1 None.

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**Lewes District Council**

## **Annual Governance Statement**

### **Responsibility**

Lewes District Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards. It also needs to ensure that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

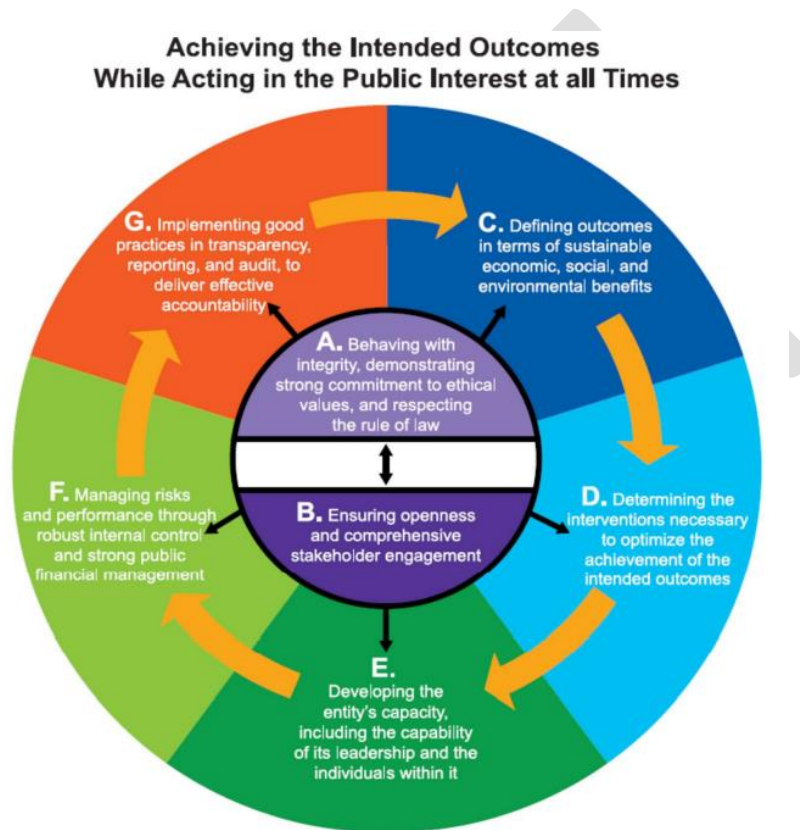
In discharging this overall responsibility, the council is required to put in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

### **What is governance?**

Governance is about how the council ensures that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. It comprises the systems, processes, cultures and values by which the council is directed and controlled and through which they account to, engage with and, where appropriate, lead their communities.

Lewes District Council has approved and adopted a Local Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE<sup>1</sup> Framework *Delivering Good Governance in Local Government*. A copy of the code is available on the website ([www.lewes-eastbourne.gov.uk/access-to-information/financial-information/corporate-governance](http://www.lewes-eastbourne.gov.uk/access-to-information/financial-information/corporate-governance) )

The principles of good governance are given in the CIPFA/SOLACE *Delivering Good Governance in Local Government Framework 2016* from which the following diagram is taken.



Source: CIPFA 2016

The Code of Corporate Governance contains a table which demonstrates how the council meets the core principles.



## The purpose of the governance framework

The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and its activities through which it is accountable to, engages with and leads its communities. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable, and not absolute, assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the council's policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively and economically.

