

# Audit and Governance Committee 12 July 2022



Working in partnership with **Eastbourne Homes**

**Time and venue:**

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

**Membership:**

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

**Quorum: 2**

*Published: Monday, 4 July 2022*

## Agenda

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

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

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

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

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

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

**5 Urgent items of business.**

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

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

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

**7 External Audits Update**

Verbal report of the External Auditor, Deloitte, regarding Statement of Accounts 2019/2020 and 2020/2021.

- 8 Strategic Risk Register Quarterly review (Pages 11 - 22)**  
Report of the Chief Internal Auditor.
- 9 Arrears Collection Update**  
A verbal report of the Director of Service Delivery.
- 10 Internal Audit and Counter Fraud Quarterly Review (Pages 23 - 48)**  
Report of the Chief Internal Auditor.
- 11 Annual Governance Statement (Pages 49 - 80)**  
Report of the Chief Internal Auditor.
- 12 Treasury Management Annual Report 2021/22 (Pages 81 - 102)**  
Report of the Chief Finance Officer.
- 13 Date of next meeting**

## **Information for the public**

### **Accessibility:**

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

### **Filming/Recording:**

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### **Public participation:**

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

## **Information for Councillors**

### **Disclosure of interests:**

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

In the case of a disclosable pecuniary interest (DPI), if the interest is not registered (nor the subject of a pending notification) details of the nature of the interest must be reported

to the meeting by the member and subsequently notified in writing to the Monitoring Officer within 28 days.

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

**Councillor right of address:**

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

## **Democratic Services**

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

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## **Audit and Governance Committee**

**Minutes of meeting held in Court Room at Eastbourne Town Hall, Grove Road, BN21 4UG on 2 March 2022 at 6.00 pm.**

### **Present:**

Councillor Robin Maxted (Chair).

Councillors Amanda Morris (Deputy-Chair), Md. Harun Miah and Kshama Shore.

### **Officers in attendance:**

Lee Ewan (Counter Fraud Investigations Manager), Jackie Humphrey (Chief Internal Auditor) and Ola Owolabi (Deputy Chief Finance Officer (Corporate Finance)).

**Also in attendance:** Ben Sheriff and Niren Ramkhelawon (External Auditor, Deloitte)

### **45 Minutes**

Minutes of the last meeting held on 12 January 2022 were confirmed as an accurate record.

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

Apologies were received from councillors Choudhury, Diplock and Freebody and from Chief Finance Officer, Homira Javadi.

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

There were none.

### **48 Questions by members of the public.**

The Chair confirmed that no questions had been received.

### **49 Urgent items of business.**

There were none.

### **50 Right to address the meeting/order of business.**

There were no requests.

**51 Annual External Audit Letter 2018/19**

Ola Owolabi, Deputy Chief Finance Officer (DCFO) explained that the purpose of the report was for the External Auditor to present the formal Annual Audit Letter for 2018/19, which was required on completion of an audit.

The DCFO noted that the report contained no new findings or recommendations, and only reflected issues already reported within the 2018/19 External Audit Report to the Audit and Governance Committee. The Annual Audit Letter would be published on the Council's website.

The Chair thanked the DCFO and invited comments from Members.

Members sought clarification from Deloitte regarding the reasons for delays in delivering the audit opinions. Deloitte confirmed that, in its view, the delays of the 2018/19 audit were due partly to the quality and lateness of the initial presentation of accounts, including details of the ICE transaction, but that subsequent issues of resourcing at Deloitte had then further contributed to the delays. Deloitte noted that it had been a challenging set of circumstances for the Council.

**Resolved (unanimously)**

To note the report.

**52 External Audits Update 2019/20 and 2020/21**

Ola Owolabi, Deputy Chief Finance Officer (DCFO) introduced the verbal update report from Ben Sheriff, Director, Audit and Assurance, Deloitte LLP, and requested that the update include an explanation of Deloitte's position on why the Annual Audit Draft Plan for 2021/22 was not being presented to the meeting.

Mr. Sheriff explained it was Deloitte's opinion that, until the 2020 audit had been completed and the 2021 audit was at a significantly advanced stage, it was not an appropriate use of resources to spend time preparing a Draft Plan for 2021/22, particularly as the Draft Plan should be informed by the findings of previous audits.

Mr. Sheriff reported that work had started on the 2019/ 2020 Audit. Progress was affected by the resourcing challenge being faced by the profession across all sectors, but particularly the public sector, and noted that 12% of Local Authorities had their 2019/20 Audits pending.

Mr. Sheriff confirmed that Deloitte had given the Council's 2019/20 audit a reasonably high priority status for resource allocation but could not commit to a completion date.

Members requested clarification of the reasons for the delays and requested confirmation that Deloitte had the information needed to proceed with the outstanding audits.

In response, Mr. Sheriff reiterated the issues previously given regarding delays to the 2018/19 audit. Mr. Sheriff confirmed that the quality of working papers presented for 2019/20 was an improvement compared to those presented for 2018/19, but there were still some difficulties, including some questions for management on some of the balances, but did not specify further.

Mr. Sheriff confirmed that Deloitte had not yet looked at the 2020/2021 balances, but that he expected to see further additional improvements and recognised the Council's investments in its Finance Team.

Mr. Sherriff clarified the considerations that would comprise Deloitte's treatment of the capitalisation issues.

In response to queries regarding expected resourcing challenges, Mr. Sheriff confirmed that this was an on-going issue for Deloitte, as explained earlier, which was further compounded by the fact that the PSAA had not adjusted fees as Deloitte had expected.

**Resolved (unanimously)**

To note the verbal update report.

The Chair thanked Deloitte representatives for attending. Mr Sheriff and Mr.Ramkhelowan then left the meeting.

**53 Appointment of Audit Independent Member**

Simon Russell, Head of Democratic Services, presented the report, which outlined the proposed arrangements for the appointment of a co-opted independent member to the Audit and Governance Committee, following Cabinet's endorsement of the recommendations from the CIPFA assurance review.

Simon Russell clarified the position of the Audit and Governance Committee with regards to previous use of Independent Persons. Mr Russell noted that the Council would be putting best practice in place in advance of any future mandatory requirement, and that the Council's constitution allowed the Council to address the recommendation in a timely manner.

Ola Owolabi, Deputy Chief Finance Officer, noted that CIPFA's recommendation followed a recommendation made in the Government's Redmond Report.

**Resolved (unanimously):**

1. To approve the appointment of a co-opted independent member to the Audit and Governance Committee.
2. To delegate authority to the Head of Democratic Services, in consultation with the Chair of Audit and Governance Committee and Chief Finance Officer, to undertake and complete the recruitment process.
3. That the specific remuneration of the Audit Independent Member appointed

be delegated to the Head of Democratic Services, in consultation with the Chair of Audit and Governance Committee and Chief Finance Officer.

#### **54 Internal Audit Draft New Year Plan**

Jackie Humphrey, Chief Internal Auditor (CIA), introduced the report, which outlined the plans for audit activity for the coming year, 2022-23.

The CIA explained the format used to develop the plan, which helped ensure appropriate levels of breadth and flexibility and how that had been applied in creating the plan as detailed in the Appendices.

The Chair thanked Jackie Humphrey and the Committee considered the report.

Following comments and questions from Members, the CIA confirmed that the Council's complaints processes could be included in the Audit Plan, if the Committee chose to request it, and that she would check to see when this topic was last audited.

The CIA clarified the headings noted in the Plan, explaining that the Audit Team worked with the Heads of Department to review what would be included in the plan of work and the report included a summary of that discussion.

#### **Resolved (unanimously)**

To agree the Draft Audit Plan.

#### **55 Strategic Risk Register Quarterly Review**

Jackie Humphrey, Chief Internal Auditor (CIA), presented the report of the Corporate Management Team's (CMT) quarterly review and update of the Council's Strategic Risk Register.

The CIA noted that, following the recent CIPFA (Chartered Institute of Public Finance and Accountancy) Assurance Review (AR), the Council had received recommendations that the Strategic Risk Register should include monitoring of the risk inherent in commercial transactions undertaken by the Council, and to add a risk item regarding the non-delivery of the Council's Recovery and Reset programme. In response, CMT had agreed updates to the mitigating actions under section 9, 'commercial enterprises', and an addition to the internal controls listed under Economic Recovery, Strategic Risk 2, number 4, to address these recommendations.

The CIA confirmed that the CMT review had identified no further updates and the Committee considered the report. In the following discussions:

The CIA provided her opinion on how the strike under SR6 had been covered in the Risk Register. The CIA noted that the risk ratings reflected the fact that the issue had directly impacted residents rather the Council itself, but that she would raise the query with CMT at the next meeting.



Regarding monitoring of the finance performance of the Recovery and Reset programme, under SR2, Ola Owolabi, DCFO, confirmed that regular reports were taken to CMT and the Recovery and Reset Joint Member Board meetings.

The CIA confirmed that national and international issues were considered by CMT at the review meetings. These were reflected in the Risk Register under the various risk headings, as appropriate, and responded to within the organisation. Examples cited included recent reminder notifications to alert staff to potential cybercrime (in recognition of the current situation in the Ukraine, and that a large proportion typically originates from Russia) and that there had been high levels of 'red' across the Risk Register during Brexit, in recognition of the uncertainty that the issue brought to many areas of the Council.

**Resolved (unanimously)**

To note the update to the Strategic Risk Register.

**56 Internal Audit and Counter Fraud Quarterly Review**

Jackie Humphrey, Chief Internal Auditor (CIA), presented the report, which provided a summary of the activities of Internal Audit and Counter Fraud for the year to date – from 1 April to 31 December 2021. This included production of 16 final reports and 16 follow up reports of which 7 follow up reports and 3 draft reports have been issued in the last quarter.

During the presentation, the CIA drew the Committee's attention to Appendices A and B, which had been updated to include more detailed information in direct response to comments and requests from the Committee at the last meeting.

The CIA noted that Appendix C provided a response to the Committee's request for a report on the specific topic of arrears. This included a detailed report of the Audit Team's second follow-up regarding the Council's handling of Arrears Collection, which had identified that 1 of the 7 original recommendations had been addressed to date, and 4 of the remaining 6 were in process of being addressed. The CIA explained that all responses from the individual managers had been included in the report.

The Chair thanked the Audit Team for its hard work across the year to date and the Committee considered the report.

**Resolved (unanimously)**

1. To note the report.
2. To invite the Director of Service Delivery and the Chief Finance Officer to present an update and explanation of the status of Arrears Collection at the next Committee meeting, in July 2022.

**57 Post Assurance Review of Covid Business Grants**

The report of the Chief Internal Auditor was presented to the Committee by Lee Ewan, Counter Fraud Investigations Manager.

Mr. Ewan provided an update on the verification of the coronavirus business support payments administered by Eastbourne Borough Council. This included an explanation of the process for, and the findings of, the verification investigations, its risk-based categorisation of applications, and a summary of the results and findings of the cases that were investigated in Phases 1 and 2. This included the levels of assurance and expectations for future investigation work.

Members thanked Mr Ewan for a comprehensive report and congratulated the Team on its work.

**Resolved (unanimously)**

1. To note the report

**58 Date of next meeting**

The date of the next meeting was confirmed as Tuesday 12<sup>th</sup> July 2022, at 6pm, in the Court Room of Eastbourne Town Hall.

The meeting ended at 7.42 pm

Councillor Robin Maxted (Chair)

<b>Report to:</b>	<b>Audit and Governance Committee</b>
<b>Date:</b>	<b>12<sup>th</sup> July 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</b> <b>Post title: Chief Internal Auditor</b> <b>E-mail: Jackie.humphrey@lewes-eastbourne.gov.uk</b> <b>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 a simply a review of the register itself.
- 2.2 There are many different risks and pieces of work that feed into the Strategic Risk Register. These are managed and monitored on a day to day basis within the relevant sections and departments.
- 2.3 The quarterly meeting of the Corporate Management Team to discuss the Strategic Risk Register allows the relevant Director/Assistant Director to provide feedback on risks in their area. This information is then used to consider changes that may need to be made to the Strategic Risk Register.
- 2.4 The Corporate Management Team will also carry out “horizon scanning” at these meetings: considering issues that are arising and considering whether they need to be included in the register.

