

# Audit and Governance Committee

## 28 November 2023



Working in partnership with **Eastbourne Homes**

**Time and venue:**

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

**Membership:**

**Councillor Christina Ewbank (Chair); Councillor Ali Dehdashty (Deputy-Chair);**

**Councillors Kathy Ballard, Daniel Butcher, Andy Collins, Hugh Parker, Kshama Shore, David Small and Stephen Gilbert (Audit Independent Member)**

**Quorum: 2**

*Published: Monday, 20 November 2023*

## Agenda

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

To confirm and sign the minutes of the previous meeting held on 5 October 2023.

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

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

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

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

**5 Urgent items of business.**

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

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

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

**7 External Audit update**

A verbal update by the Council's External Auditor, Deloitte.

- 8 Annual report on Covert Surveillance Management (Pages 11 - 16)**  
Report of the RIPA (Regulation of Investigatory Powers Act 2000) Monitoring Officer.
- 9 External Assessment Report (Pages 17 - 38)**  
Report of the Chief Internal Auditor.
- 10 Internal Audit and Counter Fraud Work Report - Quarter 2 (Pages 39 - 56)**  
Report of the Chief Internal Auditor.
- 11 Treasury Management Quarterly Update (Pages 57 - 78)**  
Report of the Director of Finance and Performance.
- 12 Strategic Risk Register Quarterly Review (Pages 79 - 86)**  
Report of the Chief Internal Auditor.
- 13 Date of next meeting**  
To note that the next meeting of the Audit and Governance Committee is scheduled for Wednesday 28 February 2024.

## Information for the public

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### Public participation:

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# Information for Councillors

## Disclosure of interests:

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

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

## Councillor right of address:

Councillors wishing to address the meeting who are not members of the committee must notify the Chairman and Democratic Services in advance (prior to the start of the meeting), with the exception of Planning Committee meetings where registering to speak must be made in accordance with the relevant public speaking rules set out in the Council's constitution.

## Democratic Services

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Working in partnership with **Eastbourne Homes**

## **Audit and Governance Committee**

**Minutes of meeting held in Court Room at Eastbourne Town Hall, Grove Road, BN21 4UG on 5 October 2023 at 6.00 pm.**

### **Present:**

Councillor Christina Ewbank (Chair).

Councillors Ali Dehdashty (Deputy-Chair), Kathy Ballard, Daniel Butcher, Hugh Parker, Kshama Shore, David Small and Stephen Gilbert (Audit Independent Member).

### **Officers in attendance:**

Steven Houchin (Interim Deputy Chief Finance Officer (Corporate Finance)), Jackie Humphrey (Chief Internal Auditor) and Elaine Roberts (Committee Officer).

### **Also in attendance:**

Ben Sheriff and Tanya Chikari, External Auditors, Deloitte (until after Agenda Item 7)

## **12 Minutes**

The minutes of the last meeting, held 28 June 2023, were confirmed as an accurate record and signed by the Chair.

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

Apologies were received from Councillor Collins and from Director of Finance and Performance, Homira Javadi.

Councillor Rodohan attended as substitute for Councillor Collins.

## **14 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.

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

The Chair confirmed that no questions had been received from members of the public.

## **16 Urgent items of business.**

There were none.

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

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

**18 External Audits Update**

Steven Houchin, Interim Deputy Chief Finance Officer (IDCFO) presented a verbal update on the current status of the outstanding external audits. Ben Sheriff and Tanya Chikari from Deloitte attended remotely.

The IDCFO reported that Deloitte and the Council's Finance Team were currently working to complete the 2020/21 audit, with weekly meetings to monitor progress and resolve issues. In addition, senior finance managers from Deloitte and the Council were meeting periodically to check progress with a view to bringing a final set of financial statements for 2020-21 to committee in February 2024.

The IDCFO noted a clear ambition on both sides to complete the remaining audits for 2021/22 and 2022/23 as soon as possible, particularly given the transfer of external audit responsibilities to Grant Thornton in April 2024, and that a delivery timeframe would be presented at the next committee meeting in November.

The IDCFO concluded with an update on the national situation regarding delays to local authority external audits, and the Government's potential plan to mitigate the issue. This included setting statutory deadlines to clear the backlog of delayed audits and accepting, in consequence that some external audits may be submitted with qualifications and disclaimers of opinion in the short term.

The Committee considered the update.

In the following discussion, Members raised concerns over the continued slippage of deadlines and subsequent loss of confidence in future deadlines being met.

Other topics of discussion included Deloitte's allocation of resources, and Deloitte's own internal processes of drafting statements. Deloitte and Officers explained that capitalised expenditure was specifically recognised in all audit statements and the treatment of capitalised expenses for 2021/22 specifically would be reported to Members.

Officers clarified that, currently, Deloitte was responsible for completing audits up to and including 2022-23, but noted the arrangement could change following Government's final decisions on how to address the backlog.

The Committee invited the view of the Chief Internal Auditor (CIA) regarding risk management of late audits. The CIA explained that, as all returned external audits were unqualified, no specific risks had been identified other than reputational. However, if the Government was to propose the filing of qualified

accounts as a measure to address the backlog then the Audit Team would consider it appropriate to undertake risk analysis.

**Resolved (unanimous):**

To note the report.

**19 Update and alignment of Scheme of Delegations to Officers**

Simon Russell, Monitoring Officer, introduced the report and Oliver Dixon, Lawyer and Data Protection Officer, explained the purpose and scope of the Scheme, and the rationale and benefits for aligning and updating the individual Schemes for both Lewes District and Eastbourne Borough Councils.

Oliver Dixon described the consultation with officers and the in-depth revision work carried out by Members, via the cross-party Constitution Working Group), which had informed the refresh of the Scheme, and talked through the key revisions detailed in Appendix 1 of the report.

Following comments from members, Officers clarified queries around the recording of decisions taken under delegated powers and also noted that this area would be reviewed for best practice as part of the ongoing work to refresh the constitution.

In the course of discussions, Officers confirmed that:

- Bids for grants to outside bodies made under delegated powers should be linked with Council's core functions (page 29 B22)
- in cases of injustice by mal-administration, levels of compensation were recommended by the local government ombudsman (pg 31 – B34)
- an edit would be made to change 'should' to 'must' (pg 45 – Limitations relating to C42(vi) and (vii))
- Suffix C indicated the delegated power derived from functions of the Full Council.
- Delegated decisions on whether to accept or refuse a nomination that a property be listed as an 'Asset of Community Value' (ACV) (pg 55/58, C82 and C101) were taken by a panel of specialist officers, with due regard to legal advice. The determination of ACV nominations was highly legalistic and followed a technical procedure under the Localism Act 2011 and associated regulations. For this reason, the decision was not referred to members. However, the Head of Property and Asset Management would notify the relevant ward members that a nomination had been received for a property in their area.

At the end of the considerations, Officers thanked the cross-party Constitution Working Group for its work and the constructive comments from the Committee.

**Resolved (unanimously):**

- (1) To recommend to Cabinet the updated and aligned Scheme of Delegations to Officers (executive functions only) set out in Appendix 1

(2) To recommend to Full Council the updated and aligned Scheme of Delegations to Officers (council functions only) set out in Appendix 1

## **20 Treasury Management**

Steven Houchin, Interim Deputy Finance Officer (IDCFO), provided a summary of recent Treasury Management activities for the quarter one period, April to June inclusive, 2023 and the Committee considered the report.

Officers agreed to make copies of a number of documents referenced in the report available to members, specifically the:

- Strategy Statement (pg 75)
- Treasury Management Strategy Statement (pg 81)
- Treasury Management Practices (pg 81)
- Treasury Management and Investment Strategy

In response to queries from Members, Officers clarified and explained a number of points from the report, including:

- That banks set maximum limits on cash accounts;
- That the Council had the option to generate income by lending any surplus cash to other local authorities;
- That long term debt had not changed since the last report to the Committee in June 2023.
- That while interest rates remained volatile the Council was adopting an approach, under advice, to use short term debt options (when long term debts matured), to avoid committing the Council to long term high interest rates.
- That the £178m quoted in the report was based on current prudential indicators and expectations of grant funding.
- That the forecast for debt increases was an estimate for the year end but would be influenced by councillor decisions made through the remainder of the financial year, and that the Council did not currently borrow to invest.
- That Officers would check and feedback to Members the exact amount of interest paid.

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

To note the report of the Director of Finance and Performance and the assurances contained within and that Treasury Management Activities for the period April to June 2023 had been in accordance with the approved Treasury Strategies.

## **21 Internal Audit and Counter Fraud Report for first quarter of financial year 2023-2024 - 1st April 2023 to 30th June 2023**

Jackie Humphrey, Chief Internal Auditor (CIA) introduced the report, which summarised the work carried out by the Internal Audit and Counter Fraud teams during the first quarter of the financial year 2023-24 and provided



an update on progress with 'follow-ups'. The CIA also noted that the team planned to refresh the process adopted for next year's work programme and these would be explained once in progress, and that the vacant post within the team had now been filled.