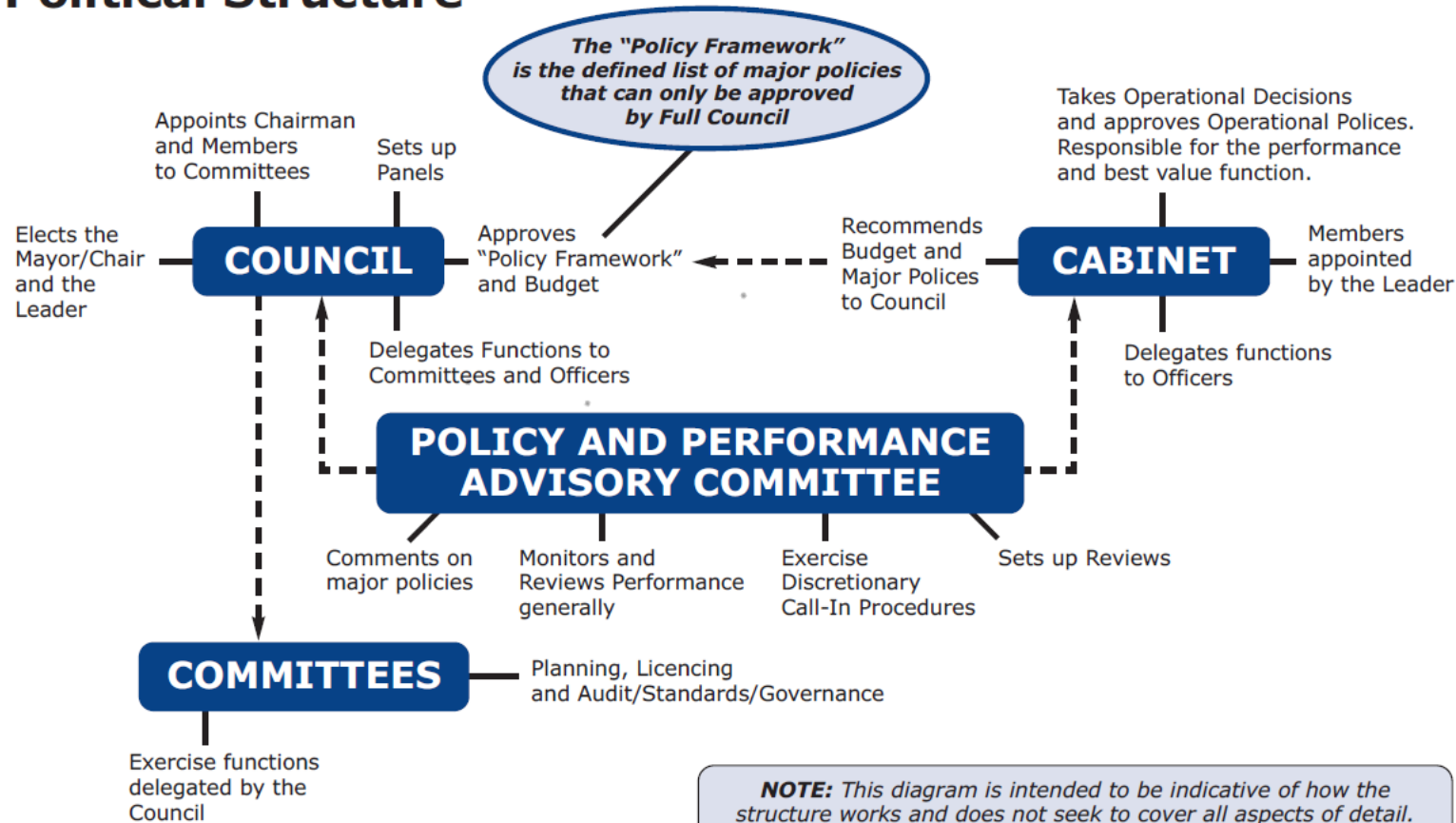
The production of this Annual Governance Statement forms part of the governance framework by providing a review of the governance arrangement in operation during the financial year.

## The Governance Framework

The diagram on the next page shows how the political structure of the council works and interacts.

# How it Works...

## The Modernised Political Structure



## Roles and Responsibilities

### Head of Internal Audit

The head of internal audit (Chief Internal Auditor) provides an independent opinion on the control environment. This is based on the work of the internal audit team in delivering a risk-based audit plan of a breadth sufficient for the head of internal audit to place reliance on it to base their opinion on.

### Monitoring Officer

The Head of Legal Services has been designated as the Monitoring Officer. The Monitoring Officer has the duty to ensure that the council, its officers and its elected Councillors, maintain high standards of conduct.

### Chief Finance Officer

The Chief Finance Officer has been designated as the s.151 Officer. They are responsible for ensuring that the council controls and manages its money efficiently.

## Scrutiny and Review

Scrutiny and review is provided by the following:

### Audit and Standards Committee

The committee provides assurance by carrying out independent scrutiny of areas such as audit, risk management, counter fraud and financial accountability. It does this by way of reviewing reports provided to its quarterly meetings.

For more information see: <https://democracy.lewes-eastbourne.gov.uk/mgCommitteeDetails.aspx?ID=423>

### Policy and Performance Advisory Committee

The committee reviews the delivery of services and performance and supports the work of the Cabinet and Council. It allows Councillors outside the Cabinet, and members of the public, to have a greater say in council matters by investigating issues of local concern.

For more information see: <https://democracy.lewes-eastbourne.gov.uk/mgCommitteeDetails.aspx?ID=641>

**Cabinet**

The Cabinet is responsible for most day-to-day decisions of the council. Each member is assigned a portfolio identifying areas of responsibility for which they provide a political lead at Cabinet meetings and for working in consultation with officers.

For more information see: <https://democracy.lewes-eastbourne.gov.uk/mgCommitteeDetails.aspx?ID=417>

**Corporate Management Team**

The team provides strategic management and planning. The team also considers the annual Internal Audit plan, Strategic Risk Register and Annual Governance Statement.

**External Audit**

The external auditors audit the financial statements and provide an opinion on these. They produce an Annual Audit Letter which assesses how the council manages its resources and delivers value for money.