### **3 June 2022 Review**

- 3.1 The Strategic Risk Register was taken to Corporate Management Team on 8<sup>th</sup> June 2022 for the quarterly review.
- 3.2 At the committee meeting in March, questions were raised about the impact of the war in Ukraine on the risk register. Corporate Management Team discussed these and the following was decided.
- Escalation/call up of staff: the Civil Contingencies Act covers war and the effects of an event under the Civil Contingencies Act is dealt with under risk SR\_007.
- Denial of service attacks: denial of service is already covered under risk SR\_006 "Council prevented from delivering services for a prolonged period of time".
- The Head of Legal Services and Monitoring Officer also pointed out that there is a new Procurement policy which lays down that procurement can be based on non-commercial reasons to reduce exposure to companies with links to certain countries.
- For the reasons given above, the Corporate Management Team decided that no changes were required.
- 3.3 The committee had also raised the current concerns with rising energy prices and cost of living. This was considered and it was agreed to add a description to risk SR\_002 "Changes to the economic environment makes the council economically less stable". The description added reads "Rising energy prices and inflation affecting the cost of living will affect the ability of customers to pay rent and council tax."
- 3.4. At the March meeting, the committee raised a question about whether the experience of the bin strike should be reflected in the risk register. This was considered by the Corporate Management Team and it was felt that this fits under risk SR\_006 "council prevented from delivering services for a prolonged period of time". However, lessons were learned and so the mitigating action "3. Regularly reviewed and tested business continuity plans" has been updated by adding "and updated contingency plans actioned".
- 3.5 The Cipfa External Assurance Review looked into the companies and commercial investments of the council. With this in mind, Corporate Management Team considered the wording of SR\_009 "Commercial enterprises that are fully controlled by the authority do not deliver financial expectations or do not meet governance requirements". It was agreed that the wording needed to reflect the current situation and therefore this has now been changed to read "commercial enterprises and investments do not deliver financial expectations or do not meet governance requirements".
- 3.6 SR\_005 "not being able to sustain a culture that supports organisational objectives and future development" - It was mentioned by the Corporate Management Team that the wording of internal control 1. of the risk was not particularly clear. This has therefore been changed from "deliver a fit for purpose organisational culture" to "build an organisational culture that supports equality and inclusivity through communication and support."
- 3.7 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**

Appendix A - Strategic Risk Register

**9. Background papers**

None

Jackie Humphrey

Chief Internal Auditor

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# APPENDIX A – Strategic Risk Register (Eastbourne)

## Strategic Risk Register (Eastbourne)



**Report Type:** Risks Report  
**Generated on:** 09 June 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_001	No political and partnership continuity/consensus with regard to organisational objectives.	Sudden changes of political objectives at either national or local level renders the organisation, its current corporate plan and Medium-Term Financial Strategy, unfit for purpose.	3	4	12	<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	02-Aug-2022

## APPENDIX A – Strategic Risk Register (Eastbourne)

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
SR_002	Changes to the economic environment makes the council economically less sustainable.	<ol style="list-style-type: none"> <li>1. Economic development of the town suffers.</li> <li>2. Council objectives cannot be met.</li> <li>3. Covid-19 has had a serious impact on the council's finances.</li> <li>4. The council's Recovery and Stabilisation programme fails to meet its objectives.</li> <li>5. 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> </ol> <p><u>Reduces Likelihood</u></p> <ol style="list-style-type: none"> <li>3. The council is currently in ongoing discussions with central government around financial support to cover costs related to expenditure on response to the Covid-19 pandemic.</li> <li>4. Regular monitoring of the progress and outcomes of the Recovery and Stabilisation programme, including the recommendations of the Cipfa Assurance Review.</li> </ol>	Chief Finance Officer	5	5	25	Red	02-Aug-2022
SR_003	Unforeseen socio-economic and/or demographic shifts creating significant changes of demands and expectations.	<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 base. (e.g. Census; Corporate</li> </ol>	Director of Service Delivery	3	3	9	Amber	02-Aug-2022



## APPENDIX A – Strategic Risk Register (Eastbourne)

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
		<p>3. Council structure unsustainable and not fit for purpose.</p> <p>4. Heightened likelihood of fraud.</p>				<p>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>						
SR_004	The employment market provides unsustainable employment base for the needs of the organisation.	Employment market unable to fulfil recruitment and retention requirements of the council resulting in a decline in performance standards and an increase in service costs.	4	4	16	<p><u>Reduces Likelihood</u></p> <p>1. Changes undertaken to 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. Review of organisation delivery models to better manage the blend of direct labour provision. Pursuit of mutually beneficial shared service arrangements.</p>	Asst Director for HR and Transformation	3	2	6	Amber	02-Aug-2022
SR_005	Not being able to sustain a culture that supports organisational	1. Decline in performance.	4	4	16	<p><u>Reduces Likelihood</u></p> <p>1. Build an organisational culture that supports equality</p>	Asst Director for HR and Transformation	3	4	12	Amber	02-Aug-2022

**APPENDIX A – Strategic Risk Register (Eastbourne)**

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
	objectives and future development.	2. Higher turnover of staff. 3. Decline in morale. 4. Increase in absenteeism. 5. Service failure. 6. Increased possibility of fraud. 7. The council's Recovery and Stabilisation programme fails to meet its objectives.				and inclusivity through communication and support. <u>Reduces Likelihood and Impact</u> 2. Continue to develop our performance management capability to ensure early intervention where service and/or cultural issues arise. 3. Continue to develop communications through ongoing interactions with staff. 4. Regular monitoring of the progress and outcomes of the Recovery and Stabilisation programme.						
SR_006	Council prevented from delivering services for a prolonged period of time.	1. Denial of access to property. 2. Denial of access to technology/ information. 3. Denial of access to people.	4	5	20	<u>Reduces Likelihood</u> 1. Adoption of best practice IT and Asset Management policies and procedures. <u>Reduces Likelihood and Impact</u> 2. The council has created a more flexible, less locationally dependent, service architecture. <u>Reduces Impact</u>	Chief Executive	2	4	8	Amber	02-Aug-2022

## APPENDIX A – Strategic Risk Register (Eastbourne)

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
						<p>3. Regularly reviewed and tested Business Continuity Plans and updated contingency plans actioned.</p> <p>4. Regularly reviewed and tested Disaster Recovery Plan.</p>						
SR_007	Council materially impacted by the medium to long term effects of an event under the Civil Contingencies Act.	<p>1. Service profile of the council changes materially as a result of the impact of the event.</p> <p>2. Cost profile of the council changes materially as a result of the impact of the event.</p> <p>3. Work adversely affected by reduced staff numbers due to effects of pandemic virus.</p> <p>4. Emergency caused by a climate change event (e.g. increased flooding risks)</p>	5	5	25	<p><u>Reduces Likelihood and Impact</u></p> <p>1. Working in partnership with other public bodies.</p> <p>2. Robust emergency planning and use of council's emergency powers.</p> <p><u>Reduces Impact</u></p> <p>3. Ongoing and robust risk profiling of local area (demographic and geographic).</p> <p>4. Review budget and reserves in light of risk profile.</p> <p><u>Reduces Likelihood</u></p> <p>5. Adoption of, and action to implement, the council's Climate Emergency Strategy.</p>	Chief Executive	2	4	8	Amber	02-Aug-2022
SR_008	Failure to meet regulatory or legal requirements.	1. Trust and confidence in the council is negatively impacted.	3	4	12	<p><u>Reduces Likelihood</u></p> <p>1. Developing, maintaining and monitoring robust</p>	Chief Executive	2	4	8	Amber	02-Aug-2022

**APPENDIX A – Strategic Risk Register (Eastbourne)**

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
		<p>2. Deterioration of financial position as a result of regulatory intervention/penalties</p> <p>3. Deterioration of service performance as a result of regulatory intervention/penalties</p>				<p>governance framework for the council.</p> <p>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.</p> <p>3. Ensure there is full understanding the impact of new legislation.</p> <p>4. All managers are required to abide by the council's procurement rules.</p> <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</p>						

**APPENDIX A – Strategic Risk Register (Eastbourne)**

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
						where service and/or cultural issues arise. 7. Ensure that fire risk regulations are adhered to and that Fire Risk Assessments are regularly reviewed.						
SR_009	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>5. Regular monitoring of the progress of enterprises in parallel with the (cross-party) Strategic Property Board and wider governance arrangements.</p>	Director of Regeneration and Planning And Chief Executive	4	3	12	Amber	02-Aug-2022

**APPENDIX A – Strategic Risk Register (Eastbourne)**

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
SR_010	The council suffers a personal data breach by inadequate handling of data or by an IT incident.	<p>1. Trust and confidence in the council is negatively impacted.</p> <p>2. Deterioration of financial position as a result of regulatory intervention/penalties</p> <p>3. Deterioration of service performance as a result of regulatory intervention/penalties</p> <p>4. Increased probability of compensation claims by persons affected by a personal data breach.</p>	3	4	12	<p><u>Reduces Likelihood</u></p> <p>1. Ongoing corporate training for data protection.</p> <p>2. Ensure all staff complete the e-learning Data Protection course.</p> <p>3. Ensure that the Data Protection Policy is regularly reviewed.</p> <p>4. Ensure the Data Protection Officer is afforded the resources to discharge their statutory functions.</p> <p>5. Ensure that managers regularly remind staff of their responsibilities under data protection, including personal data breach reporting arrangements.</p> <p>6. Ensure the suite of IT policies is kept up to date.</p> <p>7. Ensure that IT security is in place and regularly tested.</p> <p><u>Reduces Impact</u></p> <p>8. Incident management procedures to mitigate loss or breach of data are in place.</p>	Chief Executive	2	4	8	Amber	02-Aug-2022

<b>Report to:</b>	<b>AUDIT AND GOVERNANCE COMMITTEE</b>
<b>Date:</b>	<b>12<sup>th</sup> July 2022</b>
<b>Title:</b>	<b>Internal Audit and Counter Fraud Report for the financial year 2021-2022 – 1<sup>st</sup> April 2021 to 31<sup>st</sup> March 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 financial year 2021-2022 – 1<sup>st</sup> April 2021 to 31<sup>st</sup> March 2022.</b>
<b>Officer recommendation(s):</b>	<b>That the information in this report be noted and members identify any further information requirements.</b>
<b>Reasons for recommendations:</b>	<b>The remit of the Audit and Governance Committee includes the duties to agree an Annual Audit Plan and keep it under review, and to keep under review the probity and effectiveness of internal controls, both financial and operational, including the council's arrangements for identifying and managing risk.</b>
<b>Contact Officer(s):</b>	<b>Name: Jackie Humphrey</b> <b>Post title: Chief Internal Auditor</b> <b>E-mail: jackie.humphrey@lewes-eastbourne.gov.uk</b> <b>Telephone number: 01323 415925</b>

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## **1 Introduction**

- 1.1 The remit of the Audit and Governance Committee includes the duties to agree an Annual Audit Plan and keep it under review, and to keep under review the probity and effectiveness of internal controls, both financial and operational, including the council's arrangements for identifying and managing risk.
- 1.2 The quarterly report includes a review of work undertaken by Internal Audit and Counter Fraud.
- 1.3 This report summarises the work carried out by Internal Audit and Counter Fraud across the financial year 2021-22.

## **2 Review of the work of Internal Audit carried out in the financial year 2021-22**

- 2.1 During the last quarter of the year, six reports were issued in final and one in draft. Four follow-up reports were also issued. Across the whole financial year, the team issued a total of 25 final reports and 19 follow-up reports.
- 2.2 A list showing all the reports issued during the year, along with assurance levels given, can be found at Appendix A. This list also shows audit reviews carried out in the last financial year where follow-ups are still being carried out. Lines greyed out are showing that follow-ups are not being carried out.
- 2.3 Where there are outstanding recommendations after a follow-up has been carried out, these are listed at Appendix B. This table also gives the feedback

from managers made at the last follow-up review.

- 2.4 There are six audit reviews which have outstanding recommendations following two follow-ups and one following three follow-ups. A summary of these follows but full details are contained in Appendix B.

Business Continuity Planning – Third follow-up:

- At the time of writing this report the fourth follow-up was being undertaken. The outstanding recommendations appear to have been addressed.

Procurement – Second follow-up:

- Work is reported as ongoing and a third follow-up is ongoing.

Members Allowances – Second follow-up:

- Owing to Covid restrictions few claims have been presented so there has been little, or nothing, to test at follow-up. A third follow-up will be carried out in June.

Arrears Collection – Second follow-up:

- The third follow up is ongoing. Also, the committee has requested the Chief Finance Officer and the Director of Service Delivery to attend this meeting and explain the overall position regarding the council's approach to arrears collection.

Implementation of Housing Software – Second follow-up:

- There is one recommendation outstanding and this is around report writing. It was reported that it had not been possible to recruit to this role.

Leaseholder Management and Recharges – Second follow-up:

- There is one recommendation outstanding though work to address it is reported as ongoing – this is to update the Leaseholder Handbook.

Fly-Tipping – Second follow-up:

- At the time of the second follow up there were four recommendations outstanding but all were in the process of being addressed.

- 2.5 At the beginning of the financial year the work of the team was impacted by carrying a vacancy and the absence of a team member for an extended period. This highlighted the lack of resilience within the team. The request to fill the vacant post was therefore agreed and recruitment was carried out in October, with the new Auditor taking up the post on 10<sup>th</sup> January 2022.

- 2.6 At the same time the structure of the Internal Audit team was reviewed following the checking of the Benefits Subsidy Claim work being handed back to Customer First. This work was a substantial part of the Senior Auditor role. The review was undertaken to ensure the internal audit service had the appropriate structure and resources to effectively deliver the internal audit remit in line with the Public Sector Internal Audit Standards. The outcome of the review was that, due to the substantial part of the Senior Auditor role being lost, the post was no longer required and resources could be better deployed to provide more cost-effective auditing hours, whilst delivering a more resilient and professional service.

- 2.7 Following consultation, this was agreed, and the new structure came into effect on 1<sup>st</sup> January 2022. The new structure did away with the Senior Auditor post and replaced it with a new Auditor post. A recruitment exercise for the newly formed Auditor post was conducted in March with interviews taking place on 1<sup>st</sup> April. The new starter began with the team on 9<sup>th</sup> May 2022.



- 2.8 Now the team is fully resourced, after initial training has been completed, further reviews of ways of working will be carried out. This will be carried out to ensure that the ways that audits are planned, carried out and reported are up-to-date, professional and provide the best service possible.
- 3 Review of the work of Counter Fraud carried out in the financial year 2021-22**
- 3.1 Cases have continued to be built and monitored during the easing of lockdown restrictions, with the team responding to new and emerging fraud risks following the release of Covid-19 support packages to businesses and individuals.
- 3.2 The team continues to target the high risk and value areas of tenancy housing while also undertaking other exercises as detailed below. An increase in fraud referrals and information from the public has been noted during and post Covid-19 restrictions – this is partly explained by more people working from home but also the work to increase fraud awareness, particularly tenancy fraud.
- 3.3 Housing Tenancy – The team continue to work closely with colleagues in Homes First and Legal. There are currently 25 ongoing sublet/abandonment tenancy cases at various stages. 48 tenancy fraud cases were closed during the year with no further action and three properties were returned with a net saving to the authority of £279,000. One case involving the abandonment of the property was due to be heard at Hastings Magistrates Court in April. The tenant did not appear and the magistrate awarded the return of the property.
- 3.4 Right To Buy - There continues to be a steady volume of Right to Buy applications since autumn 2021. 31 cases are currently either being checked to prevent and detect fraud or waiting for a home visit to verify residential status. 37 applications were vetted during this period and of those 21 applications were withdrawn resulting in a net preventative saving of £1,771,400.
- 3.5 Housing Applications/Homeless Placement – the team are working directly with colleagues in Homes First to implement additional counter-fraud measures to ensure the limited housing stock that is available will only be allocated to those in genuine need. Three cases were investigated during the year, with one case resulting in the cancellation of a temporary accommodation placement which costs the council on average £12,000 (based on the average length of a placement). In addition, the household was removed from the housing waiting list which the National Fraud Initiative estimates is a preventative saving of £3,240.
- 3.6 National Non-Domestic Rates – As part of the review of Covid-19 Business Grant Fund applications discrepancies of Small Business Rate Relief and liable rate payer have been found. This has resulted in changes to business rate bills with a net income of £104,484.10 generated for recovery. 30 cases have been closed during the year with additional cases still outstanding.
- 3.7 Council Tax – 87 cases have been investigated during the year as part of a review of Single Person Discounts, Exemptions and Disregards with a net recoverable income of £99,306.91 generated for the authority and a preventative saving of £53,506.24. A review of Council Tax exemptions/disregards is ongoing and expected to continue through into 2022/23.
- 3.8 Council Tax Reduction – 20 cases have been closed in this year generating a total recoverable income of £17,225.99 and a preventative saving of £8,197.65.
- 3.9 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

resource restrictions, and pressing need to assess Universal Credit applications, the DWP have limited their capacity to investigate Housing Benefit. Over the year, 71 cases were closed generating a recoverable Housing Benefit overpayment of £44,105.89 and a preventative saving of £32,726.03. The amount of £1,475.90 was also recovered from historic penalty collection.