Members thanked the CIA for the clarity and comprehensive nature of the report.

Following questions and comments from Members, the CIA explained that the timeline for setting up a Local Authority Controlled company (LAC) (pg 94, 2.5) had not been finalised, confirmed that the Audit Team would be mindful of ensuring follow ups if progress was slow and assured Members that any future risk assessment requirements would be addressed by the wider revision of the risk assessment process currently underway.

The CIA clarified that there was a net gain benefit for the Council when Counter Fraud activities of both retrieval and prevention of spend were considered combined. The CIA also noted the value of deterring attempted fraud, gained from publicising Council successes in prevention and detection and would investigate a possible model to demonstrate recovery versus costs ratio for future reports.

The Committee commented on the outstanding issues regarding the Construction Industry Scheme and recognised the work being undertaken by the Council to address issues around debt collection.

**Resolved (unanimously):**

To note the information in the report and that the case for information requirements had been made during the course of the discussion.

**22 Strategic Risk Register Quarterly Review**

Jackie Humphrey, Chief Internal Auditor (CIA) introduced the report, which noted changes to the risk register made by the Corporate Management Team (CMT) following its quarterly review of the register.

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

In the following discussions, it was agreed that the CIA would:  
Request an update from the Head of IT on work to build resilience and best practice, including current back-up arrangements

Investigate if and how the Risk Register software could facilitate capturing the rationale for a new topic being included.

**Resolved (unanimously):**

To note the update to the Strategic Risk Register.

**23 Date of next meeting**

The date of the next meeting was confirmed as Wednesday 22<sup>nd</sup> November 2023, at 6pm, in the Court Room, Eastbourne Town Hall.

The meeting ended at 8.21 pm

Councillor Christina Ewbank (Chair)

<b>Report to:</b>	<b>Audit and Governance Committee</b>
<b>Date:</b>	<b>28 November 2023</b>
<b>Title:</b>	<b>Annual report on Covert Surveillance Management</b>
<b>Report of:</b>	<b>RIPA Monitoring Officer</b>
<b>Ward(s):</b>	<b>All</b>
<b>Purpose of report:</b>	<b>To provide an overview of the Council's use of covert surveillance powers in 22/23</b>
<b>Officer recommendation(s):</b>	<b>To note the covert surveillance summary for September 2022 to September 2023</b>
<b>Reasons for recommendations:</b>	<b>Best practice requires an annual update to the Committee on Covert Surveillance Policy adherence</b>
<b>Contact Officer(s):</b>	<b>Name: Lee Ewan Post title: Counter-Fraud Investigations Manager and RIPA Monitoring Officer E-mail: <a href="mailto:lee.ewan@lewes-eastbourne.gov.uk">lee.ewan@lewes-eastbourne.gov.uk</a> Telephone number: 01323 415123</b>

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## **1 Introduction**

1.1 On 23 November 2022, the Audit and Governance Committee approved:

(i) the Council's updated policy on the use of covert surveillance and covert human intelligence sources; and

(ii) the Council's new policy on the acquisition of communications data.

Both policies were drafted to comply with the recommendations stemming from IPCO's (Investigatory Powers Commissioner's Office) 2022 inspection of the Council's surveillance arrangements.

1.2 Officers are required to report annually to the Committee on action taken under these policies. Accordingly, the information set out in the report below covers the period since September 2022.

## **2 Legislative and Policy Background**

2.1 Part 2 of the Regulation of Investigatory Powers Act 2000 ('RIPA') provides for the authorisation by certain public bodies, including Eastbourne Borough Council, of 'Directed Surveillance'.

- 2.2 'Directed Surveillance' is covert surveillance carried out in relation to a specific investigation or operation in such a manner as is likely to result in the obtaining of private information about any person, other than by way of immediate response to events or circumstances.
- 2.3 In conducting directed surveillance, the Council must comply not just with RIPA but with the relevant Home Office code of practice and the Council's own policy, links to which are provided in paragraph 12 below.
- 2.4 In procedural terms, the most important steps under RIPA are for the directed surveillance to be authorised internally by a trained and designated senior manager, and for that authorisation to be approved by a justice of the peace, i.e. a magistrate or district judge.
- 2.5 At both stages, the authorising officer and JP must be satisfied that the proposed surveillance is necessary for the prevention or detection of a crime punishable, on conviction, by a custodial sentence of at least six months; and is proportionate to what is sought to be achieved by carrying it out. This involves balancing the seriousness of the intrusion into the privacy of the subject (or any other person who may be affected) against the need for the activity in investigative and operational terms.

### **3 Governance Arrangements**

- 3.1 IPCO provides independent oversight of the use of investigatory powers by intelligence agencies, police forces and other public authorities. Its purpose is to oversee how these powers are used, taking account of the public interest and ensuring that investigations are conducted in accordance with the law.
- 3.2 IPCO's oversight includes the inspection of public authorities. Lewes and Eastbourne Councils are inspected once every three years, most recently in June 2022. Details of the recommendations from the inspection can be found in paragraph 6.1.
- 3.3 Internally, the Council regulates its use of surveillance powers through specially trained managers, consisting of:
- RIPA Senior Responsible Officer – Oliver Dixon
  - RIPA Monitoring Officer – Lee Ewan
  - RIPA Authorising Officers – Tim Whelan and Linda Farley
- 3.4 To ensure continuing capability over the past 12 months, Oliver Dixon attended a RIPA Senior Responsible Officer refresher course and Tim Whelan attended a RIPA Authorising Officer refresher course, both in November 2022. An additional RIPA Authorising Officer refresher course has been organised for Linda Farley in February 2024.
- 3.5 Surveillance arrangements are also subject to periodic internal audit.

## **4 Use of Covert Surveillance Powers between September 2022 and September 2023**

- 4.1 Over the period September 2022 – September 2023, no council officer sought authorisation to conduct directed surveillance, to use a covert human intelligence source (CHIS) or to acquire communications data. Accordingly, no authorisations for these activities were granted during this time.
- 4.2 The non-use of directed surveillance powers is in part explained by the strict criteria relating to authorisation, as detailed in paragraph 2.5 above. The Council continues to investigate suspected criminal offences (mainly fraud), breach of tenancy agreements and non-payment of fees or taxes but, in the overriding majority of cases, directed surveillance cannot be justified under RIPA criteria and is therefore not used.
- 4.3 The Council's Neighbourhood First officers wear highly visible uniforms which helps deter criminal activity in the community. Any surveillance they undertake to deter fly tipping is done using cameras mounted on lamp posts but with highly visible signage intended to make potential offenders aware. Such activity amounts to overt surveillance which falls outside of the scope of this report, as it is not regulated by RIPA 2000 or the Investigatory Powers Act 2016.

## **5 Online Surveillance**

- 5.1 Certain council teams may from time to time use open-source material available on the internet to confirm the identity and circumstances of persons who (a) are in significant debt to the Council and need to be traced or (b) may be the subject of, or associated with, a counter-fraud investigation
- 5.2 Controls are in place to minimise the risk that use of open source material to confirm an online presence (which, because it is in the public domain, does not intrude on the person's right to a private and family life) does not develop into 'directed surveillance' and therefore require express authorisation to render it a lawful interference with their right to privacy.
- 5.3 Typically, online research may amount to directed surveillance if it becomes highly targeted through focused and systematic monitoring of an individual over a period of time, resulting in a profile or record of that person's activities being created and used, with a view to potential legal proceedings. Such surveillance may lawfully proceed only if it (a) meets the crime threshold – see paragraph 2.5; and (b) is authorised in accordance with RIPA procedures.
- 5.4 Controls are also in place to ensure that creating a covert profile to establish an online connection with a person whose social media profile is not open to the public may not proceed without the necessary authorisation.
- 5.5 The RIPA Monitoring Officer is meeting with the relevant Council teams to review the control arrangements and reinforce compliance.

5.6 Historically, the directed surveillance operations conducted by the Council have all related to fraud within the ambit of the Fraud Act 2006 and therefore liable to a penalty that would meet the crime threshold specified in paragraph 2.5 above.

## **6 IPCO Recommendations**

6.1 IPCO made one recommendation following their inspection of the Council's surveillance management systems in June 2022 which has now been implemented. The recommendation centred on amendments to the Council's RIPA policies to incorporate the retention, review and destruction (RRD) of data gathered utilising the covert powers available. IPCO's report adds that the policies should carry clear instructions on the need to undertake RRD of covertly gathered material and to comply with the safeguarding chapters found within the Home Office Codes of Practice.