**Review of Effectiveness**

The council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior managers within the authority who have responsibility for the development and maintenance of the governance environment, the head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

The governance framework has been in place at the council for the year ended 31 March 2022.

One element used to gain assurance is information gathered from Managers' Assurance Statements. These statements contain questions based on the core principles of good governance as well as other areas such as safeguarding, the Bribery Act and the Regulation of Investigatory Powers Act. These are completed by senior managers and any issues raised are considered.

**Opinion of the Chief Internal Auditor**

The work of the Internal Audit team was impacted by carrying a vacancy and the absence of a team member for an extended period of time at the beginning of the year. Later in the year, the restructure in the team led to a vacancy while a new position was filled. This impacted the audit plan and reduced the number of audits that could be undertaken during the year. However, it is considered that there were still a reasonable number of reviews carried out across the authority and did not significantly limit the scope of the work.

The Chief Internal Auditor is required to give an opinion of the overall adequacy and effectiveness of the control environment. The control environment is considered in three ways: the production of the Annual Governance Statement the effectiveness of Internal Audit, and the results of the work of Internal Audit.

Effectiveness of Internal Audit: A self-assessment against the Public Sector Internal Audit Standards has been carried out and shows that the work of the Internal Audit team is carried out in accordance with the standards.

The work of Internal Audit: It has been noted that a number of recommendations remain outstanding after following up reviews. Many of these are being affected by ongoing lack of resources. This appears to have been caused by the response to the Covid-19 pandemic, changes in staffing, and an inability to be able to fill vacancies in some areas.

While the governance framework is in place and working, and Internal Audit are carrying out their work in accordance with standards, the opinion on the control environment has to be caveated by the number of outstanding recommendations.

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

The CIPFA Code of Practice on Managing the Risk of Fraud and Corruption and guidance suggests it is good practice to make a statement on the adequacy of an authority's counter fraud arrangements in the annual governance statement.

This code contains five principles:

- Acknowledge responsibility
- Identify risks
- Develop a strategy
- Provide resources
- Take action

The Chief Internal Auditor is satisfied that the council meets these principles by having a Counter-Fraud and Audit team who review risks across the authority and direct their work as appropriate. It is therefore considered that the organisation has adopted a response that is appropriate for its fraud and corruption risks and commits to maintain its vigilance to tackle fraud and uphold its zero tolerance.

### **Financial Management Code**

The CIPFA (Chartered Institute of Public Finance and Accountancy) Financial Management (FM) Code's intention is to help create a culture of strong financial management and address the financial pressures that councils are facing. The self-regulation approach is

also to prevent local authorities ‘failing’ and avoid any need for any external control or reductions in current powers. By complying with the principles and standards within the Code, the council will be able to demonstrate its financial sustainability.

In 2021/22 the Chief Finance Officer (S151) has taken account of the requirements of the CIPFA Financial Management Code and has acknowledged the approaches to Value for Money and the council’s financial resilience. A significant amount of the Code activities implementation are part of the Finance, Internal Audit, and other department team’s current activities and the Section 151 Officer has reached the overall conclusion that the Lewes District Council is compliant with the principles of the Code.

The Chief Finance Officer has identified the council’s long-term financial viability as the key risk area regarding future compliance with the Code and this is being assessed through a combination of: the budget setting process; the Medium Term Financial Strategy; regular reviews of the council’s capital programme; Treasury Management Strategy and the provision of clear and regular financial updates/training to Members. The council has a satisfactory record of financial management and so, analysing the council’s structures, processes and procedures against the FM Code’s Financial Management Standards, shows a reasonable level of compliance with these principles. However, there are areas where further actions/consideration needs to be given to ensure full compliance with every aspect of the FM Code.

### Companies

The council is also expected to report on separate bodies set up by the council and to give a full picture of the relationship with those bodies. The following table gives the details of these bodies and, where appropriate, it includes a link to where information can be found in respect of information such as reports and accounts.

Name and incorporation date (where appropriate)	Current Status and summary purpose	Categorisation (Company number and nature where appropriate)	Governance and Board make up	Council shareholder interest where appropriate	Notes
Aspiration Homes LLP (Limited Liability Partnership)	Incorporated on 30 June 2017.  To ensure the councils have the overall capacity to maximise housing investment and funding opportunities. To act as the asset holding vehicle for affordable housing properties that cannot, for financial accounting or other reasons be held in EBC or LDC	Limited Liability Partnership LDC and EBC  Company number: OC41800	Governed by LLP Agreement and an Executive Committee of 6 - made up of 3 elected members from each authority.	<b>Lewes District Council</b> Ownership of voting rights - More than 25% but not more than 50% Right to surplus assets - More than 25% but not more than 50%  <b>Eastbourne Borough Council</b>	Aspiration Homes will act as the asset holding vehicle for affordable housing properties developed through the EHICL and LHICL commercial development programmes. Support has included a £10 million loan to be funded from borrowing by LDC to Aspiration Homes LLP. <a href="http://www.lewes-eastbourne.gov.uk/about-the-councils/wholly-owned-companies-and-other-incorporated-entities">www.lewes-eastbourne.gov.uk/about-the-councils/wholly-owned-companies-and-other-incorporated-entities</a>