- 3.10 Housing debtors – The team continue to look at debt avoidance where loans have been made to assist with securing housing and have remained outstanding following existing debt recovery methods of contact. This activity has recouped £10,788.09 during this period which otherwise might have been written off.
- 3.11 National Fraud Initiative – The 2020/21 exercise is ongoing with the first batch of 1659 cases to review, the team have cleared 447 so far with 46 open for investigation. One fraud and one error have been found which have resulted in Council Tax Reduction overpayments totalling £3,254.92. In addition, one Covid Business Grant worth £10,000 has been found which appears to be a fraud but is currently being appealed.
- 3.12 Data Protection Requests – the team take an active role in supporting colleagues in other organisations to prevent fraud and tackle criminal activity. During the year the team dealt with 65 Data Protection requests from the Police and other authorities. In addition, 11 fit and proper person checks were completed for new or renewal Houses in Multiple Occupation licences and 85 Gas Safety checks were completed on council properties where the tenant has not responded.
- 3.13 Following on from the government’s announcement to support businesses through the Covid-19 pandemic, the team have been working closely with the revenues specialists to prevent and investigate fraudulent applications. The team are currently continuing to undertake post verification work as requested by the Department for Business, Energy and Industrial Strategy. This includes sample checking on each of the grant schemes and reviewing applications where only one grant has been applied for, as this has been identified as an area of higher risk of fraud.
- 3.14 One member of the team was selected as a finalist for the ‘Outstanding Investigator’ category at the 2021 ‘Tackling Economic Crime Awards’ held in December. These awards are independent and aim to recognise outstanding contributions in tackling all areas of economic crime – the awards showcase the very best organisations, teams, individuals, and initiatives across the public and private sector.
- 3.15 A table showing the savings made by the Counter Fraud team in 2021-2022 can be found at Appendix C.

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

- 4.1 Cipfa suggests that it is good practice to make a statement on the adequacy of an authority’s counter fraud arrangements in the annual governance report. Cipfa has published a Code of Practice on managing the risk of fraud and corruption which contains five principles:

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

- 4.2 Having considered all the principles the Chief Internal Auditor is satisfied that the

council meets these by having fully resourced counter-fraud and audit teams who review the risks across the authority and direct their work as appropriate. It is therefore considered that the organisation has adopted a response that is appropriate for its fraud and corruption risks and commits to maintain its vigilance to tackle fraud and uphold its zero tolerance policy.

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

- 5.1 The Public Sector Internal Audit Standards came into effect from 1<sup>st</sup> April 2013 and the work of the Internal Audit section is assessed for compliance against these standards annually.
- 5.2 A checklist for compliance has been completed and it is found that the Internal Audit function is “generally conforming” to the standards. Conformance remains at about 99% of the points listed in the standards.
- 5.3 There are two areas of partial compliance. These are both to do with the Chief Internal Auditor’s annual appraisal having the input of the Chief Executive and the Chair of the Audit Committee. It has been agreed that although these two posts are not specifically asked to contribute, they are both able to give feedback on the work of the Chief Internal Auditor throughout the year through various meetings or be comment to the Chief Finance Officer.
- 5.4 The standards require an external review to be carried out at least every five years. A review of the audit function was carried out by a peer review by other members of the Sussex Audit Group in 2016. The resultant report stated that the audit function generally conforms with the standards – this was reported to the committee at the September 2016 meeting. Whilst the peer review for Eastbourne was carried out in 2016, the review for Lewes was carried out in 2018. As the Audit team now covers both authorities, the next review is about due. The Sussex Audit Group has experienced a number of Heads of Audit retiring or leaving and some authorities have chosen to have their internal audit provided by the private sector or partnerships. If the external review were to be carried out by a private sector provider, this would cost anything from around £9,000. However, a meeting has recently been held with the audit functions from Wealden, Rother and Hastings who are all in the same position. All have agreed that they would be willing to participate in a reciprocal peer review, with cost being just in terms of the time of the relevantly qualified person in the department. It is suggested that the reciprocal peer review is the most cost-effective method. Also, the review would be carried out by auditors working in the public sector who understand specific issues/requirements relating to the public sector. All four authorities are required to obtain the approval of their committees so the reviews will not commence until later in the year. It is recommended that this committee agrees to this approach.

## **6 Opinion on the control environment.**

- 6.1 As stated earlier in this report, 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.
- 6.2 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.

Annual Governance Statement: see separate report being brought to this committee meeting.

Effectiveness of Internal Audit: Section 5 of this report covers the self-assessment against the Public Sector Internal Audit Standards and shows that this work 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.

## **7 Financial appraisal**

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

## **8 Legal implications**

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

## **9 Risk management implications**

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

## **10 Equality analysis**

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

## **11 Environmental sustainability implications**

Not applicable

## **12 Appendices**

Appendix A – Audit reports issued and follow-ups

Appendix B – Recommendations outstanding after follow-ups

Appendix C – Counter Fraud savings.

### Key to assurance levels

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

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

AUDIT	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
IR35 (Off-Payroll working)	No	01.07.21	Minimal	30.11.21	Full	N/A	N/A	N/A
Members Allowances	Substantial	14.07.21	Substantial	22.12.21	Substantial	Not yet due	Not yet due	
Procurement	Partial	26.07.21	Partial	16.12.21	Partial	Not yet due	Not yet due	
Business Continuity Planning	Minimal	21.05.21	Partial	19.08.21	Partial	20.12.21	Partial	Ongoing

Appendix A – Quarterly Report On Internal Audit and Counter Fraud Work

AUDIT	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
Arrears Collection	Partial	06.09.21	Partial	18.01.22	Partial	Not yet due	Not yet due	
Implementation of Housing Software	Partial	10.09.21	Substantial	09.02.22	Substantial	Not yet due	Not yet due	
Leaseholder Management and Recharges	Partial	10.09.21	Substantial	24.03.22	Substantial	Not yet due	Not yet due	
Rechargeable Repairs	Partial	20.09.21	Full	N/A	N/A	N/A	N/A	N/A
Fly Tipping	Partial	22.09.21	Partial	09.02.22	Substantial	Not yet due	Not yet due	
Internet/Intranet/Telephone Payments	Partial	21.10.21	Full	N/A	N/A	N/A	N/A	N/A
Officers Expenses	Substantial	09.11.21	Substantial	Ongoing	Ongoing	Not yet due	Not yet due	

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**Audit Reports Issued In Current Year**

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
Council Tax 20-21	16.04.21	Substantial	N/A	N/A	N/A	N/A	N/A	N/A
Payroll 20-21	02.06.21	Substantial	N/A	N/A	N/A	N/A	N/A	N/A
Revs and Bens Computer System	09.07.21	Full	N/A	N/A	N/A	N/A	N/A	N/A
Benefits 20-21	24.08.21	Substantial	N/A	N/A	N/A	N/A	N/A	N/A
Creditors 20-21	07.09.21	Partial	N/A	N/A	N/A	N/A	N/A	N/A
Housing Rents 20-21	19.10.21	Partial	N/A	N/A	N/A	N/A	N/A	N/A
Treasury Management 20-21	20.10.21	Substantial	N/A	N/A	N/A	N/A	N/A	N/A
Stage Door	15.11.21	Minimal	Ongoing	Ongoing	Not yet due	Not yet due	Not yet due	Not yet due

Appendix A – Quarterly Report On Internal Audit and Counter Fraud Work

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
Theatres 20-21	17.11.21	Substantial	N/A	N/A	N/A	N/A	N/A	N/A
Main Accounting 20-21	01.12.21	Substantial	N/A	N/A	N/A	N/A	N/A	N/A
Debtors 20-21	01.12.21	Partial	N/A	N/A	N/A	N/A	N/A	N/A
Furloughing	06.12.21	Full	N/A	N/A	N/A	N/A	N/A	N/A
Regeneration Projects	06.12.21	Substantial	Ongoing	Ongoing	Not yet due	Not yet due	Not yet due	Not yet due
Love Clean Streets App	16.12.21	Partial	Ongoing	Ongoing	Not yet due	Not yet due	Not yet due	Not yet due
ICT 20-21	10.02.22	Partial	N/A	N/A	N/A	N/A	N/A	N/A
Film Liaison Unit	27.01.22	Minimal	Not yet due	Not yet due	Not yet due	Not yet due	Not yet due	Not yet due
Use of Social Media	02.02.22	Partial	Not yet due	Not yet due	Not yet due	Not yet due	Not yet due	Not yet due
Information Governance	07.02.22	Partial	Not yet due	Not yet due	Not yet due	Not yet due	Not yet due	Not yet due
Covid - New Ways of Working	11.02.22	Partial	Not yet due	Not yet due	Not yet due	Not yet due	Not yet due	Not yet due
Construction Industry Scheme	16.02.22	Partial	Not yet due	Not yet due	Not yet due	Not yet due	Not yet due	Not yet due

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

AUDIT	Draft issued
Treasury Management 21-22	01.03.22

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

**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
<b>Members Allowances</b> January 2021	Substantial	0	3	0	22.12.21	Second	Substantial	0	2	0	Jun-22	All expenditure must be evidenced by official VAT receipts. Where expenditure includes VAT, reimbursement must be claimed through the creditors system. (1 month)	<u>Audit Comment</u> No claims including VAT had been made by the time of the follow up so this could not be checked
												All expenditure must be charged to the correct general ledger code. (1 month)	<u>Audit Comment</u> Testing at follow up revealed one claim had been incorrectly coded
<b>Procurement</b> December 2020	Partial	0	11	0	16.12.21	Second	Partial	0	9	0	Apr-22	A Procurement Strategy must be written, adopted and disseminated. (12 months)	Due to working pressures this has not progressed however, it has been agreed that the Strategic Procurement Manager role will be made permanent from 1st January 2022. This should help facilitate its progress however, the appointment has not yet been formalised by the issue of a contract.

Appendix B – 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 Procurement Forward Plan must be written, adopted and disseminated. (6 months)</p>	<p>In progress, a number of business plans have been received to support the developments of the forward plans. There is potential for this to be incorporated into the Community Wealth Building Officer role.</p>
												<p>Performance against the Procurement Forward Plan must be monitored and reported. (6 months)</p>	<p>The comments from the last follow up apply and the Strategic Procurement Manager has monitored savings and social value commitments against the procurements which he has managed.  <u>Audit comment:</u> Responsibility for updating the contract register going forward must be identified.</p>
												<p>Policies and procedures must clearly state that Corporate contracts must be publicised around the Council. (12 months)</p>	<p>Councils are required to publish transparency data about their contracts on a quarterly basis. Although the councils' contract registers are published on the website, they are incomplete and the data in some cases is inaccurate.  <u>Audit comment:</u> Responsibility for updating the contract register going forward must be identified.</p>

Appendix B – 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>Policies and procedures must clearly state that where corporate contracts exist these, and no other company, must be used. (12 months)</p>	<p>Amendments to the Contract Procedure Rules are still being worked on.</p>
												<p>Creditor expenditure must be regularly reviewed and investigated to highlight opportunities to put contracts in place and identify failure to use current corporate contracts. (6 months)</p>	<p>Spend analysis is completed on an annual basis.  <u>Audit comment:</u> To ensure that expenditure out of contract is identified promptly spend analysis should be completed on a more regular basis.</p>
												<p>Non-compliance of raising purchase orders must be monitored and persistent offenders reported to the head of the relevant service area. (6 months)</p>	<p>We are reviewing available resources to be able to implement this new initiative including assigning the new interim systems accountant to this task to ensure compliance.</p>
												<p>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. Where a corporate contract exists these,</p>	<p>Guidance for raising purchase orders will be updated to remind officers to check the contracts register for the supply of goods and services.</p>

Appendix B – 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
												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)	A meeting with the Strategic Procurement Manager will be arranged to consider the use of “Types” and whether this would work.
<b>Business Continuity Planning</b>  November 20	Minimal	4	0	0	20.12.21	<b>Third</b>	Partial	2	0	0	Currently ongoing	Business Continuity Plans for both councils must be completed and adopted as soon as possible.  (6 months)	The County Emergency Planning Officer was going to assist in training our Heads of Service (HOS) to complete their Business Impact Assessments. However the officer has now left and our Emergency Planning Officer, who has undertaken a week’s intensive training course on business continuity will be undertaking the training of HOS with the Emergency Planning Officer and Regulatory Services Lead and Emergency Planning Officer in the New Year.