## **7 Financial appraisal**

7.1 There are no financial issues associated with this report.

## **8 Legal implications**

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

## **9 Risk management implications**

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

## **10 Equality analysis**

10.1 There are no equality issues associated with this report.

## **11 Environmental sustainability implications**

11.1 There are no environmental issues with this report

## **12 Background Papers**

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

- [Home Office Code of Practice on Communications Data \(November 2018\)](#)
- [LEC's policy on use of covert surveillance and/or covert human intelligence sources](#)
- [LEC's policy on the acquisition of communications data](#)

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<b>Report to:</b>	<b>AUDIT AND GOVERNANCE COMMITTEE</b>
<b>Date:</b>	<b>22<sup>nd</sup> November 2023</b>
<b>Title:</b>	<b>External Assessment of the work of the Internal Audit function</b>
<b>Report of:</b>	<b>Chief Internal Auditor</b>
<b>Ward(s):</b>	<b>All</b>
<b>Purpose of report:</b>	<b>To present to committee the results of the external assessment of the Internal Audit function</b>
<b>Officer recommendation(s):</b>	<b>That the information in this report be noted</b>
<b>Reasons for recommendations:</b>	<b>The remit of the Audit and Governance Committee includes the duties 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: <a href="mailto:jackie.humphrey@lewes-eastbourne.gov.uk">jackie.humphrey@lewes-eastbourne.gov.uk</a></b> <b>Telephone number: 01323 415925</b>

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## **1 Background**

- 1.1 The Public Sector Internal Audit Standards (PSIAS) came into effect in April 2013 and were revised in 2017. Additional guidance for local authorities was included in the Local Governance Application Note (2013) – updated in 2019.
- 1.2 The PSIAS are intended to promote the further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector.
- 1.3 The PSIAS call for two types of assessments to be carried out of the work of Internal Audit. The first is internal assessments, this includes ongoing monitoring of the work of Internal Audit and periodic self-assessments. These are addressed by every audit carried out being reviewed against a checklist, and a full self-assessment against the PSIAS carried out annually, the results of which are reported to this committee.
- 1.4 The second type of assessment required is an external assessment. The PSIAS require these to be conducted at least once every five years by a qualified, independent, assessor or assessment team from outside the organisation.
- 1.5 When the PSIAS were first published, the Sussex Audit Group was still in existence. The group consisted of Heads of Audit from East Sussex and some West Sussex local authorities. It was found that the cost of having an external company/group to carry out the assessment would be quite expensive. The group therefore agreed to carry out reciprocal reviews. Under this agreement, Eastbourne had the external assessment carried out in 2016 and Lewes in 2018.
- 1.6 Since that time, the Internal Audit functions of Lewes and Eastbourne have joined together, meaning that only one external assessment now needs to be

carried out. This assessment would be required to be carried out sometime between 2021 and 2023.

- 1.7 However, since the last external assessments, the Sussex Audit Group has ceased meeting. This was brought about by retirements by several Heads of Audit and outsourcing of internal audit by some authorities. There was, therefore, no group that could be approached to carry out a further external assessment. Whilst that was the case, the Heads of Audit at Wealden District Council, Rother District Council, Hasting Borough Council and ourselves, discussed and agreed to carry out reciprocal external assessments. Hastings later pulled out of the agreement, but the Head of Audit at Chichester District Council asked to join in the agreement.
- 1.8 Under this agreement, the Chief Internal Auditor at Lewes and Eastbourne carried out the assessment for Rother District Council in March. The Audit Manager at Wealden District Council has now carried out the external review for Lewes District and Eastbourne Borough councils.

## **2 External Assessment 2023**

- 2.1 The covering note for the assessment explains the process followed by the assessor and the overall outcome. The note is appended to this report along with the results of the review but it is also quoted here.
- 2.2 "In order to carry out this review a CIPFA (Chartered Institute of Public Finance and Accountancy) checklist has been used which incorporates the requirements of the PSIAS as well as the Local Government Application Note for the PSIAS (2019) in order to give comprehensive coverage of both documents in assessing conformance with the Standards."
- 2.3 "A range of Lewes District and Eastbourne Borough Council's Internal Audit documents and reports were reviewed to check conformity against the Standards and a meeting was held with the Chief Internal Auditor."
- 2.4 "Questionnaires were also sent to 11 senior managers and three Councillors. Responses were received from the Councillors and eight senior managers. The Chief Internal Auditor also completed a questionnaire."

## **3 Outcome and Recommendations**

- 3.1 The result of the external assessment supports the results of the annual self-assessment carried out, in that the Internal Audit function Generally Conforms with the PSIAS.
- 3.2 The assessor made a total of eleven recommendations to improve the service and/or to conform with the PSIAS. Of the eleven made, the following is noted:
- Three were addressed as soon as raised during the review
  - Two require information to be added to the end of year report to committee, so will be addressed when that is written
  - Four require further work to address them and this is being arranged
  - One required consideration and was discussed with the Chief Finance Officer/s. 151 Officer
  - One recommendation was not agreed by the Chief Internal Auditor but was discussed with the Chief Finance Officer/s. 151 Officer
- 3.3 The comments made by the Chief Finance Officer/s. 151 Officer have also been included in the Remedial Actions table at Appendix C of the attached report.

3.4 The full report with covering note, findings and recommendations can be found at Appendix 1.

#### **4 Future of the standards**

4.1 It should be noted that the Institute of Internal Auditors has recently updated their standards on which the Public Sector Internal Audit Standards are based. These will be published in 2024 and become effective in 2025. As yet, no timescale has been given as to when CIPFA may update the Public Sector Internal Audit Standards.

#### **5 Financial appraisal**

5.1 None

#### **6 Legal implications**

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

#### **7 Risk management implications**

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

#### **8 Equality analysis**

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

#### **9 Environmental sustainability implications**

9.1 Not applicable.

#### **10 Appendices**

10.1 Appendix 1 – Peer review of Lewes District and Eastbourne Borough Councils' Internal Audit Function.

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## **COVERING NOTE FOR THE PEER REVIEW OF LEWES DISTRICT AND EASTBOURNE BOROUGH COUNCIL'S INTERNAL AUDIT FUNCTION**

The lead officers of the Internal Audit functions of Rother District Council, Chichester District Council, Wealden District Council, and Lewes District and Eastbourne Borough Councils have agreed to carry out reciprocal external assessments of the Internal Audit functions. This is to satisfy the requirement of the Public Sector Internal Audit Standards to have an external audit assessment carried out at least every five years.

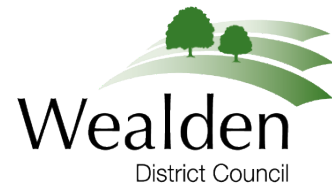
In order to carry out this review a CIPFA (Chartered Institute of Public Finance and Accountancy) checklist has been used which incorporates the requirements of the PSIAS as well as the Local Government Application Note for the PSIAS (2019) in order to give comprehensive coverage of both documents in assessing conformance with the Standards.

A range of Lewes District and Eastbourne Borough Council's Internal Audit documents and reports were reviewed to check conformity against the Standards and a meeting was held with the Chief Internal Auditor. A summary of the outcomes from the assessment is included at Appendix B.

Questionnaires were also sent to 11 senior managers and three Councillors. Responses were received from the Councillors and eight senior managers. The feedback from these is summarised in Appendix D. The Chief Internal Auditor also completed a questionnaire and their ratings are shown for comparison purposes.

Some suggested remedial actions were identified through the process and are included in Appendix C. The overall finding is that Lewes District and Eastbourne Borough Council's Internal Audit function "**Generally Conforms**" with the Standards. Conformance definitions are attached for information at Appendix A.

Helen Jolley - Audit Manager  
Wealden District Council  
September 2023



**PEER REVIEW OF**

**LEWES DISTRICT AND EASTBOURNE BOROUGH**  
**COUNCILS**

**UNDERTAKEN BY**

Helen Jolley, Audit Manager of Wealden District Council

**COMPLETED**

September 2023

**APPENDIX A**

**Conformance Definitions**

<p><b>Generally Conforms</b></p>	<p>It is concluded that the relevant structures, policies, and procedures of the Audit Service, as well as the processes by which they are applied, comply with the requirements of the individual Standard or element of the Code of Ethics in all material respects. For the sections and major categories, this means that there is general conformance to a majority of the individual Standards or elements of the Code of Ethics, and at least partial conformance to the others, within the section/category. There may be significant opportunities for improvement, but these must not represent situations where the activity has not implemented the Standards or the Code of Ethics, has not applied them effectively, or has not achieved their stated objectives. As indicated above, general conformance does not require complete/perfect conformance, the ideal situation, successful practice, etc.</p>
<p><b>Partially Conforms</b></p>	<p>It is concluded that the Audit Service is making good efforts to comply with the requirements of the individual Standard or element of the Code of Ethics, section, or major category, but has not achieved some major objectives. These will usually represent significant opportunities for improvement in effectively applying the Standards or Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the activity and may result in recommendations to senior management or the board of the organisation.</p>
<p><b>Does Not Conform</b></p>	<p>It is concluded that the Audit Service is not aware of, is not making efforts to comply with, or is failing to achieve many/all of the objectives of the individual Standard or element of the Code of Ethics, section, or major category. These deficiencies will usually have a significant negative impact on the activity's effectiveness and its potential to add value to the organisation. These may also represent significant opportunities for improvement, including actions by senior management or the board. Often, the most difficult evaluation is the distinction between general and partial. It is a judgment call keeping in mind the definition of general conformance above. Carefully read the Standard to determine if basic conformance exists. The existence of opportunities for improvement, better alternatives, or other successful practices do not reduce a generally conforms rating.</p>