Name and incorporation date (where appropriate)	Current Status and summary purpose	Categorisation (Company number and nature where appropriate)	Governance and Board make up	Council shareholder interest where appropriate	Notes
	respective Housing Revenue Accounts.			Ownership of voting rights - More than 25% but not more than 50% Right to surplus assets - More than 25% but not more than 50%	
Lewes Housing Investment Company Ltd (LHICL) (4 July 2017)	Company Active  To undertake more commercial development, place shaping activities and hold associated respective assets, in a way which meets legal and regulatory requirements and ensures that the council has distinct control over such assets.	Company LDC only  Company number: 10848011	Governed by Articles of Association and a Board of 5 directors made up of senior staff and Elected Members from Lewes District Council.	Wholly owned by Lewes District Council	To enable the council to undertake non HRA development and use associated forms of tenancies  <a href="http://www.lewes-eastbourne.gov.uk/about-the-councils/wholly-owned-companies-and-other-incorporated-entities">www.lewes-eastbourne.gov.uk/about-the-councils/wholly-owned-companies-and-other-incorporated-entities</a>

### Managers' Assurance Statements

One of the sources of assurance for the Annual Governance Statement should come from Senior Managers responsible for the operation, management and monitoring of controls within their area of responsibility. The Managers' Assurance Statement is intended to collect this assurance by covering operational, project and partnership responsibilities as well as the Bribery Act, Safeguarding, Regulation of Investigatory Powers Act. The senior manager can highlight concerns and the necessary actions required to improve governance. Assurance statements are sent out to Directors, Assistant Directors and Heads of Service. Once completed their contents are used to inform the governance statement.

Issues raised this year that were considered by the Corporate Management Team were:

**Capacity:** It was noted that there is a shortage of workers in the employment market that is affecting all sectors and is a national issue. Where demand has increased over Covid, these teams have been given increased resources. The employment market is also monitored with consideration given to collaboration and partnerships working to further navigate these national challenges.

**Economy:** In response to the financial implications of the response to the Covid pandemic, early engagement with the Department for Levelling Up, Housing and Communities, regular return of all financial information, close working of cashflow transactions, cost controls, regular member briefings and engagements have all been put in place. Transactional changes and solutions to financial shortfalls are in place and are expected to be continued.

The Corporate Management team are therefore of the opinion that there are no significant governance issues. However, it is acknowledged that the following areas are of considerable concern:

- Longer term impact of the pandemic on the council's finances
- Longer term local government funding allocation
- Increasing demand for key services

The council maintains a strategic risk register and carries out regular reviews of its internal controls to ensure early prevention and/or mitigation of risks and governance concerns.

#### **Statement by Head of Democratic Services**

One minor governance issue is that, on occasions, there is a lack of understanding over delegated powers currently available to officers. However, the scheme of delegation and council constitutions continue to be reviewed and aligned to improve clarity, wherever possible. As Head of Democratic Services, I am not aware of any major governance issues in my area or elsewhere in the organisation.

#### **Statement by the Monitoring Officer**

Work is underway to align the schemes of delegation to officers. In addition, there is a piece of work to incorporate into the Code of Conduct for Members, the best elements of the Local Government Association's model code. This is at an early stage and may not be complete until the end of 2022/23. In the meantime, there is nothing inherently inadequate or defective with the existing code (in so far as legislation allows). Whilst the amendments planned will be improvements, the current state of affairs does not represent a significant governance issue.

#### **Covid-19 pandemic**

2020-21 was the second year of the Covid-19 pandemic. The council again faced a loss of income and cost pressures. However, financial management and the control environment provided a sound structure to mitigate risks.



**UPDATE ON SIGNIFICANT GOVERNANCE ISSUES 2020/21**

No significant issues were reported in 2020/21.

**SIGNIFICANT GOVERNANCE ISSUES 2021/2022**

There are no significant governance issues to report.

**STATEMENT**

We have been advised on the implications of the result of the review of effectiveness of the governance framework by the Audit and Standards Committee and that, subject to the actions identified above, the arrangements continue to be regarded as fit for purpose in accordance with the governance framework.

Signed on behalf of Lewes District Council:

.....  
Leading Member

.....  
Chief Executive

Date:

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