Appendix B – 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
												Business Continuity Plans for every department must be completed and adopted as soon as possible.  (6 months)	The County Emergency Planning Officer was going to assist in training our Heads of Service (HOS) to complete their Business Impact Assessments. However the officer has now left and our Emergency Planning Officer, who has undertaken a week's intensive training course on business continuity will be undertaking the training of HOS with the Emergency Planning Officer and Regulatory Services Lead and Emergency Planning Officer in the New Year.
Arrears Collection  January 2021	Partial	2	2	3	18.01.22	Second	Partial	2	1	3	Ongoing	Action must be taken to investigate the possible recovery of old debts.  (12 months)	<u>Lead for Income Maximisation and Welfare</u> Action has begun to address the immediate priority debt stream as directed by the Chief Finance Officer which is to maximise the collection of overpaid Housing Benefit debts. The approach and strategy was set out in a report that was presented to Corporate Management Team in September and subsequently to the Accelerating Change Steering Group in November.  Recommendations to deploy a digital recovery strategy and purchase a

Appendix B – 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>module that will help to increase Direct Earnings Attachment Orders for debts where it has been possible to identify a debtors employer through matching to HMRC records. The contract for the digital recovery strategy was signed in December and the data sharing agreement is being finalised by Legal Services. Implementation will start in the New Year once the delivery of the latest round of CV-19 business grants has finished towards the end of February.</p>
												<p>Where appropriate consideration must be given to writing off old debts as irrecoverable. (6 months)</p>	<p><u>Head of Customer First</u> There is a write off procedure but the historic debts need to be reviewed in conjunction with finance to ensure they are ok to be passed for write off. (The Head of Customer First later explained that her comments are superseded by the comments below). Lead for Income Maximisation and Welfare The councils have limited powers for writing off debts in respect of Council Tax and Business Rates which are legally due and payable. There is no legal power to write off, for instance, on the grounds</p>

Appendix B – 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
													that the customer cannot afford to pay. In practice the councils are therefore able only to write off under the following exceptional circumstances: · The debt is uneconomic to pursue any further · The debtor has absconded or the debtor is deceased · A term of imprisonment has been served (no further recourse to recover the outstanding amount) · The debtor has gone into bankruptcy or liquidation and there no funds available to creditors We cannot easily 'strategise' writing off aged debts by oldest year, especially through automation or bulk write off as it requires a case-by-case review to assess individual cases which is time consuming and must be balanced with the collection and recovery of in-year debts. There is also a duty to protect the public purse for those residents that do pay their Council Tax on time otherwise the cost of writing off a significant amount of debt will be passed on to the taxpayer. Due regard to the Council's bad and doubtful debt provisions

Appendix B – 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
													must be considered in this regard.
												<p>Consideration should be given to aligning all income and recovery departments under the management of Customer First / Account Management (3 months)</p>	<p><u>Head of Customer First</u> When we are fully staffed we will be focussing some of the team on recovery of debt as a full-time piece of work. We are also in the process of identifying those with multiple debts across services and contacting them to offer assistance and advice.</p>
												<p>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)</p>	<p><u>Deputy Chief Finance Officer</u> The Fair Debt Policy has not been updated for a while and probably needs updating to include Debt Relief Orders , IVAs and Bankruptcy as well as Breathing Space as they are all a common occurrence due to the current economic climate. The Fair Debt Policy will need to be written as such that all debts streams are incorporated including the different rules and regulations.</p>



Appendix B – 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 review of the terms of Debtor accounts should be undertaken to ascertain if it is possible or practical to add interest to unpaid invoices.</p> <p>(3 months)</p>	<p><u>Deputy Chief Finance Officer</u></p> <p>Agreed – will work with the Debtors Team Leader to implement this</p>
												<p>Investigation should be undertaken to ensure Aged Debt Analysis reports are available for all income streams and used for monitoring recovery of arrears.</p> <p>(3 months)</p>	<p><u>Head of Customer First</u></p> <p>This piece of work is still ongoing and I will work with IT BAU to get this in place as soon as possible. This requires work by our suppliers.</p>
<p><b>Implementation of Housing Software</b></p> <p>March 2021</p>	Partial	2	0	1	09.02.22	Second	Substantial	1	0	0	May-22	<p>Resources must be made available to ensure constructive communication and cohesive working across the teams enables knowledge sharing to produce the required report parameters.</p> <p>(1 month)</p>	<p>This work is ongoing as recruitment to the new role re: report writing has not, yet, been successful. Other options are currently being considered.</p>

Appendix B – 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
Leaseholder Management and Recharges December 2020	Partial	0	2	0	4.03.22	Second	Substantial	0	1	0	Jun-22	The Leaseholder Handbook must be reviewed and updated. (6 months)	1st draft completed and consultations will begin April 2022
Fly Tipping March 2021	Partial	0	7	0	09.02.22	Second	Substantial	0	4 all ongoing	0	May-22	The councils must develop a fly-tipping policy and strategy. (3 months)	This has been written and is going to Cabinet for adoption.
												The current procedures must be reviewed to ensure that they are up to date and include the following: • accurately recording evidence of the fly tip • all investigation steps taken • all enforcement action taken (3 months)	Now reviewing these with a proposed completion dates of end April 2022
												Procedures must be put in place to monitor the following: • administration of fly-tipping • decision making • penalty notices issued • record of payments received • action taken when payments are not received (3 months)	Now reviewing these with a proposed completion dates of end April 2022

Appendix B – 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
												Standard fly-tipping letters must be reviewed, aligned and made available for use by all officers in Neighbourhood First. (3 months)	Letters are being developed and should be completed in the two weeks.
Officers Expenses February 2021	Substantial	2	2	11	09.11.21	First	Substantial	0	1	5	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)	There has been staff availabilities issues and I will suggest the deadlines are extended.
												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)	There has been staff availabilities issues and I will suggest the deadlines are extended.
												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	There has been staff availabilities issues and I will suggest the deadlines are extended

Appendix B – 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
												reference this put onto the form itself. (3 months)	
												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. (3 months)	The claim form on the Hub has not been updated regarding mileage calculation and Head of HR confirmed that they were not aware of any mileage calculation claim form changes.
												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. (1 month)	To be raised at the next Senior Manager Forum.

Appendix B – 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)	To be raised at the next Senior Manager Forum.

**REPORTS ISSUED 21/22**

Some follow-ups are currently ongoing.

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Appendix C – 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	0	0	£93,000.00	0	£186,000.00	0	0	£0.00	£279,000.00
Right To Buy value saved through intervention	0	£503,700.00	0	£493,000.00	0	£339,900.00	0	£434,800.00	£0.00	£1,771,400.00
Housing intervention/fraud	0	0	0	0	0	£15,240.00	0	0	£0.00	£15,240.00
<b>Revenues</b>										
National Non Domestic Rates	£6,016.91	0	£24,092.44	0	£16,862.95	0	£57,511.80	0	£104,484.10	£0.00
Council Tax	£27,197.44	0	£10,399.02	0	£5,677.29	0	£56,033.16	0	£99,306.91	£0.00
Value of ongoing Council Tax increase per week	0	£11,208.96	0	£8,261.12	0	£2,795.20	0	£31,240.96	£0.00	£53,506.24
Council Tax Penalties	0	0	0	0	0	0	0	0	£0.00	£0.00
<b>CTR &amp; Housing Benefit</b>										
Council Tax Reduction	£1,569.89	0	£899.71	0	£9,801.12	0	£4,955.27	0	£17,225.99	£0.00
Council Tax Reduction weekly incorrect benefit	0	£1,878.08	0	£565.01	0	£4,404.80	0	£1,349.76	£0.00	£8,197.65
Housing Benefit	£656.11	0	£3,674.19	0	£32,732.56	0	£7,043.03	0	£44,105.89	£0.00
Housing Benefit weekly incorrect benefit	0	£4,063.95	0	£235.52	0	£23,274.56	0	£5,152.00	£0.00	£32,726.03
Income from Administrative penalty collection	£553.20		£591.82	0	£127.97	0	£202.91	0	£1,475.90	£0.00
<b>NFI</b>										
Overpayments identified	0	0	0	0	£13,254.92	0	0	0	£13,254.92	£0.00
Weekly incorrect benefit identified	0	0	0	0	0	£1,390.83	0	0	£0.00	£1,390.83
<b>TOTALS</b>	<b>£35,993.55</b>	<b>£520,850.99</b>	<b>£39,657.18</b>	<b>£595,061.65</b>	<b>£78,456.81</b>	<b>£573,005.39</b>	<b>£125,746.17</b>	<b>£472,542.72</b>	<b>£279,853.71</b>	<b>£2,161,460.75</b>

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<b>Report to:</b>	<b>Audit and Governance Committee</b>
<b>Date:</b>	<b>12<sup>th</sup> July 2022</b>
<b>Title:</b>	<b>Annual Governance Statement</b>
<b>Report of:</b>	<b>Chief Internal Auditor</b>
<b>Ward(s):</b>	<b>All</b>
<b>Purpose of report:</b>	<b>To seek Councillors' approval of the Annual Governance Statement.</b>
<b>Officer recommendation(s):</b>	<b>To comment on and approve the draft Annual Governance Statement 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 Post title: Chief Internal Auditor E-mail: Jackie.humphrey@lewes-eastbourne.gov.uk Telephone number: 01323 415925</b>

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## **1 Introduction**

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

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

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

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

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

## **2 Governance Framework**

- 2.1 The Annual Governance Statement is the report produced at the end of the year on the control environment of the council. However this is just the end product of the framework of governance operating within the authority throughout the year.
- 2.2 Appendix 1 shows the framework for gathering the assurances and how this is affected by, and effects, the relationship with partners, stakeholders and the community. Following this framework should ensure that the council meets the principles of corporate governance.
- 2.3 Use of this framework also allows the council to demonstrate how its assurance gathering process links the strategic objectives and statutory requirements of the authority and how these objectives are to be delivered.
- 2.4 Appendix 2 shows a timetable for the gathering of assurances to produce the Annual Governance Statement. Certain elements are ongoing throughout the year whereas others are specifically produced at the year-end in order to feed directly into the Annual Governance Statement.
- 2.5 It is important to have a defined timeline for the gathering of information on assurance as there is a deadline for the publication of the Statement of Accounts alongside of which the Annual Governance Statement must be published.
- 2.6 Appendix 3 shows the areas covered by the Managers' Assurance Statement which includes coverage of the Bribery Act, Safeguarding, the Regulation of Investigatory Powers Act (RIPA) and frauds over £10k as well as items of general governance. The statements are intended to cover the operational, project and partnership responsibilities of Heads of Service. These can also be used to highlight concerns and actions required to improve governance throughout the council.
- 2.7 These statements are completed by Directors, Assistant Directors and Heads of Service. The comments made on the statements are considered for inclusion in the Annual Governance Statement.

### **3 Content of the Annual Governance Statement**

- 3.1 The Annual Governance Statement is a document that provides a structure in which to consider the council's governance arrangements and their effectiveness. This ensures that major control issues are identified and action taken to address these issues.
- 3.2 There are essentially three parts to the statement:
- a statement of responsibility and purpose
  - a description of the components of the governance framework that exist in the council
  - the resulting issues and actions arising from those arrangements
- 3.3 It is important that the Annual Governance Statement is accessible but this has to be balanced by a need to ensure that all relevant information is included. The Annual Governance Statement was reviewed last year and, wherever possible, hyperlinks or URLs were included to link to relevant information. A table was also been added which covers companies and gives details of the council's relationship

with these bodies. This year some further changes have been made, including taking out information that can be found using the hyperlinks provided and updating the formatting. These changes are again intended to make the document easier to read whilst giving access to more in-depth information via the links provided.

#### **4 The 2021-2022 review**

- 4.1 One of the sources of assurance for the Annual Governance Statement should come from senior managers responsible for the operation, management and monitoring of controls within their area of responsibility. The Managers' Assurance Statement is intended to collect this assurance by covering operational, project and partnership responsibilities as well as the Bribery Act, Safeguarding, RIPA and frauds over £10k. The senior manager can highlight concerns and the necessary actions required to improve governance. Assurance statements are sent out to Directors, Assistant Directors and Heads of Service.
- 4.2 Appendix 4 lists the feedback noted in the Managers' Assurance Statements. It should be noted that the feedback received are subjective descriptions of the officers responding. Therefore, these have been grouped under relevant headings to make these easier to consider. The list also shows the number of returned statements that contained similar feedback. This list was considered by the Corporate Management team to decide whether any should be included in the Annual Governance Statement.
- 4.3 The Corporate Management team considered the feedback listed in Appendix 4. In particular it was noted that the issue with the lack of people in the employment market is affecting all areas of the country and all sectors and that this is unlikely to end soon. Also, the transition from Covid restrictions and issues around the economy are also putting pressure onto the council. The council also continues to carry out the extra tasks of distributing grants and other funds to residents.
- 4.4 The Corporate Management team believe that mitigating actions have been put in place to address the risks in these areas. 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 partnership working to further navigate these national challenges. The financial impacts to date have been managed in a timely and appropriate manner. Early engagement with the Department for Levelling Up, Housing and Communities, regular return of all financial management information, close monitoring of cashflow transactions, cost controls, regular member briefings and engagements have all been put in place. Transformational changes and solutions to financial shortfalls are in place and are expected to be continued.
- 4.5 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.

- 4.6 The committee is requested to consider the attached draft Annual Governance Statement (Appendix 5). Once agreed by the committee the Annual Governance Statement will be passed to the Leader of the Council and the Chief Executive to sign off and it will then be published on the council's website.

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

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

This code contains five principles:

- acknowledge responsibility
- identify risks
- develop a strategy
- provide resources
- take action

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

## **6 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 Governance Committee review of the Annual Governance Statement significantly reduces these risks.