**APPENDIX B**

**Summary of Assessment**

Ref	Public Sector Internal Audit Standards	Generally Conforms	Partially Conforms	Does not Conform	Comments – where Partial or No Conformance
	<b>Definition of Internal Auditing</b>	✓			
	<b>Core Principles</b>		✓		See below: 2010 1110 1112
<b>Ref</b>	<b>Code of Ethics</b>				
1	Integrity	✓			
2	Objectivity	✓			
3	Confidentiality	✓			
4	Competence	✓			
<b>Ref</b>	<b>Attribute Standards</b>				
1000	Purpose, Authority & Responsibility		✓		The Charter does not include all requirements of the Standards.
1010	Recognising Mandatory Guidance in the Internal Audit Charter		✓		The Charter does not state that the Standards are mandatory and that Internal Audit must comply with them.
1100	Independence and objectivity	✓			
1110	Organisational Independence		✓		1) No evidence that the CAE confirms to the board, at least annually, that the internal audit activity is organisationally independent. 2) Adequate steps have not been taken to safeguard the independence of the CAE by ensuring that remuneration or performance assessment is not



External Assessment Report - Appendix 1: Peer review of Lewes District and Eastbourne Borough Councils' Internal Audit Function.

Ref	Public Sector Internal Audit Standards	Generally Conforms	Partially Conforms	Does not Conform	Comments – where Partial or No Conformance
					inappropriately influenced by those subject to audit.
1111	Direct Interaction with the Board	✓			
1112	Chief Audit Executive Roles Beyond Internal Auditing		✓		The safeguards in place to limit impairments to independence or objectivity have not been periodically reviewed by the Audit Committees.
1120	Individual Objectivity	✓			
1130	Impairments to Independence or Objectivity		✓		The Auditors have confirmed if they have any declarations of interest, but the Audit Manager and CIA have not.
1210	Proficiency	✓			
1220	Due Professional Care	✓			
1230	Continuing Professional Development	✓			
1300	Quality assurance and improvement programme	✓			
1310	Requirements of the Quality Assurance and Improvement Programme	✓			
1311	Internal Assessments	✓			
1312	External Assessments	✓			
1320	Reporting on the Quality Assurance and Improvement Programme	✓			
1321	Use of Conforms with the International Standards for the Professional Practice of Internal Auditing	✓			
1322	Disclosure of Non-conformance	✓			
<b>Ref</b>	<b>Performance Standards</b>				
2010	Planning		✓		A documented risk assessment has not been completed as part of the annual planning process.

External Assessment Report - Appendix 1: Peer review of Lewes District and Eastbourne Borough Councils' Internal Audit Function.

Ref	Public Sector Internal Audit Standards	Generally Conforms	Partially Conforms	Does not Conform	Comments – where Partial or No Conformance
2020	Communication and Approval	✓			
2030	Resource Management	✓			
2040	Policies and Procedures	✓			
2050	Coordination and Reliance		✓		1) An approach to using other sources of assurance has not been established.  2) Meetings are not held regularly with the nominated external audit representative to consult on and coordinate respective audit plans.
2060	Reporting to Senior Management and the Board	✓			
2070	External Service Provider and Organisational Responsibility for Internal Audit				Not applicable
2110	Governance	✓			
2120	Risk Management	✓			
2130	Control	✓			
2200	Engagement planning	✓			
2201	Planning Considerations	✓			
2210	Engagement Objectives	✓			
2220	Engagement Scope	✓			
2230	Engagement Resource Allocation	✓			
2240	Engagement Work Programme	✓			
2310	Identifying Information	✓			
2320	Analysis and Evaluation	✓			
2330	Documenting Information	✓			
2340	Engagement Supervision	✓			

External Assessment Report - Appendix 1: Peer review of Lewes District and Eastbourne Borough Councils' Internal Audit Function.

Ref	Public Sector Internal Audit Standards	Generally Conforms	Partially Conforms	Does not Conform	Comments – where Partial or No Conformance
2410	Criteria for Communicating		✓		1) Evidence of meetings with clients/agreement to the draft report are not always retained. 2) The risks of providing assurance to Council owned companies, along with the mitigations have not been articulated.
2420	Quality of Communications	✓			
2421	Errors and Omissions				Not applicable
2430	Use of 'conducted in conformance with the International Standards for the Professional Practice of Internal Auditing'	✓			
2431	Engagement Disclosure of Non-conformance				Not applicable
2440	Disseminating Results	✓			
2450	Overall Opinions		✓		A summary of the performance of the internal audit activity against performance measures and targets is not provided in the Annual Report.
2500	Monitoring progress	✓			
2600	Communicating the acceptance of risks				Not applicable

**APPENDIX C**

**Remedial Actions**

Section	Name	Area	Remedial Action	Target	Responsibility	Comments
1000 & 1010	Purpose, Authority & Responsibility	Charter does not cover all areas as per the Standards.	Amend Charter to encompass all requirements of the Standards.	Already being undertaken	CIA	<b>AGREED</b> The Charter has already been thoroughly updated. This will be given a full check over and then taken back to the audit committees for adoption.
1110	Organisational Independence	No evidence that the CAE confirms to the board, at least annually, that the internal audit Activity is organisationally independent.	Include reference to the internal audit activity being organisationally independent in Committee reports.	April 24	CIA	<b>AGREED</b> It is felt that this is made clear through the work and reports/comments throughout this year. However, for clarity, a statement will be added to the end of year report.
		Adequate steps have not been taken to safeguard the independence of the CAE by ensuring that remuneration or performance assessment is not inappropriately influenced by those subject to audit.	The Chief Executive should review and approve the CIA's annual appraisal /performance.			<b>NOT AGREED</b> <b><u>CIA RESPONSE TO BE CONSIDERED</u></b> It has historically been agreed that the Chief Executive and committee Chairs have opportunities at meetings to comment on performance and can raise issues directly with the Chief Finance Officer. It is not felt that this has ever been an issue, but it will be raised again and considered. <b><u>CFO COMMENT</u></b> The CIA has unrestricted and direct access to all strategic directors including the Chief Executive at any given point. To ensure appropriate strategic and management support, the CIA's appraisal and

External Assessment Report - Appendix 1: Peer review of Lewes District and Eastbourne Borough Councils' Internal Audit Function.

Section	Name	Area	Remedial Action	Target	Responsibility	Comments
						performance is reviewed and approved by the council's Chief Finance Officer (Director of Finance & Performance). The CIA attends Corporate Management Team meetings regularly where key internal control and risk management issues are discussed, reviewed and agreed at corporate level.
1112	Chief Audit Executive Roles Beyond Internal Auditing	The safeguards in place to limit impairments to independence or objectivity have not been periodically reviewed by the Audit Committees.	Committees are informed that there are safeguards and that they will be asked to review them periodically.	April 24	CIA	<b>AGREED</b> The Audit Charter has been updated to ensure that this is made very clear. The committees see the Audit Charter when it is updated/reviewed and they are informed of any safeguards when they are "activated". However, this will be added to the annual report as well.
1130	Impairments to Independence or Objectivity	The Auditors have confirmed interests to the Audit Manager. The Audit Manager and CIA have not made declarations.	The Audit Manager and CIA should make a declaration of any interests.	In Place	CIA	<b>AGREED</b> Following this being raised in this review, this has now taken place for the 2022-23 year and will be continued going forward.

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Section	Name	Area	Remedial Action	Target	Responsibility	Comments
2010	Planning	A documented risk assessment has not been completed as part of the annual planning process	The internal audit activity's plan of engagements should be based on a documented risk assessment.	April 24	CIA	<p><b>PARTIALLY AGREED</b></p> <p>There is no specific requirement in the standards for a risk assessment to be carried out, only that there be a risk-based plan. We do consider the risks to the council based on the strategic risk register and organisational objectives and priorities. However, we will record the decision-making process more thoroughly.</p>
2050	Coordination and Reliance	An approach to using other sources of assurance has not been established.	An assurance mapping exercise should be conducted periodically.	April 24	CIA	<p><b>PARTIALLY AGREED</b></p> <p>There is no specific requirement in the standards for an assurance mapping exercise to be carried out, only that there is a "consistent process". Therefore, consideration will be given to how we record our approach to using other sources of assurance.</p> <p>However, Auditors are required within the Quality Assurance checklist to request copies of external assurance provided as a standard requirement of the planning and scope stage of each audit.</p>
		Meetings are not held regularly with the nominated external audit representative to consult on and coordinate respective audit plans.	The CIA should have periodic meetings with external audit.	TBC	CIA	<p><b>AGREED</b></p> <p>There has been a reluctance on the part of the current external auditor to proactively communicate with the CIA. Every effort will be made to ensure that there are regular meetings with the new external auditors.</p>

External Assessment Report - Appendix 1: Peer review of Lewes District and Eastbourne Borough Councils' Internal Audit Function.