## **9 Equality analysis**

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

## **10 Appendices**

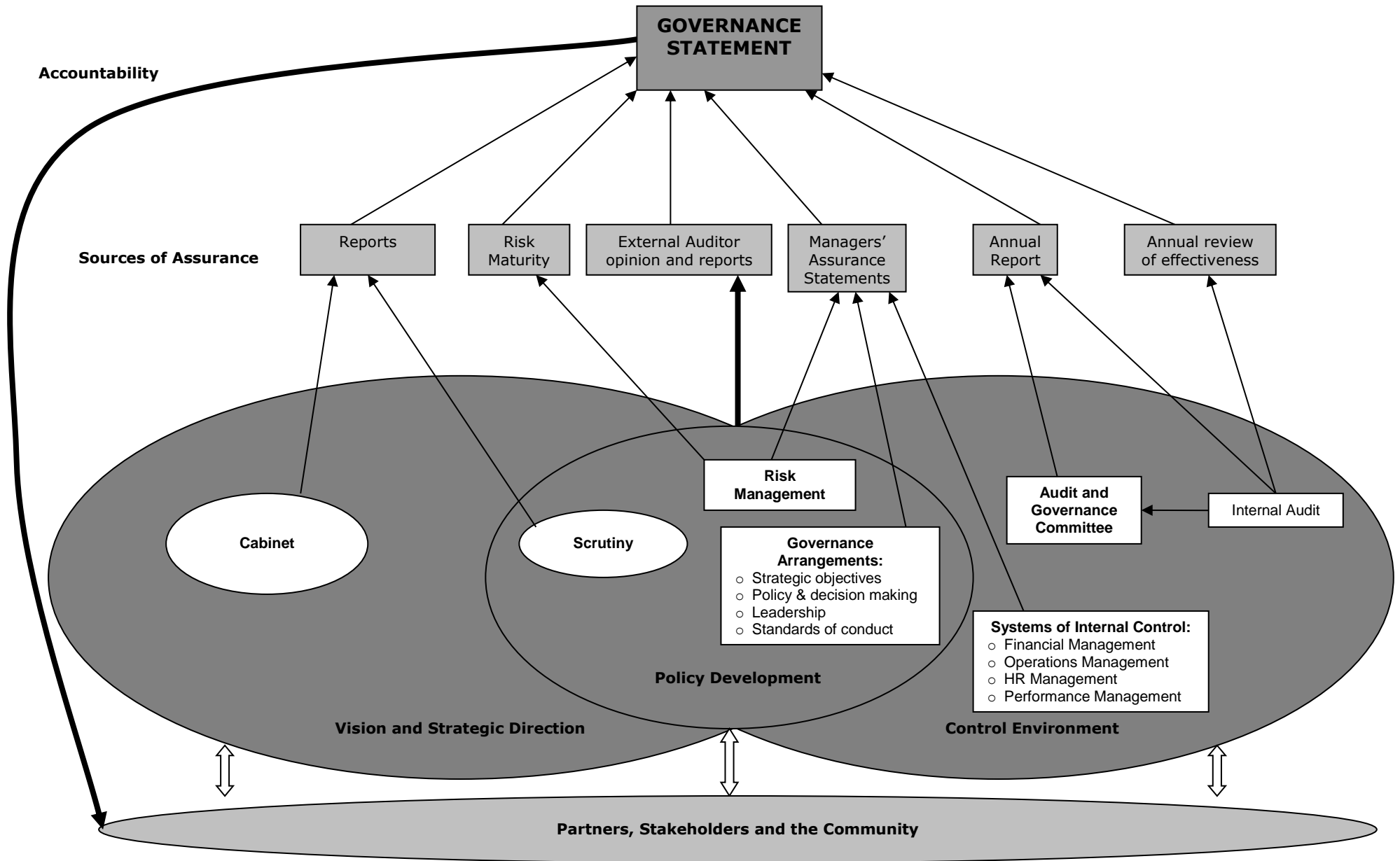
- Appendix 1 – Governance Framework
- Appendix 2 – Annual Governance Statement Timetable
- Appendix 3 – Managers' Assurance Statement
- Appendix 4 – Feedback from the Managers' Assurance Statements
- Appendix 5 – Annual Governance Statement

## **11 Background papers**

11.1 Internal Audit Report for the financial year 2021-2022.

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# APPENDIX 1



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## Appendix 2

### ANNUAL GOVERNANCE STATEMENT TIMETABLE

<b>Deadline</b>	<b>Responsibility</b>	<b>Action</b>
Throughout year		1/4ly updates of the Strategic Risk Register
	Chief Internal Auditor	Internal Audit reports
	External Auditor	External Audit reports
	All Managers	Management reports
		Other sources of assurance
April/May	All Managers	Managers Assurance Statements completed (to include RIPA statement)
	Chief Finance Officer	Preparation of the Annual Governance Statement
	CMT	Annual Governance Statement considered
July	Chief Internal Auditor	Internal Audit Annual report presented to Audit Committee
	Chief Internal Auditor	Internal Audit Annual report presented to Audit Committee
	Chief Finance Officer, Leader and Chief Executive	Annual Governance Statement signed by Leader and Chief Executive
	Audit Committee	Annual Governance Statement published

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

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

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

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

APPENDIX 4 – FEEDBACK RECEIVED FROM MANAGERS’ ASSURANCE STATEMENTS

Subject	Governance or Operational	Number of responses referencing this feedback out of a total of 20	Feedback Received	How these are being addressed/mitigated
Capacity	Operational	17	Lack of resourcing; staff stretched by extra work; performance and behaviour; recruitment and retention; need to build skills and resilience.	Corporate Management Team and Senior Managers Forum continue to monitor the tight labour market and consider ways in which staff can be recruited, retained and developed. Consideration is also given to ways of working to ensure they are as efficient and effective as possible, along with considering ways of collaboration and partnership working to further mitigate these national challenges.
Hybrid working	Operational	8	Working from home when schools are closed; some staff less productive working from home; need for collaboration space in the offices; need for more bookable rooms and storage spaces.	The council has adopted and implemented a Hybrid Working Policy and managers have been given training on managing remote teams. There are desks in offices which can be booked and staff are reminded of this and encouraged to book if there is a need. With the relaxation of Covid rules, consideration is being given, by the Recovery and Stabilisation programme, to providing more collaboration spaces.
Governance	Governance	6	Codes, rules and policies not understood or universally followed; relaxed controls in response to Covid; projects commencing before full governance arrangements in place (due to lack of clear timetables from central government); lack of knowledge/awareness of procurement and contract rules.	The council provides ongoing training and communication to all staff to ensure compliance. There are also checks in place on work carried out. Reports to Cabinet and committees routinely include legal implications which are drafted by a qualified lawyer. Governance arrangements have been put in place to ensure appropriate oversight of projects.

APPENDIX 4 – FEEDBACK RECEIVED FROM MANAGERS’ ASSURANCE STATEMENTS

Subject	Governance or Operational	Number of responses referencing this feedback out of a total of 20	Feedback Received	How these are being addressed/mitigated
Remote/hybrid meetings	Operational	5	Holding remote council meetings; using new technology for hybrid meetings; external partners wanting to meet in person; lack of in-person meetings impacting some funding bids.	Virtual meetings and consultations have been held via MS Teams, which have addressed concerns over being unable to meet in person. IT infrastructure put in place to hold remote meetings and also stream those meetings to the public live (via YouTube), in order to be lawful. Technology has also been put in place to allow hybrid meetings, where the participants can attend in-person or join via the internet.
Retention and disposal	Governance	5	It was noted that a project is underway to address issues but that concerns were noted until the project is completed.	The Business Improvement Through Document Management programme has been identifying the location of paper records and arranging for them to be sorted and, where appropriate, disposed of. It is ensured that new IT systems being purchased have in-built retention and disposal processes. For existing IT systems, document management and disposal modules are being purchased.
Effect of Covid on finances	Governance	5	The responses focussed on the negative impact of the response to the Covid pandemic on income and finances in general.	The financial impacts to date have been managed in a timely and appropriate manner. Early engagement with the Department for Levelling Up, Housing and Communities, regular return of all financial management information, close monitoring of cashflow transactions, cost controls, regular member briefings and engagements. Transformational changes and solutions to financial shortfalls are in place and are expected to be continue. The council is also addressing the recommendations made in the Cipfa Assurance Review published in December 2021.

APPENDIX 4 – FEEDBACK RECEIVED FROM MANAGERS’ ASSURANCE STATEMENTS

Subject	Governance or Operational	Number of responses referencing this feedback out of a total of 20	Feedback Received	How these are being addressed/mitigated
Delegated powers	Governance	4	Perceived lack of understanding; scheme of delegation requires review; needs aligning across councils.	Training and 1-2-1's reinforce the importance of the delegated regime. A review of the scheme of delegation is underway as of April 2022. Scheme of delegations and constitutions continue to be reviewed and aligned to improve clarity.
Members	Governance	4	Giving advice to Members; Member demand on officer time; relationships between officers and members; dealing with complaints around Member conduct.	Training and 1-2-1's reinforce the importance of Members relations and ongoing training and communication to all staff/ members to ensure compliance. Complaints dealt with under Members Code of Conduct with refresher training planned.
Safeguarding	Governance	3	Keeping training up to date; ensuring the number of internal contacts is appropriate; ensuring the safeguarding of a vulnerable member of staff.	There are two online courses for Safeguarding, both of these are mandatory and must be undertaken by all staff. In the area where the number of contacts is low a review of safeguarding contacts is underway
Other	Operational	2	Delay in IT integration leading to extra costs	Work continues to deliver full integration as soon as possible.
	Operational	1	Effective communication of the financial position.	Communication with all staff has been carried out to explain the financial position and a report to Cabinet has also re-iterated this.

APPENDIX 4 – FEEDBACK RECEIVED FROM MANAGERS’ ASSURANCE STATEMENTS

Subject	Governance or Operational	Number of responses referencing this feedback out of a total of 20	Feedback Received	How these are being addressed/mitigated
Other	Operational	1	Addressing the Cipfa Assurance Review action plan.	The action plan has been reviewed and the recommendations allocated to relevant officers to complete. Regularly review of progress is carried out and reported to Corporate Management team
	Governance	1	Time pressures associated with providing legal implications for reports to Cabinet and committees.	Reports to Cabinet and committees routinely include legal implications which are drafted by a qualified lawyer. Staff are reminded to pass their reports to Legal as soon as possible.
	Operational	1	Engagement with local groups	Virtual meetings and consultations have been held via MS Teams, which have addressed concerns over being unable to meet in person. IT infrastructure put in place to hold remote meetings and also stream those meetings to the public live (via YouTube), in order to be lawful. Technology has also been put in place to allow hybrid meetings, where the participants can attend in-person or join via the internet.
	Governance	1	Risk of bribery in planning application process	Controls are in place to prevent this risk and the council has an Anti-Bribery Policy.
	Governance	1	Decision making	Decision making is kept transparent by reports presented to Cabinet and committees. These reports contain sections on financial appraisal, legal implications and risk management implications



APPENDIX 4 – FEEDBACK RECEIVED FROM MANAGERS’ ASSURANCE STATEMENTS

Subject	Governance or Operational	Number of responses referencing this feedback out of a total of 20	Feedback Received	How these are being addressed/mitigated
Other	Operational	1	Communications internally and externally	Working closely with the council’s press/ communication officer/s, Corporate Management team and colleagues. Various consultations are also carried out. Ongoing staff briefings are in place and the use of other more structured forums such as Corporate Management team, Senior Managers’ Forum, etc. on an ongoing basis. These forums and initiatives are kept under review.
	South East Environmental Services Ltd	1	Fuel costs and shortages	Maintain vigilance and relationships, especially with suppliers.
	Eastbourne Homes Limited	1	Some service level agreements are incomplete	Action to complete all service level agreements is ongoing.

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# **Annual Governance Statement**

## **Responsibility**

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

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

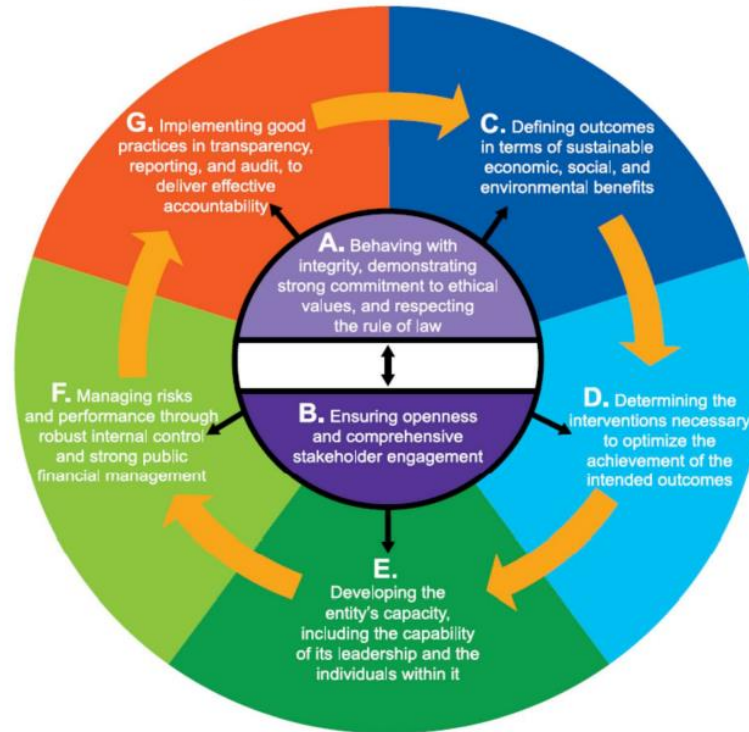
## **What is governance?**

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

Eastbourne Borough Council has approved and adopted a Local Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE *Delivering Good Governance in Local Government Framework 2016*. 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.

**Achieving the Intended Outcomes  
While Acting in the Public Interest at all Times**



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.

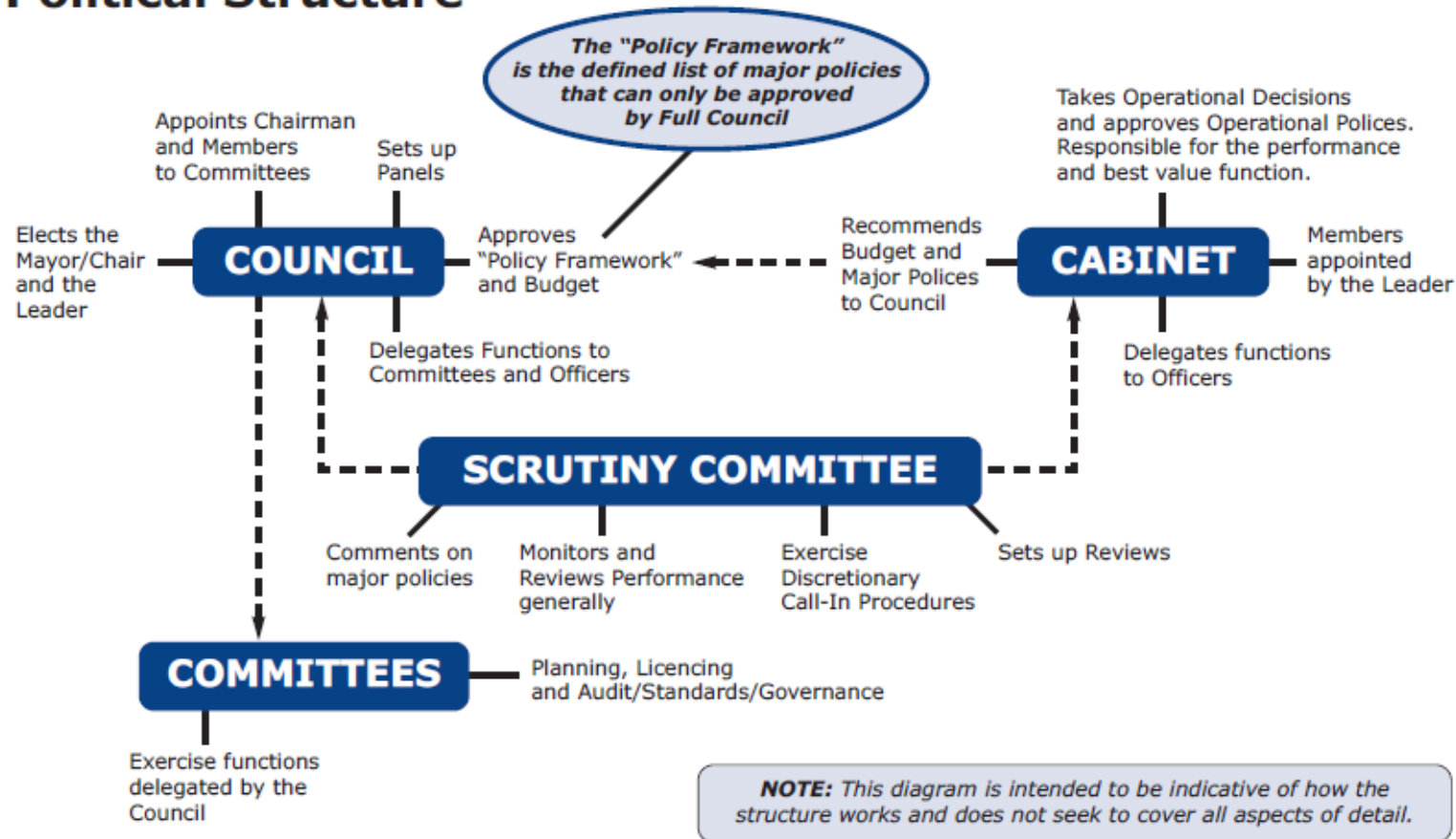
The production of this Annual Governance Statement forms part of the governance framework by providing a review of the governance arrangements in operation during the financial year.

## 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 Governance 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=124>

### Scrutiny 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=128>

### **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=125>

### **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, as laid out in the Corporate Code of Governance, 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.

### 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 respective Housing Revenue Accounts.	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>Eastbourne Borough 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>Lewes District 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>

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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
				Ownership of voting rights - More than 25% but not more than 50% Right to surplus assets - More than 25% but not more than 50%	
Eastbourne Housing Investment Company Ltd (EHICL) (1 May 2015)	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 EBC only. Company number: 09571387	Governed by Articles of Association and a Board of 5 directors made up of senior staff and Elected Members from Eastbourne Borough Council plus one Independent.	Eastbourne Borough Council. Ownership of shares – 75% or more Ownership of voting rights - 75% or more Right to appoint and remove directors.	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>
Eastbourne Homes Limited (24 January 2005)	Company active The Group's principal activities are to manage, maintain and improve the housing stock on behalf of Eastbourne Borough Council.	Company Company number: 05340097	Governed by Articles of Association and a Board of 9 directors, 4 independents, 3 tenants and 2 Elected Members from Eastbourne Borough Council made.	Private company limited by guarantee without share capital.	Eastbourne Homes Limited is controlled by Eastbourne Borough Council. The Parent Company was established as an Arm's Length Management Organisation (ALMO) in accordance with a Government policy initiative for local authority housing management.  <a href="http://www.lewes-eastbourne.gov.uk/about-the-councils/eastbourne-homes-limited-governance">www.lewes-eastbourne.gov.uk/about-the-councils/eastbourne-homes-limited-governance</a>
Eastbourne Downs Water Company (24 August 2016)	Company active To enable water to be supplied to farms on the downs in Eastbourne.	Company EBC only Company number: 10343551	Governed by their Articles of Association and a Board of 3 directors – made up of EBC/LDC senior staff.	Private company limited by guarantee without share capital	<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>
Investment Company	Company active.	Company	Governed by their Articles of Association and a Board of 3 Directors –	Private company limited by shares. The 2 shares are wholly	<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>

Eastbourne Borough Council – Annual Governance Statement – 2021-2022

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
Eastbourne Limited (26 March 2018)	The Council has established this wholly owned company for the purpose of providing a Guarantee to an institutional investor (Infrastructure Investments Ltd) relating to a property asset in Leicester.	Company number: 11276378	made up of EBC/LDC senior staff.	owned by Eastbourne Borough council.	
South East Environmental Services Ltd (31 August 2018)	Company active. To undertake domestic waste and recycling collection and street cleansing services in Eastbourne from 1 <sup>st</sup> July 2019 and to develop related services in the medium term thereafter.	Company Company number: 11545729	Governed by their Articles of Association and a Board of 5 Directors – made up of EBC senior staff and Elected Members.	Private company limited by shares. wholly owned by Eastbourne Borough council.	<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>
<b>Companies in which the council has an interest</b>					
Cloudconnx Limited (19 January 2011)	Company active To provide competitive internet services to Eastbourne, Wealden and East Sussex based businesses on network communication technologies providing high speed broad band circuit provision etc.	Company Company number: 07497266		Eastbourne Borough Council owns 45% of shares and represented on the board.	Broadband provision.
SEILL (South East Independent Living Limited) (30 September 2013)	Company active Company set up by Eastbourne Homes Ltd (see above) To deliver a short term housing floating support service for people of 65 and over who live in Eastbourne, Lewes and Wealden Districts. Navigator service for support for people 18 or over with long term physical health condition.	Company Company number: 08710235	Governed by their Articles of Association and Directors from Eastbourne Homes Limited including a Corporate Director	Wholly owned subsidiary of Eastbourne Homes Ltd. 1 Ordinary share owned by Eastbourne Homes Ltd.	Subsidiary of Eastbourne Homes Limited, established for the purposes of delivery of the STEPS contract and possibly bidding for similar future contracts. <a href="http://www.lewes-eastbourne.gov.uk/about-the-councils/south-east-independent-living-limited">www.lewes-eastbourne.gov.uk/about-the-councils/south-east-independent-living-limited</a>

### **Eastbourne Homes Ltd**

Governance arrangements at Eastbourne Homes Ltd (EHL) are also considered. Reviews are carried out and reports written by the internal and external auditors engaged by EHL which are reported to their own Audit and Risk Committee and Board. Currently EHL engages the council's Internal Audit section to carry out their internal audit reviews. At the end of year the Audit and Risk Committee of EHL have a minuted disclaimer concerning fraud and corruption.

### **Investment Company Eastbourne (ICE) Limited**

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

All relevant activities have been predetermined under the Development and Asset Management Agreement (DAMA) and will be consolidated into the council's financial statements. The DAMA entitles ICE to a degree of control over the activities of Infrastructure Investments Limited (IIL) and exposes it to a portion of the returns from those activities. IIL is a property company that holds and lets out the property. The activities of IIL are to manage the property and the tenancies and ensure maximisation of rental income and eventually sell the property.

The operations of IIL are run by its board of directors that are appointed by a majority of the shareholders as per Article 18.1 of IIL's Articles of Association. ICE does not currently have a majority of the shareholding in IIL, but has the ability to acquire 49.5% of the ordinary shares by virtue of its Option unless a default event occurs. Clause 1.1 of the DAMA sets out a requirement for the management of IIL to run IIL in accordance with the 'Business plan' and any changes to the 'Business plan' require approval by the ICE Board of Directors.

### **Local Government Finance Review – Cipfa/Department for Levelling Up, Housing and Communities**

Eastbourne Borough Council was one of a small number of local authorities to request exceptional financial support during the COVID-19 pandemic. The government agreed to the support, conditional on an external assurance review.

On 30 June the Secretary of State announced an external assurance review of Eastbourne Borough Council's financial position led by the Chartered Institute of Public Finance and Accountancy (CIPFA).

CIPFA's financial review set out detailed findings, including conclusions, evidence and methodology used, and included recommendations for the future. The council is currently undertaking work to address the recommendations made.

The full report can be found on the Gov.UK website: [Eastbourne Borough Council: external assurance review - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/103111/eastbourne-external-assurance-review-2021-2022.pdf)

### **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, the 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**

The response to the Covid-19 pandemic continues to affect the council’s finances which is likely to continue for some years. See the paragraph on the Local Government Finance Review for further information. The council has made a significant progress in delivering its Recovery and Stabilisation programme which is a key part of strengthening its future financial recovery and resilience. Through tighter financial controls and early delivery of some savings, the council has managed to reduce its capitalisation amounts from £12.8m to £7.6m.

**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 Governance Committee and that, subject to the actions identified above, the arrangements continue to be regarded as fit for purpose in accordance with the governance framework.

Signed on behalf of Eastbourne Borough Council:

.....

Leading Member

.....

Chief Executive

Date:

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<b>Report to:</b>	<b>Audit and Governance Committee</b>
<b>Date:</b>	<b>12 July 2022</b>
<b>Title:</b>	<b>Treasury management annual report 2021/22</b>
<b>Report of:</b>	<b>Homira Javadi, Chief Finance Officer</b>
<b>Cabinet member:</b>	<b>Councillor Stephen Holt, Cabinet Member for Finance</b>
<b>Ward(s):</b>	<b>All</b>
<b>Purpose of report:</b>	<b>To report on the activities and performance of the Treasury Management service during 2021/22</b>
<b>Decision type:</b>	<b>Budget and Policy Framework</b>
<b>Officer recommendation(s):</b>	<b>To recommend to Full Council (via Cabinet):</b> <b>(1) To agree the Annual Treasury Management report for 2021/22.</b> <b>(2) To approve the 2021/22 Prudential and Treasury Indicators included in the report.</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:</b>	<b>Name: Ola Owolabi</b> <b>Post title: Deputy Chief Finance Officer</b> <b>E-mail: <a href="mailto:ola.owolabi@lewes-eastbourne.gov.uk">ola.owolabi@lewes-eastbourne.gov.uk</a></b> <b>Telephone number: 01323 415083</b>

## **1 Introduction**

- 1.1 This Council is required through regulations issued under the Local Government Act 2003 to produce an annual treasury report reviewing treasury management activities and the actual prudential and treasury indicators for 2021/22. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).
- 1.2 During 2021/22 the minimum reporting requirements were that the full Council should receive the following reports:
- an annual treasury strategy in advance of the year (Council 24 February 2021)
  - a mid-year (minimum) treasury briefing.

- an annual report following the year describing the activity compared to the strategy (this report).
- 1.3 In addition, Treasury Management updates are included in the quarterly performance management reports, considered by both the Cabinet and Scrutiny Committee. Recent changes in the regulatory environment place a much greater responsibility on Members for the review and scrutiny of treasury management policy and activities. This report is important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members. This report will be considered by the Cabinet at its meeting on 13 July 2022 meeting.
- 1.4 This Council also confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit & Governance Committee before they were reported to the full Council. Member training on treasury management issues was undertaken on 21 October 2021, which is to support Members' scrutiny role and further training is expected to take place in 2022-23.
- 1.5 This report summarises:
- Capital programme activities during the year;
  - Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement (CFR));
  - Reporting of the required prudential and treasury indicators and changes to be approved;
  - Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances;
  - Summary of interest rate movements in the year;
  - Debt activity and investment activity.
  - Economic and Interest Rates
- 1.6 Treasury Management is an integral part of the Council's overall finances and the performance of this area is very important. Whilst individual years obviously matter, performance is best viewed on a medium / long term basis. The action taken in respect of the debt portfolio in recent years has been extremely beneficial and has resulted in savings. Short term gains might, on occasions, be sacrificed for longer term certainty and stability.
- 1.7 The criteria for lending to Banks are derived from the list of approved counter parties provided by the Council's Treasury Management advisors, Link Asset Services. The list is amended to reduce the risk to the Council by removing the lowest rated counterparties and reducing the maximum loan duration.
- 1.8 An economic commentary for the year was provided by the Council's treasury management advisors (Link), this is attached as Appendix C to this report. Bank Rate was 0.1% at the beginning of the year and despite the economy gathering

momentum after pandemic restrictions eased, market expectation was for rises to be delayed until 2022. Rising and persistent inflation changed that with Bank Rate rising to 0.75% at the end of the year.

- 1.9 During 2021 CIPFA published changes to its Prudential Code and Treasury Management Code of Practice. These follow the Public Accounts Committee's recommendation that the prudential framework should be further tightened following continued borrowing by some authorities for investment purposes.
- 1.10 In addition, HM Treasury issued, in May 2022, updated guidance on PWLB lending to authorities where there is more than a negligible risk of non-repayment. In the same month the Levelling Up and Regeneration Bill announced in the Queens Speech gives government more oversight of the Prudential Framework.
- 1.11 The main points of these new Codes, PWLB guidance and Levelling Up and Regeneration Bill are summarised at Appendix B.

### **EBC Capitalisation Direction**

- 1.12 Similar to other local authorities, EBC had discussions with the Department for Levelling Up, Housing and Communities (DLUHC) about Capitalisation Directive to help in dealing with 2020/21 deficit and balance the budget in 2021/22. Other councils that have been harder hit by Covid-19 have also requested support using this means across both years.
- 1.13 A capitalisation directive permits a Council to capitalise revenue expenditure if it is unable to set a balanced budget, has considered all other options, has limited reserves, and is increasing its Council Tax by the maximum permitted. The direction will only be granted in exceptional circumstances, and only the Secretary of State can permit this action legally.
- 1.14 The Minister of State for Regional Growth and Local Government in a letter (on 2nd February 2021) addressed to the Leader of the Council, states that:
- With respect to the financial year of 2020/21, the Secretary of State is content to approve a total capitalisation direction to fund revenue expenditure not exceeding £6.8m, subject to conditions set out in the capitalisation direction. *Actual revenue expenditure that was capitalised in 2020/21 was £4.6m.*
  - With respect to the financial year of 2021/22, the Secretary of State is minded to approve a capitalisation direction of a total not exceeding £6m. Again, such a direction may be subject to conditions, which would be set out in the capitalisation direction. *The 2021/22 expected actual revenue expenditure that will be capitalised is estimated to be £2.5m.*
- 1.15 These capitalisation figures are yet to be audited and any revisions to this amount will be reported at the future Committee meeting. The capitalisation direction impacts the Council's Capital Expenditure and Financing 2020/21 and 2021/22 (see para 2.2 below).