Section	Name	Area	Remedial Action	Target	Responsibility	Comments
2410	Criteria for Communicating	Evidence of the manager's agreement to the draft report and their comments, either by email or by minutes of the closure meeting are not always retained.	Staff should be reminded of the need to retain records of discussions and client agreement to draft reports.	In Place	CIA	<b>AGREED</b> The Internal Audit team have already been reminded that evidence of discussions and closure meetings must be retained.
		The risks of providing assurance to Council owned companies, along with the mitigations have not been articulated.	Consideration of risks and mitigations, e.g. terms of reference are established for work providing assurance to Council owned companies.	April 24	CIA	<b>AGREED</b> These risks have been considered and, where appropriate, the companies have been informed of possible conflicts of interest, independence, and objectivity. However, consideration is being given to writing audit charters for each.
2450	Overall Opinions	A summary of the performance of the internal audit activity against performance measures and targets is not provided in the Annual Report.	Consideration should be given to summarizing the performance of the internal audit function against performance measures and targets in the Annual Report.			<b>NOT AGREED</b> <b><u>CIA RESPONSE</u></b> The Standards themselves do not specifically require a summary of performance against targets. It is the Cipfa Application Note that says the annual report "should" include "a comparison of work actually undertaken with the work that was planned and a summary of the performance of the internal audit function against its performance measures and targets".  It is felt that having a strict annual plan is no longer an option for an internal audit team. Internal audit must remain relevant and be flexible enough to be able to direct resources to issues as they

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Section	Name	Area	Remedial Action	Target	Responsibility	Comments
						<p>arise. In this way, internal audit is more able to give relevant assurance and add value where it is most needed.</p> <p>The work of internal audit is thoroughly reported quarterly and annually to committees who can therefore challenge any concerns they have with the amount of work carried out and the areas covered.</p> <p><b><u>CFO COMMENT</u></b></p> <p>Considering the pace and scope of change within local government, the councils' internal audit plan is developed and delivered on a risk based approach. This has allowed for a greater flexibility and focus in delivering the internal audit service by optimising the team's capacity and ability to match this pace of change.</p>



**APPENDIX D**

**Aggregated Questionnaire Results**

**Assessor Conclusion**

The scores below are considered to be very positive and there are no recommended actions arising.

<b>Standing and Reputation of Internal Audit</b>	<b>Do not agree</b>	<b>Partially Agree</b>	<b>Generally Agree</b>	<b>Fully Agree</b>	<b>Client Comments</b>
The internal audit service is seen as a key strategic partner in the organisation.			2 1	9	The CIA regularly attends CMT and is well respected given her professional approach, judgement and knowledge.  The Team's work on risk, audit and discretionary reviews are key to the Council's performance, financial sustainability and resilience.
Senior managers understand and fully support the work of Internal Audit.		1	2	9	My observation is that Internal Audit integrate and communicate with senior managers across the organisation. This has achieved a culture of positive working with the audit function.
Internal Audit is valued throughout the organisation.			4 1	7	I think some roles still see internal audit as something to be scared of and that they will try and change the way we do things.  Sometimes Audit is perceived as a burden and CMT will continue to support the Team in changing that understanding.
The internal audit service is delivered with professionalism at all times.				11 1	And patience.  Given the sometimes difficult briefs their professionalism is impeccable.  Absolutely, professional yet personable.

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Impact on Organisational Delivery	Do not agree	Partially Agree	Generally Agree	Fully Agree	Client Comments
The internal audit service responds quickly to changes within the organisation.			2 1	9	The CIA and the Team constantly scan the context in which we are working and are proactive in responding.
The internal audit service has the necessary resources and access to information to enable it to fulfil its mandate.			9 1	1	<p>There have been vacancies, but these are being filled and new staff trained.</p> <p>I think at times resourcing has been an issue although not directly experienced.</p> <p>Sometimes difficulty in recruiting reduces capacity but the Team at full strength does have the resources to be effective.</p> <p><i>One client was unsure so did not score.</i></p>
The internal audit service is adept at communicating the results of its findings, building support and securing agreed outcomes.				11 1	<p>Communication and reports are clear concise and constructive. These are followed up appropriately to ensure actions are completed. Where necessary, the CIA will use CMT to escalate.</p> <p>YES including timely follow up to check on progress against Action Plans resulting from audits.</p> <p>The feedback and reports are given in a very clear, unambiguous and straightforward manner.</p>

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<p>The internal audit service ensures that recommendations made are commercial and practicable in relation to the risks identified.</p>				<p>10 1</p>	<p>As much as possible for them to do so. The Team consider recommendations carefully in such a way to make them practical to implement thereby increasing the likelihood that they are. YES, very measured approach, taking into consideration real time opportunities, challenges and risks – resulting in realistic recommendations. <i>One client was unsure so did not score.</i></p>
<p>There have not been any significant control breakdowns or surprises in areas that have been positively assured by the internal audit service.</p>			<p>1</p>	<p>10 1</p>	
<p><b>Has Internal Audit had a positive impact on Governance, Risk and Control ?</b></p>	<p>Do not agree</p>	<p>Partially Agree</p>	<p>Generally Agree</p>	<p>Fully Agree</p>	<p>Client Comments</p>
<p>The internal audit service includes consideration of all risk areas in its work programme.</p>			<p>2</p>	<p>9 1</p>	<p>There have been some changes made to make some of these clearer. On a risk-based rolling programme. The Team are dynamic in considering the context including the assessment of existing and potential risks. YES, takes into consideration policies, procedures, people, money, the environmental and external challenges (govt and suppliers).</p>

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Internal Audit advice has a positive impact on the governance, risk and the system of internal control of the 16rganization.			2	9 1	
Internal Audit activity has enhanced 16rganization-wide understanding of governance, risk and control.			4	6 1	<p>The Audit team are an established and well-respected team that provide an integral part of our overall governance process.</p> <p>Amongst senior management yes but amongst lower tiers I am not sure staff fully understand.</p> <p><i>One client was unsure so did not score.</i></p>
The internal audit service asks challenging and incisive questions which stimulate debate and improvements in key risk areas.			3	8 1	<p>The Team's approach of both challenging and supporting Members and Officers encourages an open debate on risk.</p> <p>Yes, through positive and proactive engagement, active listening and recounting back their understandings.</p>
The internal audit service raises significant control issues at an appropriate level in the organisation.				10 1	<p><i>One client was unsure so did not score.</i></p>
The organisation accepts and uses the business knowledge of internal auditors to improve business processes and meet strategic objectives.			4 1	6	<p>Individual service areas sometimes are slow to implement some recommendations. In those cases CMT and senior managers provide Internal Audit with support to ensure that the value of Internal Audit is understood.</p> <p><i>One client was unsure so did not score.</i></p>

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Internal Audit activity influences positive change and continuous improvement to business processes, bottom line results and accountability within the organisation.			4 1	7	I don't think this is always the case.
Internal audit activity promotes appropriate ethics and values within the organisation.				10 1	Absolutely. <i>One client was unsure so did not score.</i>

Key

Aggregated client response – 11 responses

Chief Internal Auditor response

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<b>Report to:</b>	<b>AUDIT AND GOVERNANCE COMMITTEE</b>
<b>Date:</b>	<b>28<sup>th</sup> November 2023</b>
<b>Title:</b>	<b>Internal Audit and Counter Fraud Report for the second quarter of the financial year 2023-2024 – 1<sup>st</sup> April 2023 to 30<sup>th</sup> September 2023.</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 second quarter of the financial year 2023-2024 – 1<sup>st</sup> April 2023 to 30<sup>th</sup> September 2023.</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 during the second quarter of the financial year 2023-24.

## **2 Review of the work of Internal Audit carried out in the second quarter of the financial year 2023-24**

- 2.1 During the quarter, work has continued on carrying out the annual reviews. Two reports were issued in final and another three in draft. Three further annual reviews are now at the stage of the fieldwork having been completed and draft reports are being written and checked. Work is beginning on five other annual reviews.
- 2.2 As explained at the last committee meeting, rather than carrying out full review of the 12 annual audits every year, half will have a full review and the other half a lighter touch review. The following year, the ones that received a light touch review will be given a full review. A light touch review consists of reviewing the

key controls in the area and also, a follow up of the recommendations made the previous year.

- 2.3 Appendix A lists all the audit reports issued during the quarter. The first table shows all the follow up reports issued and the second table is the list of all other audit reports issued.
- 2.4 Appendix B is the list of all the audits that are still subject to follow up reviews. It shows the results of all the follow ups carried out and when the next follow up is due. When all recommendations have been addressed this will be reported once and then that audit will be removed from the list.
- 2.5 Appendix C is a list of all outstanding recommendations and includes the latest responses from managers.
- 2.6 Of the reviews in Appendix B and C, the following is noted:

Business Continuity Plans – The Director of Tourism, Culture and Organisational Development was asked for an update on the scope of the proposed Local Authority Controlled Company (LACC). The response received was that the LACC would cover the Congress and Devonshire Park theatres. It was added that the rest of the Devonshire Quarter (conferences, catering, Terrace Bar café, Stage Door pub and racquets court) is being considered for leasing out, with a six week “expression of interest” process beginning on the 25<sup>th</sup> October. It was also explained that a plan covering the Tourist Information Centres and the Heritage Centre has been completed and another, to cover Events and Seafront Services, will be completed in the next few weeks.

Sovereign Centre – a business case to support a move to outsourcing is currently being written. If outsourced, no plan will be required.

Arrears Collection – consideration is currently being given to centralising arrears collection services. Therefore, the outstanding recommendation will be followed up once a decision has been made.

- 2.7 As has been previously reported, the vacancy in the team has been successfully filled and the new member of the team is now undergoing on-the-job training and an external “Introduction to Internal Audit” course has also been booked.
- 2.8 However, the team was carrying this vacancy for half of the current year, and this has impacted on the number of audits the team have been able to carry out. Added to this there was a three-week absence of another member of the team owing to a family bereavement.
- 2.9 It has previously been explained that the aspiration for the team is to have all auditors trained to a similar standard. One auditor is undertaking IT Audit and IT Risk training as well as having completed a free course on risk management provided by the Open University. Another auditor has completed a course on Data Analytics provided by the Institute of Internal Auditors (IIA). The Audit Manager is studying for an Operational/Departmental Manager Apprenticeship and is attending a CIPFA course leading to a certificate in Data Science. The Audit Manager and an auditor are members of the core group running and championing the IIA’s Local Authority Data Analytics Working Group.

### **3 Review of the work of Counter Fraud carried out in the second quarter of the financial year 2023-24**

- 3.1 The team continues to target the high risk and value areas impacting the council, in particular Tenancy and Revenue fraud. The team have also undertaken post



assurance work on Energy Grants and begun assisting with multiple agencies in tackling Modern Slavery offences within our community.

- 3.2 Housing Tenancy – The team continue to work closely with colleagues in Homes First and Legal Services. There are currently 36 ongoing sublet/abandonment tenancy cases at various stages. One property was returned with a net value to the authority of £93,000 and an additional case led by Homes First, and supported by the Counter Fraud team, resulted in the tenant handing the property back. 10 other cases were closed during this quarter with no further action.
- 3.3 Right To Buy - After a quiet period at the start of the year, there has been an increase in applications from April 2023. This is, in part, related to the increase in the maximum discount which following the consumer price index now stands at £96,000. 15 cases are currently either being checked to prevent and detect fraud, and protect the authority against money laundering, or waiting for a home visit to verify residential status. One application was withdrawn during this period following verification checks, resulting in a net preventative saving of £96,325 (including property survey costs).
- 3.4 Housing Applications – the team continues to work with the Housing Allocations team following their review of the Housing Register in 2023/24 which removed 710 applications either due to withdrawal or no response. A new review will commence within the year with any highlighted fraud cases passed to the Counter Fraud team to investigate.
- 3.5 Housing Options/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. This included providing refresher training to staff around credit checks and land registry systems to verify and reduce error and fraud. One homeless placement was cancelled following an investigation by the Counter Fraud team creating a net preventative saving of £12,000.
- 3.6 Energy Rebate Schemes - Following the closure of the latest Energy Rebate Scheme, the Counter Fraud team have commenced post assurance review of all the applications made and will liaise with the Government in their fraud and error reporting and payment verification work.
- 3.7 Council Tax – 11 cases have been investigated during the quarter as part of a review of Single Person Discounts, Exemptions and Disregards with a net recoverable income of £5,398.04 generated for the authority and a preventative saving of £4,296.64. One case was also discovered where a liable party was incorrectly paying Council Tax while resident in a care home. Intervention by the Counter Fraud team has resulted in an exemption being placed on this account, with a credit repayable to the former resident. A review of Council Tax exemptions/disregards is ongoing and includes work with the National Fraud Initiative (NFI) matching data held between Council Tax Records and Electoral Register. 201 cases have been reviewed in this period with a net recoverable income of £10,809.08 generated along with a preventative saving of £11,558.14.
- 3.8 Council Tax Reduction – 23 cases have been closed in this quarter generating a total recoverable income of £5,297.69 and a preventative saving of £6,609.60.
- 3.9 National Non-Domestic Rates - 13 cases were investigated during this period following discrepancies found with previously claimed Covid-19 business grants. One case led to the removal of a Small Business Rate Relief creating a total recoverable income of £15,210.97.

- 3.10 Housing Benefit – The team continue to work closely with the Department for Work and Pensions (DWP) and 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 this period, 42 cases were closed generating a recoverable Housing Benefit overpayment of £37,199.95 and a (WIB) preventative saving of £17,696.32.
- 3.11 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 £2,426.41 during this period which otherwise might have been written off.
- 3.12 National Fraud Initiative (NFI) – The 2023/24 is already underway with the team concentrating on discrepancies on the Council Tax side as detailed above.
- 3.13 Data Protection Requests – the team take an active role in supporting colleagues in other organisations to prevent fraud and tackle criminal activity. During the quarter the team dealt with 22 DPA requests from the Police and other authorities. In addition, one fit and proper person check was completed for a new House in Multiple Occupancy licence. Eight housing enquiries were recorded during this period along with 12 queries relating to Housing Benefit and Council Tax reduction.
- 3.14 Modern Slavery – the team have joined working operations with multiple Government Agencies and Sussex Police in tackling potential Modern Slavery offences across the town. The council has assisted in providing information in support of eight investigations within this quarter.
- 3.15 Fraud awareness – the team have delivered fraud awareness training throughout the organisation with bespoke sessions delivered to teams within Housing, Customer Service, Council Tax and Finance. An awareness session for the team assessing welfare grants and benefits is due to be arranged within the 3<sup>rd</sup> quarter.
- 3.16 A table showing the savings made by the Counter Fraud team in the first half of 2023-2024 can be found at Appendix D.

#### **4 Governance of Companies**

- 4.1 The Chief Financial Officer has requested that the Audit and Governance Committee be given updates of assurance on the financial and governance arrangements of the companies.
- 4.2 It has been arranged that the Boards of the companies add an agenda item to their quarterly meetings to consider the financial and governance arrangements and to make a statement on this. These statements will be reported to this committee. It should be noted that because of the dates of the Board meetings and the reporting schedule for this committee, there will be timing differences. However, all statements received in the quarter being reported on will be included in the report.
- 4.3 A standard statement to be used, if the relevant Board considers the arrangements to be in order, has been agreed. Boards are expected to clarify any concerns of which they are aware.

- 4.4 The following is a table showing the date of meetings where the governance statement was considered:

<b>Company</b>	<b>Quarter One</b>	<b>Quarter Two</b>
Eastbourne Homes Ltd	27.07.23	21.09.23
South East Environmental Services Ltd	07.06.23	20.09.23
Aspiration Homes LLP	13.07.23	Meeting cancelled
Cloud ConnX	19.06.23	Meeting October
Investment Company Eastbourne	Meeting cancelled	26.09.23
Eastbourne Housing Investment Company Ltd	12.07.23	11.09.23

- 4.5 All the above meetings returned the same statement.

“Having examined all the reports brought to the meeting the Board considers that the company is compliant with its financial and governance arrangements”.

## **5 Update on IT Security**

- 5.1 At the last committee meeting an update on IT security was requested. The Head of ICT was asked for a response which is quoted below

- 5.2 “I can confirm that not much has changed. We are constantly monitoring the threat from Russia and other countries and making sure that our backups and resilience are kept up to date and monitored. Since the last update, we have been audited by Internal Audit on Cloud and Cyber Security which we have passed with full assurance. We have also had an external scan by the Cyber Centre of Excellence for Public Services which the council passed with a score of 3 out of 5, which is a great result as most councils in the UK scored 1 out of 5. We have also deployed Zero Day Trust software to all our servers and are currently looking at a Password Manager for the whole estate”.