## 2 The Council's Capital Expenditure and Financing 2021/22

2.1 The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

2.2 The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

	2020/21 Actual £m	2021/22 Original Estimate £m	2021/22 Revised Estimate £m	2021/22 Actual £m
General Fund	1.8	8.8	8.2	2.1
Capitalisation Direction	4.6	6.0	4.4	2.5
HRA capital expenditure	3.9	19.8	9.2	6.9
Other Housing and Regeneration	7.0	4.6	15.7	18.2
<b>Total capital expenditure</b>	<b>17.3</b>	<b>39.2</b>	<b>37.6</b>	<b>29.7</b>
Resourced by:				
• Capital receipts (including capitalisation direction funding)	4.1	7.4	6.6	6.0
• Capital grants/external funding	2.6	5.2	4.6	3.9
• Capital Reserves	3.1	4.4	6.9	4.9
• Revenue	-	3.1	0.6	0.5
<b>Use of internal balances/ borrowing</b>	<b>7.5</b>	<b>19.1</b>	<b>18.9</b>	<b>14.4</b>

## 3 The Council's overall borrowing need

3.1 The Capital Financing Requirement (CFR) represents the Council's total underlying need to borrow to finance capital expenditure, i.e. capital expenditure that has not been resourced from capital receipts, capital grants and contributions or the use of reserves. Some of this borrowing is from the internal use of cash balances.

3.2 Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board [PWL] or the money markets), or utilising temporary cash resources within the Council.

- 3.3 **Reducing the CFR** – the Council’s (non HRA) underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision (MRP), to reduce the CFR. This is effectively a repayment of the non-Housing Revenue Account borrowing need (there is no statutory requirement to reduce the HRA CFR). This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR. The total CFR can also be reduced by:
- the application of additional capital financing resources (such as unapplied capital receipts); or
  - charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

3.4 The Council’s 2021/22 MRP Policy (as required by Department for Levelling Up, Housing and Communities Guidance) was approved as part of the Treasury Management Strategy Report for 2021/22 on 10<sup>th</sup> February 2021. The Council’s CFR for the year is shown below and represents a key prudential indicator.

CFR	31 March 2021 Actual £m	1 April 2021 Original Estimate £m	31 March 2022 Actual £m
Opening balance	172.8	180.7	179.0
Add unfinanced capital expenditure (per table 2.0)	7.5	19.1	14.4
Less MRP	(1.3)	(0.8)	(10.2)
<b>Closing balance</b>	<b>179.0</b>	<b>199.0</b>	<b>183.2</b>

*Note - the 2021/22 MRP of £10m includes EHIC loan repayment of £9m.*

- 3.5 Under the annuity methodology, MRP will be lower in the early years and increases over time. This is considered a prudent approach as it reflects the time value of money (i.e. the impact of inflation) as well as providing a charge that is better matched to how the benefits of the asset financed by borrowing are consumed over its useful life. That is, a method that reflects the fact that asset deterioration is slower in the early years of an asset and accelerates towards the latter years.
- 3.6 In the case of all capital spend financed by Prudential Borrowing; this will be subject to annuity methodology. MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction), i.e., where expenditure is capitalised, the Authority shall charge annual Minimum Revenue Provision using the asset life method with a proxy ‘asset life’ of no more than 20 years.
- 3.7 The borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the Authorised Limit.

**Net borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term, the Council's external borrowing net of investments, must only be for a capital purpose. This essentially means that the Council is not borrowing to support revenue expenditure.

Net borrowing should not therefore, except in the short term, have exceeded the CFR for 2020/21 plus the expected changes to the CFR over 2021/22 and 2022/23. This indicator allows the Council some flexibility to borrow in advance of its immediate capital need in 2021/22. The table below highlights the Council's net borrowing position against the CFR. The Council has complied with this prudential indicator.

	31 March 2021 Actual £m	1 April 2021 Original Estimate £m	31 March 2022 Actual £m
GF - Borrowing	54.2	51.9	52.1
HRA - Borrowing	47.8	54.6	48.2
Other Housing & Regeneration	57.4	72.8	59.9
<b>Net borrowing position</b>	<b>159.4</b>	<b>179.3</b>	<b>160.2</b>
CFR – General Fund	73.8	71.6	75.1
CFR – Housing (HRA)	47.8	54.6	48.2
Other Housing & Regeneration	57.4	72.8	59.9
<b>CFR</b>	<b>179.0</b>	<b>199.0</b>	<b>183.2</b>

3.8 **The Authorised limit** - the Authorised limit is the “affordable borrowing limit” required by s3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. The table below demonstrates that during 2021/22 the Council has maintained gross borrowing within its Authorised limit.

**The operational boundary** – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the Authorised limit not being breached.

**Actual financing costs as a proportion of net revenue stream** - this indicator identifies the trend in the cost of capital (borrowing and other long-term obligation costs net of investment income) against the net revenue stream.

Descriptions	1 April 2021	31 March 2022
Authorised limit	£199m	£199m
Operational boundary	£181m	£181m

Financing costs as a proportion of net revenue stream:		
Non HRA	8.4%	8.4%
HRA	11.1%	11.4%

#### **4 Treasury Position as at 31 March 2022**

4.1 The Council's debt and investment position is organised by staff within Financial Services in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities.

4.2 Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices. At the beginning and the end of 2021/22, the Council's treasury position was as follows:

Description	31 March 2021 Principal	Rate/ Return	31 March 2022 Principal	Rate/ Return
Fixed rate funding:				
-PWLB	£122.4m		£119.2m	
-Market	£37.0m		£41.0m	
<b>Total debt</b>	<b>£159.4m</b>	<b>2.10%</b>	<b>£160.2m</b>	<b>2.01%</b>
CFR	£179.0m		£183.2m	
Over/ (under) borrowing	(£19.6m)		(£23.0m)	
<b>Total investments (excl. cash)</b>	<b>£0m</b>		<b>£9.5m</b>	

The Council held cash balances of £6m in current and call accounts which earned an average of 0.11%.

4.3 The maturity structure of the debt portfolio was as follows:

	31 March 2021 Actual £m	31 March 2022 Actual £m
Under 12 months	40.21	5.45
12 months and within 24 Mths.	5.45	43.45
24 months and within 5 years	8.12	8.50
5 years and within 10 years	13.60	13.22

10 years and above	92.07	89.62
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The exposure to fixed and variable rates was as follows:

	31 March 2021		31 March 2022	
	Actual	£m	Actual	£m
Principal - Debt Fixed rate		159.4		160.2
Principal – Investments Variable rate		0		0

## 5 **The Strategy for 2021/22**

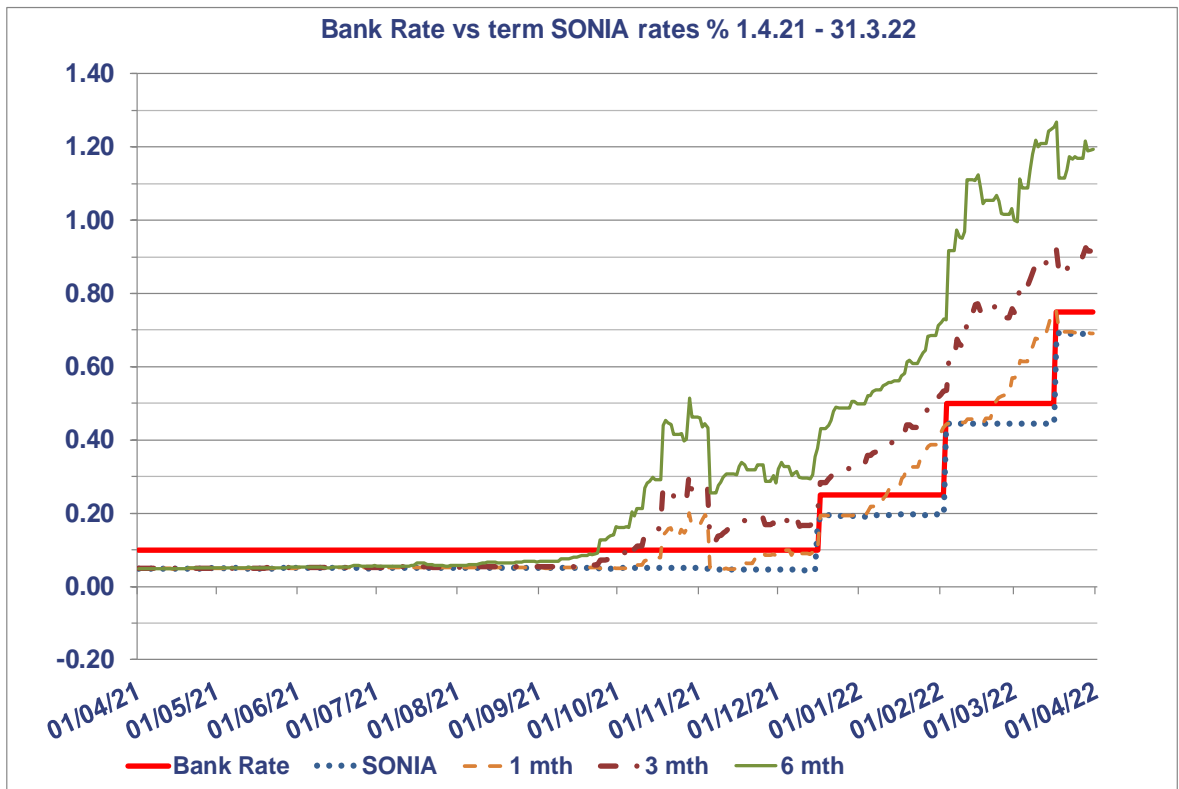
5.1 Investment returns plunged during 2021/22 to near zero or even into negative territory. Most local authority lending managed to avoid negative rates and one feature of the year was the growth of inter local authority lending.

5.2 The Bank of England and the Government also maintained various monetary and fiscal measures, supplying the banking system and the economy with massive amounts of cheap credit so that banks could help cash-starved businesses to survive the various lockdowns/negative impact on their cashflow. The Government also supplied huge amounts of finance to local authorities to pass on to businesses. This meant that for most of the year there was much more liquidity in financial markets than there was demand to borrow, with the consequent effect that investment earnings rates remained low until towards the turn of the year when inflation concerns indicated central banks, not just the Bank of England, would need to lift interest rates to combat the second-round effects of growing levels of inflation (CPI was 6.2% in February).

### 5.3 **Investment strategy and control of interest rate risk**

	Bank Rate	SONIA	1 mth	3 mth	6 mth
<b>High</b>	0.75	0.69	0.75	0.93	1.27
<b>High Date</b>	17/03/2022	18/03/2022	16/03/2022	28/03/2022	17/03/2022
<b>Low</b>	0.10	0.05	0.05	0.05	0.05
<b>Low Date</b>	01/04/2021	15/12/2021	10/11/2021	14/04/2021	09/04/2021
<b>Average</b>	0.19	0.14	0.17	0.24	0.34
<b>Spread</b>	0.65	0.65	0.71	0.88	1.22





5.4 Investment returns remained close to zero for much of 2021/22. Most local authority lending managed to avoid negative rates and one feature of the year was the continued growth of inter local authority lending. The expectation for interest rates within the treasury management strategy for 2021/22 was that Bank Rate would remain at 0.1% until it was clear to the Bank of England that the emergency level of rates introduced at the start of the Covid-19 pandemic were no longer necessitated.

5.5 This authority does not have sufficient cash balances to be able to place deposits for more than a month so as to earn higher rates from longer deposits. While the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

**Borrowing strategy**

5.6 During 2021/22, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt as cash supporting the Council’s reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were very low and minimising counterparty risk on placing investments also needed to be considered.

- 5.7 A cost of carry remained during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost – the difference between (higher) borrowing costs and (lower) investment returns.
- 5.8 The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this was kept under review to avoid incurring higher borrowing costs in the future when this authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

## 6 **Borrowing Outturn for 2021/22**

### 6.1 **Treasury Borrowing.**

**Borrowing** – The Council has not borrowed more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed. No new loans were drawn down from PWLB in 2021/22 to fund the net unfinanced capital expenditure and/or to replace maturing loans. Various temporary loans were taken to cover cash flow requirements. All loans drawn were for fixed rate and are detailed in Appendix A.

- 6.2 In taking this decision, the Council carefully considered achieving best value, the risk of having to borrow at higher rates at a later date, the carrying cost of the difference between interest paid on such debt and interest received from investing funds which would be surplus until used, and that the Council could ensure the security of such funds placed on temporary investment.

- **Rescheduling** – no debt rescheduling was carried out during the year as there was no financial benefit to the Council.
- **Repayment** – £760k of long term PWLB debt was repaid at maturity on 24 March 2022 and £2.45m was an instalment repayment for the repayment (EIP) loans. Various temporary loans were repaid during the year, see Appendix A.
- **Summary of debt transactions** – the overall position of the debt activity resulted in a fall in the average interest rate by 0.2%, representing a saving to the General Fund.

## 7 **Interest Rates in 2021/22**

- 7.1 The tight monetary conditions following the financial crisis continued through 2021/22 with little material movement in the shorter-term deposit rates. With many financial institutions failing to meet the Council's investment criteria, the opportunities for investment returns were limited. The PWLB rates (including the 0.2% reduction for Certainty Rate) at the beginning, average and end of the year are provided below.