- 5.3 Two clarifications need to be made in terms of the reference above to the work of Internal Audit. Firstly, the work on Cloud Computing and Cyber Security has been reported as two separate reports. Secondly, this quarterly report covers the work of Internal Audit up to the end of September. These two reports were issued at the beginning of October and so will be formally reported in the next quarterly report. However, it can be confirmed that both were given full assurance with no recommendations made.

## **6 Financial appraisal**

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

## **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 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.

## **9 Equality analysis**

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

## **10 Environmental sustainability implications**

10.1 Not applicable

## **11 Appendices**

11.1 Appendix A – List of reports issued during the year

Appendix B – Position of audits requiring follow up

Appendix C - Recommendations outstanding after follow-ups

Appendix D – Counter Fraud savings.

**LIST OF ALL REPORTS ISSUED DURING THE YEAR 2023-24****Follow Up Reports Issued In Current Year**

AUDIT	FOLLOW UP	DATE FOLLOW UP ISSUED	ASSURANCE LEVEL	
Business Continuity Plans	Sixth	10.05.23	Substantial	See Appendix B and C for details
Members Allowances	Fourth	19.05.23	Full	All recommendations addressed
Contract Management	First	05.06.23	Substantial	All recommendations addressed
Film Liaison Unit	Second	29.06.23	Substantial	See Appendix B and C for details
Rent Sense	Third	30.06.23	Substantial	See Appendix B and C for details
Love Clean Streets	Fourth	18.08.23	Substantial	All recommendations addressed
Construction Industry Scheme	Second	23.08.23	Substantial	See Appendix B and C for details

**Audit Reports Issued In Current Year**

AUDIT	FINAL DATE	FINAL ASSURANCE LEVEL	FIRST FOLLOW-DUE
Casual Workers	03.05.23	Partial	October 2023
Housing Rents – annual 2022-23	18.07.23	Substantial	-
Complaints	16.08.23	Partial	December 2023

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

AUDIT	DATE DRAFT ISSUED
Managers' Responsibilities	30.06.23
Cloud Computing and Cyber Security	08.09.23
Theatres – annual 2022-23	29.09.23
Housing Benefits – annual 2022-23	02.10.23

**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.

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

Minimal Assurance	Little assurance that the controls reduce the level of risk to an acceptable level; the level of risk remains high and immediate action is required by management.
No Assurance	No assurance can be given. The reasons will be explained thoroughly in the report.

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

**POSITION OF AUDITS REQUIRING FOLLOW UP**

AUDIT	FINAL DATE		FIRST FOLLOW-UP DATE		SECOND FOLLOW-UP DATE		THIRD FOLLOW-UP DATE		FOURTH FOLLOW UP DATE		FIFTH FOLLOW UP DATE		SIXTH FOLLOW UP
	FINAL DATE	FINAL ASSURANCE LEVEL	FIRST FOLLOW UP DATE	FIRST FOLLOW UP ASSURANCE LEVEL	SECOND FOLLOW UP DATE	SECOND FOLLOW UP ASSURANCE LEVEL	THIRD FOLLOW- UP DATE	THIRD FOLLOW- UP ASSURANCE LEVEL	FOURTH FOLLOW UP DATE	FOURTH FOLLOW UP ASSURANCE LEVEL	FIFTH FOLLOW UP DATE	FIFTH FOLLOW UP ASSURANCE LEVEL	
Business Continuity Plans	Nov 20	Minimal	May 21	Partial	Aug 21	Partial	Dec 21	Partial	May 22	Substantial	Dec 22	Partial	May 23 / July 23- Substantial
Arrears Collection	Jan 21	Partial	Sep 21	Partial	Jan 22	Partial	May 22	Substantial	Nov 22	Substantial	Jan 24		
Love Clean Streets	Dec 21	Partial	May 22	Partial	Sep 22	Partial	Feb 23	Partial	Aug 23	Substantial			
Film Liaison Unit	Jan 22	Minimal	Sep 22	Minimal	June 23	Substantial	Oct 23						
Construction Industry Scheme	Feb 22	Partial	Feb 23	Partial	Aug 23	Substantial	Dec 23						
Sovereign Centre	Aug 22	Partial	Dec 22	Transfer to Wave									
Rent Sense	Sep 22	Partial	Nov 22	Substantial	Feb 23	Substantial	Jun 23	Substantial	Oct 23				
Casual Workers	Apl 23	Partial	Oct 23										
Complaints	Aug 23	Partial	Dec 23										

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**RECOMMENDATIONS FROM AUDIT REPORTS WHICH REMAIN OUTSTANDING AFTER FOLLOW UP**

**COLOUR KEY**

	High Risk
	Medium Risk
	Low Risk

**REPORTS ISSUED 20/21**

AUDIT	Original Assurance Level	High	Medium	Low	Latest Follow Up Date	Number of Follow Up	Assurance Level at Follow Up	High	Medium	Low	Next Follow Up Due	Outstanding recommendations	Client Comment
<b>Business Continuity Planning</b> November 20	Minimal	4	0	0	10.05.23	<b>Sixth</b>	Substantial	1	0	0	Ongoing	Business Continuity Plans for every department must be completed and adopted as soon as possible. (6 months)	<p><b>Update July 23</b></p> <p>The Director of Tourism, Culture and Organisational Development had previously reported that it was intended to have the document for Theatres completed by the end of July. The one for Events was intended to be completed by the end of September. Is now stating that consideration is being given to transfer to a LACC so cannot write BCP until more information is known.</p> <p><b>Oct 23</b></p> <p>An update on areas of Tourism that will remain with the council has been requested from the Director of Tourism, Culture and Organisational Development.</p>

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

AUDIT	Original Assurance Level	High	Medium	Low	Latest Follow Up Date	Number of Follow Up	Assurance Level at Follow Up	High	Medium	Low	Next Follow Up Due	Outstanding recommendations	Client Comment
<b>Arrears Collection</b>  January 2021	Partial	2	2	3	07.11.22	Fourth	Substantial	0	0	1	Jan 24	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)	<b>October 23 update</b>  The Interim Deputy Finance Officer has explained that consideration is currently being given to centralising arrears collection services. Therefore, the outstanding recommendation will be followed up once a decision has been made.

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

**REPORTS ISSUED 21/22**

AUDIT	Original Assurance Level	High	Medium	Low	Latest Follow Up Date	Number of Follow Up	Assurance Level at Follow Up	High	Medium	Low	Next Follow Up Due	Outstanding recommendations	Client Comment
<b>Film Liaison Unit</b> January 22	Minimal	13	2	0	29.06.23	Second	Substantial	2	0	0	Oct 23	The permit cost schedule must be agreed by the council and any administration fees clearly defined within the contract. (3 months)	Work has started on updating the permit cost schedule, but details are yet to be finalised.
												End of year reconciliation, between permits granted, invoices received from SFO and paid over the year, must be carried out. (1 month)	Permits have been reconciled but there is no evidence of a second officer signing off the reconciliation. A solution is being sought with Finance.

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

REPORTS ISSUED 22/23

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
Construction Industry Scheme February 2022	Partial	0	6	0	28.09.23	Second	Substantial	0	2	0	Jan 24	<p>Procedures for CIS payments must be written up and regularly updated as directives from HMRC change.</p> <p>(6 months)</p>	<p><b>First follow up</b> Procedures for CIS payments will be developed and regularly updated in line with the HMRC changes.</p> <p><b>Second follow up</b> The Systems and Transactional Manager confirmed that procedure notes for CIS have not been written. Resourcing issues are currently impacting on the team's ability to undertake this work and therefore an estimated date for completion was not possible. It was suggested that it may require outside help in order</p>
												<p>When a new supplier is set up on the system, a visual refence (screenshot or HMRC document) must be saved to the supplier's file to establish the supplier's starting tax status.</p> <p>(6 months)</p>	<p><b>First follow up</b> Auditor took 14 samples of new suppliers set up on CAFi in 2021/22 and only one had saved HMRC screenshot. The new Creditor Team Leader agreed that a reminder will be sent to relevant staff.</p> <p><b>Second follow up</b> 10 most recent new suppliers were taken as samples. 6 had verification screenshots on file. The Systems and Transactional Manager confirmed that the lack of procedures is probably</p>

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

AUDIT	Original Assurance Level	High	Medium	Low	Latest Follow Up Date	Number of Follow Up	Assurance Level at Follow Up	High	Medium	Low	Next Follow Up Due	Outstanding recommendations	Client Comment
													impacting on the consistency of this process. A reminder has been sent to the team.
Rent Sense September 2022	Partial	2	6	0	30.06.23	Third	Substantial	0	1	0	Oct 23	An operational risk assessment should be carried out for reviewing the risks associated with using third party software to monitor and evaluate the councils' rent arrears.  (6 months)	The operational risk assessment of Rent Sense is scheduled for April / May 2023

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Appendix D – Quarterly report on Audit and Counter Fraud work