Term	Interest Rate March 2021	Average Rate	Interest rate April 2022
1 Year	0.79%	1.12%	1.95%
5 Years	1.18%	1.45%	2.30%
10 Years	1.71%	1.78%	2.46%
25 Years	2.19%	2.10%	2.65%
50 Years	1.99%	1.84%	2.38%

## 8 Investment Outturn for 2021/22

8.1 **Investment Policy** – the Council's investment policy is governed by DLUHC guidance, which was been implemented in the annual investment strategy approved by the Council on 10 February 2021. This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

8.2 The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

8.3 **Resources** – the Council's longer-term cash balances comprise, primarily, revenue and capital resources, although these will be influenced by cash flow considerations. The Council's core cash resources comprised as follows, and met the expectations of the budget:

Balance Sheet Resources	31 March 2021 £m	31 March 2022 £m
GF Balances	3.23	6.25
Earmarked Reserves	7.35	8.23
HRA Balances	5.45	4.74
Major Repairs Reserve	2.57	2.60
Capital Grants & Contributions	1.44	3.59
Usable Capital Receipts	5.27	1.29
<b>Sub Total</b>	<b>25.31</b>	<b>26.70</b>
S31 Grant Reserve	10.16	4.14
<b>Total</b>	<b>35.47</b>	<b>30.84</b>

8.4 **Investments held by the Council** - the Council maintained an average balance of £8.3m of internally managed funds. The internally managed funds earned an average rate of return of 0.11%.

8.5 Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Authority's

objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

- 8.6 Ultra-low short-dated cash rates, which were a feature since March 2020 when Bank Rate was cut to 0.1%, prevailed for much of the 12-month reporting period which resulted in the return on sterling low volatility net asset value (LVNAV) Money Market Funds being at, or close to zero even after some managers have temporarily waived or lowered their fees. However, higher returns on cash instruments followed the increases in Bank Rate in December, February and March. At 31st March, the 1-day return on the Council's MMFs ranged between 0.48% - 0.58% p.a.
- 8.7 Similarly, deposit rates with the Debt Management Account Deposit Facility (DMADF) initially remained very low with rates ranging from 0% to 0.1% but following the hikes to policy rates increased to between 0.55% and 0.85% depending on the deposit maturity. The average return on the Authority's DMADF deposits in year was 0.08%.

## 9 **Executive Summary and Conclusion**

- 9.1 During 2021/22, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Actual prudential and treasury indicators	2020/21 Actual £m	2021/22 Original Estimate £m	2021/22 Actual £m
Capital expenditure	17.3	39.2	29.7
Total Capital Financing Requirement:			
• General Fund	73.8	71.6	75.1
• HRA	47.8	54.6	48.2
• Other Housing & Regeneration	<u>57.4</u>	<u>72.8</u>	<u>59.9</u>
• Total	179.0	199.0	183.2
Net borrowing	159.4		150.7
External debt	159.4		160.2
Investments (all under 1 year)	-		9.5

- 9.2 Other prudential and treasury indicators are to be found in the main body of this report. The Chief Finance Officer also confirms that borrowing was only undertaken for a capital purpose and the statutory borrowing limit (the Authorised limit), was not breached. The financial year 2021/22 continued the challenging environment of previous years; low investment returns, and continuing counterparty risk continued.

## **10 The Economy and Interest Rates Forecast**

- 10.1 The Council's treasury advisor, Link, provides the *Economy and Interest Rates Forecast, which is attached as Appendix C.*

## **11 Other**

- 11.1 CIPFA consultations: In February 2021 CIPFA launched two consultations on changes to its Prudential Code and Treasury Management Code of Practice. These follow the Public Accounts Committee's recommendation that the prudential framework should be further tightened following continued borrowing by some authorities for investment purposes. These are principles-based consultations and will be followed by more specific proposals later in the year.

- 11.2 In the Prudential Code the key area being addressed is the statement that "local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed". Other proposed changes include the sustainability of capital expenditure in accordance with an authority's corporate objectives, i.e., recognising climate, diversity and innovation, commercial investment being proportionate to budgets, expanding the capital strategy section on commercial activities, replacing the "gross debt and the CFR" with the liability benchmark as a graphical prudential indicator.

- 11.3 Proposed changes to the Treasury Management Code include requiring job specifications and "knowledge and skills" schedules for treasury management roles to be included in the Treasury Management Practices document and formally reviewed, a specific treasury management committee for MiFID II professional clients and a new TMP 13 on Environmental, Social and Governance Risk Management.

- 11.4 **IFRS 16:** The implementation of the new IFRS 16 Leases accounting standard was due to come into force for local authorities from 1st April 2022. Following a consultation CIPFA/LASAAC announced an optional two-year delay to the implementation of this standard a decision which was confirmed by the Financial Reporting Advisory Board in early April 2022. Authorities can now choose to adopt the new standard on 1st April 2022, 1st April 2023 or 1st April 2024. The Chief Finance Officer intends for the Council to adopt the new standard on 1st April 2024, if resources permit adoption from April 2023 will be considered

## **12 Investment Consultants**

- 12.1 The Council has recently appointed Link Treasury Services Limited as its Treasury Adviser for an initial two-year term expiring on 30 May 2023, with the Council having the option to extend, if required. The Link Treasury Services has been appointed to support both the Lewes District Council and Eastbourne Borough Council, given that a shared finance team (with treasury management responsibility) has been established.

## **13 Reporting and Training**

13.1 The Chief Finance Officer reported the details of treasury management activity to each regular meeting of the Audit and Standards Committee and Cabinet held in 2021/22. A mid-term summary report was issued in November 2021.

13.2 The training needs of the Council's treasury management staff were reviewed as part of the annual corporate staff appraisal/training needs assessment process for all Council employees. Members of staff attended, where appropriate, Links workshops alongside colleagues from other local authorities during 2021/22. In 2021/22, Link Asset Services continue to meet with Council officers to explain developments within the sector, as well as review the Council's own investment and debt portfolios.

## **14 Corporate plan and council policies**

14.1 The priority themes were considered as part of the overall Capital Programme which forms part of the Treasury Management Strategy.

## **15 Financial appraisal**

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

## **16 Legal implications**

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

## **17 Risk management implications**

17.1 Risks relating to the timing of borrowing and terms of borrowing are considered and advice is provided by Link. Risk management is considered for each of the schemes within the Capital Programme.

## **18 Equality analysis**

18.1 Equality issues are considered

## **19 Appendices**

- Appendix A - Temporary loans taken during 2021/22.
- Appendix B - Revised CIPFA Codes, Updated PWLB Lending Facility Guidance
- Appendix C - The Economy and Interest Rates
- Appendix D - Glossary - Local Authority Treasury Management Terms

## **20 Background papers**

20.1 The Background Papers used in compiling this report were as follows:

- CIPFA Treasury Management in the Public Services code of Practice (the Code)
- Cross-sectorial Guidance Notes
- CIPFA Prudential Code
- Treasury Management Strategy and Treasury Management Practices.
- Link Asset Services Citywatch and interest rate forecasts

## Appendix A

### Temporary loans taken during 2021/22

Lender - Temp Debt	£m	Start Date	End Date	Rate
West Midlands Combined Authority	10	21-May-21	21 Jan 22	0.07%
Northern Ireland Housing Executive	7.0	20-Sep-21	20-Jun-22	0.07%
Middlesbrough Teeside Pension Fund	5.0	22-Nov-21	23-May-22	0.04%
West Midlands Combined Authority	10.0	21-Jan-22	20-Jan-23	0.25%
Hyndburn BC	2.0	28-Feb-22	27-Feb-23	0.70%
Swansea City & County	5.0	01-Mar-22	24-Jun-22	0.57%
Rotherham MBC	2.0	16-Mar-22	16-Jun-22	0.75%
Middlesbrough Council	5.0	11-Mar-22	29-Jul-22	0.79%
Greater Manchester Pension Fund	5.0	21-Mar-22	22-Aug-22	0.70%

### Long Term Loans taken during 2021/22

Lender - Long Term Debt	£m	Start Date	End Date	Rate
None				

Maturity loans – repayment is due in full at maturity.

EIP loans – loans are repaid over the term of the loan in equal instalments paid half yearly.



## Appendix B

### Revised CIPFA Codes, Updated PWLB Lending Facility Guidance

In August 2021 HM Treasury significantly revised guidance for the PWLB lending facility with more detail and 12 examples of permitted and prohibited use of PWLB loans. Authorities that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB except to refinance existing loans or externalise internal borrowing. Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management.

CIPFA published its revised Prudential Code for Capital Finance and Treasury Management Code on 20th December 2021. The key changes in the two codes are around permitted reasons to borrow, knowledge and skills, and the management of non-treasury investments.

The principles of the Prudential Code took immediate effect although local authorities could defer introducing the revised reporting requirements and the Council will implement the new Code fully commencing from the 2023/24 financial year. To comply with the Prudential Code, authorities must not borrow to invest primarily for financial return. This Code also states that it is not prudent for local authorities to make investment or spending decision that will increase the CFR unless directly and primarily related to the functions of the authority. Existing commercial investments are not required to be sold; however, authorities with existing commercial investments who expect to need to borrow should review the options for exiting these investments.

Borrowing is permitted for cashflow management, interest rate risk management, to refinance current borrowing and to adjust levels of internal borrowing. Borrowing to refinance capital expenditure primarily related to the delivery of a local authority's function but where a financial return is also expected is allowed, provided that financial return is not the primary reason for the expenditure. The changes align the CIPFA Prudential Code with the PWLB lending rules.

Unlike the Prudential Code, there is no mention of the date of initial application in the Treasury Management Code. The TM Code now includes extensive additional requirements for service and commercial investments, far beyond those in the 2017 version.

The Council will follow the same process as the Prudential Code, i.e. delaying changes in reporting requirements to the 2023/24 strategy year.

### Public Works Loan Board (PWLB) – updated guidance for applicants

On 12th May 2022 HM Treasury issued an update to PWLB lending guidance, addressing lending to authorities where there is more than a negligible risk of non-repayment. The update states that where HM Treasury considers that a local authority may be at risk of being unable to repay PWLB lending, it will engage with that local authority to establish the extent of the risk of non-repayment. **Loans will not generally be advanced where there is a more than negligible risk of non-repayment.**

HM Treasury will generally consider that where a local authority is actively and constructively engaged with Government on addressing financial risk, that local authority is sufficiently managing risk of non-repayment. This includes where a local authority is working with the government as part of ongoing financial support measures. In such cases, HM Treasury will work with the relevant department to assess any risks to the PWLB.

The Department for Levelling Up, Housing and Communities (DLUHC) has announced plans to bring forward measures to provide the government with appropriate powers to directly address excessive risk arising from local government investing and borrowing practices. Where DLUHC believes it to be probable that a local authority would fall within the scope of the powers, it will be engaging with them immediately to get a better understanding of their risk positions in advance of the powers coming into force and to reach agreement on any actions needed to address government concerns.

### **Levelling Up and Regeneration Bill**

The Levelling Up and Regeneration Bill that was included in the Queen's Speech in May 2022 proposes to introduce new powers into the Local Government Act 2003 for capital finance risk management. The proposals would represent an increase in the Government's oversight of the Prudential Framework and its ability to intervene.

Under the proposals, the Secretary of State would be able to issue risk mitigating directions to an authority if a trigger event has occurred. A direction will be able to place borrowing limits on an authority or require it to take specified action, which could include disposing of an identified asset.

One such trigger event is if a risk threshold is breached. For the assessment of risk thresholds, there will be a range of capital risk metrics, whose basis of calculation will be specified, as will the thresholds against which breaches are to be measured. The metrics specified in the Bill are:

- the total debt (including credit arrangements) as compared to the financial resources of the authority
- the proportion of the total capital assets which are investments made, or held, wholly or mainly to generate financial return
- the proportion of the total debt (including credit arrangements) in relation to which the counterparty is not central government or a local authority
- the amount of minimum revenue provision charged to a revenue account for a financial year
- any other metric specified by regulations.

The Secretary of State will have the power to appoint an independent expert to review the level of an authority's financial risk. Authorities will be required to co-operate with the expert in any way that they consider necessary or expedient for the purposes of the conduct of the review, as far as this is practicable.

## Appendix C

### The Economy and Interest Rates by Link Treasury Services Limited

UK. Economy. Over the last two years, the coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings until raising it to 0.25% at its meeting on 16th December 2021, 0.50% at its meeting of 4th February 2022 and then to 0.75% in March 2022.

The UK economy has endured several false dawns through 2021/22, but with most of the economy now opened up and nearly back to business-as-usual, the GDP numbers have been robust (9% y/y Q1 2022) and sufficient for the MPC to focus on tackling the second-round effects of inflation, now that the CPI measure has already risen to 6.2% and is likely to exceed 8% in April.

Gilt yields fell towards the back end of 2021, but despite the war in Ukraine gilt yields have shot higher in early 2022. At 1.38%, 2-year yields remain close to their recent 11-year high and 10-year yields of 1.65% are close to their recent six-year high. These rises have been part of a global trend as central banks have suggested they will continue to raise interest rates to contain inflation.

Historically, a further rise in US Treasury yields will probably drag UK gilt yields higher. There is a strong correlation between the two factors. However, the squeeze on real household disposable incomes arising from the 54% leap in April utilities prices as well as rises in council tax, water prices and many phone contract prices, are strong headwinds for any economy to deal with. In addition, from 1st April 2022, employees also pay 1.25% more in National Insurance tax. Consequently, inflation will be a bigger drag on real incomes in 2022 than in any year since records began in 1955.

Average inflation targeting. This was the major change in 2020/21 adopted by the Bank of England in terms of implementing its inflation target of 2%. The key addition to the Bank's forward guidance in August 2020 was a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably". That mantra now seems very dated. Inflation is the "genie" that has escaped the bottle, and a perfect storm of supply side shortages, labour shortages, commodity price inflation, the impact of Russia's invasion of Ukraine and subsequent Western sanctions all point to inflation being at elevated levels until well into 2023.

## Appendix D

### 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>	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.  The CFR increases with capital expenditure and decreases with capital finance and MRP.
<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>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>Terms</b>	<b>Descriptions</b>
<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>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>Terms</b>	<b>Descriptions</b>
<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>Total return</b>	The overall return on an investment, including interest, dividends, rent, fees and capital gains and losses.