**INCOME AND SAVINGS ACROSS THE FINANCIAL YEAR 2023-24**

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	0	0	0	0	£93,000
Right To Buy value saved through intervention	0	£192,600.00	0	£96,325.00	0	0	0	0	0	£288,925
Housing intervention/fraud	0	0	0	£12,000.00	0	0	0	0	0	£12,000
<b>Revenues</b>										
National Non Domestic Rates	0	0	£15,210.97	0	0	0	0	0	£15,210.97	0
Council Tax	£10,957.79	0	£5,398.04	0	0	0	0	0	£16,355.83	0
Value of ongoing Council Tax increase per week	0	£4,068.48	0	£4,296.64	0	0	0	0	0	£8,365.12
Council Tax Penalties	0	0	0	0	0	0	0	0	0	0
<b>CTR &amp; Housing Benefit</b>										
Council Tax Reduction	£11,017.64	0	£5,297.69	0	0	0	0	0	£16,315.33	0
Council Tax Reduction weekly incorrect benefit	0	£9,412.80	0	£6,609.60	0	0	0	0	0	£16,022.40
Housing Benefit	£21,771.63	0	£37,199.95	0	0	0	0	0	£58,971.58	0
Housing Benefit weekly incorrect benefit	0	£11,992.64	0	£17,696.32	0	0	0	0	0	£29,688.96
Income from Administrative penalty collection	£100.57	0	£73.56	0	0	0	0	0	£174.13	0
<b>National Fraud Initiative</b>										
Overpayments identified	£17,145.29	0	£10,809.08	0	0	0	0	0	£27,954.37	0
Weekly incorrect benefit identified	0	£19,751.42	0	£11,558.14	0	0	0	0	0	£31,309.56
<b>TOTALS</b>	<b>£60,992.92</b>	<b>£237,825.34</b>	<b>£73,989.29</b>	<b>£241,485.70</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>£134,982.21</b>	<b>£479,361.04</b>
<b>Cost of Counter Fraud team</b>	<b>£28,918.02</b>		<b>£27,015.84</b>						<b>£55,933.96</b>	
% of income and savings separately	<b>47.41%</b>	<b>12.16%</b>	<b>36.51%</b>	<b>11.19%</b>					<b>41.44%</b>	<b>11.67%</b>
% total of income and savings	<b>9.68%</b>		<b>8.56%</b>						<b>9.11%</b>	

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

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



<b>Report To:</b>	<b>Audit and Governance Committee</b>
<b>Date:</b>	<b>28 November 2023</b>
<b>Report Title:</b>	<b>Treasury Management</b>
<b>Report of:</b>	<b>Director of Finance and Performance (Chief Finance Officer - S151 Officer)</b>
<b>Ward(s):</b>	<b>All</b>
<b>Purpose of report:</b>	<b>To present details of recent Treasury Management activities.</b>
<b>Officer Recommendations:</b>	<b>The Committee is recommended to note that Treasury Management Activities for the period April to September 2023 have been in accordance with the approved Treasury Strategies.</b>
<b>Reasons for recommendations:</b>	<b>Requirement of CIPFA Treasury Management in the Public Sector Code of Practice (the Code).</b>
<b>Contact Officer(s):</b>	<b>Name: Ross Sutton Post title: Head of Financial Reporting E-mail: <a href="mailto:ross.sutton@lewes-eastbourne.gov.uk">ross.sutton@lewes-eastbourne.gov.uk</a> Telephone number: 07591 988346</b>

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## 1. Introduction

- 1.1 This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2021).
- 1.2 A requirement of the Code is the creation and maintenance of a Treasury Management Policy Statement (TMSS) which sets out the policies and objectives of the Council's treasury management activities. Regular monitoring reports are required to meet the Treasury Management governance and scrutiny aspects. The Audit and Governance Committee are to review details of treasury transactions against the criteria set out in the TMSS and make recommendations to Council as appropriate.
- 1.3 The timetable for reporting Treasury Management activity in 2023/24 is shown in the table below and takes into account the timescale for the publication of each Committee agenda. Any extraordinary activity taking place between the close of the reporting period and the date of the Audit and Governance Committee meeting will be reported verbally at that meeting.

Meeting date	Reporting period for transactions
5 October 2023	April to June 2023
28 November 2023	April to September 2023 (Mid Year Review)
28 February 2024	April to December 2023
June 2024	2023/24 Annual Report (up to 31 March 2024)

- 1.4 Treasury Management is an integral part of the Council's overall finances and the performance of this area is very important. Whilst individual years matter, performance is best viewed over a medium to long term basis. The action taken in respect of the debt portfolio in recent years has been beneficial and has resulted in savings. Short term gains might, on occasions, be sacrificed for longer term certainty and stability.
- 1.5 The criteria for lending to Banks are derived from the list of approved counter parties provided by the Council's Treasury Management advisors, Link Group (Link). The list is updated regularly to reduce the risk to the Council by removing lower rated counterparties and reducing maximum loan durations.

## 2. Economic Background

- 2.1 The Bank of England's Monetary Policy Committee increased the Bank Rate to 5.25% in August (5.00% in June) but there have been no subsequent increases. An economic commentary by Link during the first half of the year is attached as Appendix A.

## 3. Interest Rate Forecasts

- 3.1 Link assist the Council to formulate a view on interest rates. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 basis points) which has been accessible to most authorities since 1/11/12.
- 3.2 The latest forecast, made on 7/11/23, sets out a view that short to medium term interest rates will be elevated for some time further, as the Bank of England seeks to squeeze inflation out of the economy. Rates are expected to start falling in September 2024.

Link Group Interest Rate View 07.11.23													
	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
<b>BANK RATE</b>	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.25	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.30	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.40	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.50	3.30	3.30	3.30	3.30	3.30
5 yr PWLB	5.00	4.90	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.60	3.50	3.50	3.50
10 yr PWLB	5.10	5.00	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.70	3.60	3.60	3.50
25 yr PWLB	5.50	5.30	5.10	4.90	4.70	4.50	4.30	4.20	4.10	4.10	4.00	4.00	4.00
50 yr PWLB	5.30	5.10	4.90	4.70	4.50	4.30	4.10	4.00	3.90	3.90	3.80	3.80	3.80

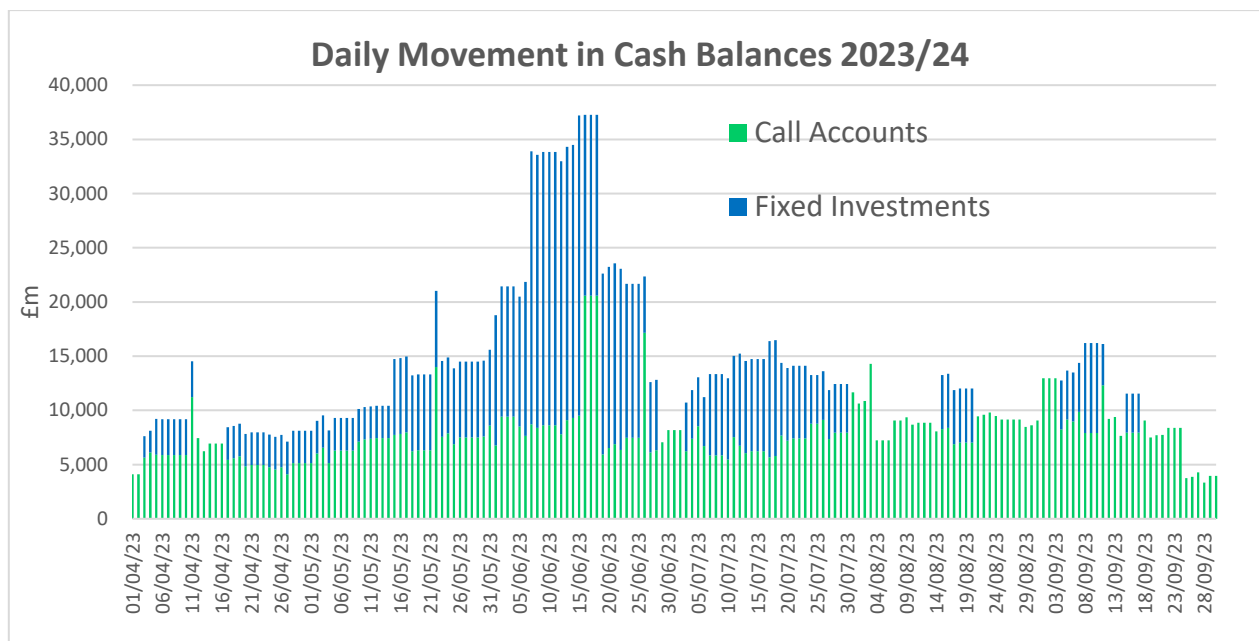
**Note** - In a continuation of previous views, money market yield forecasts are based on expected average earnings by local authorities for 3 to 12 months. The Link forecast for average earnings are averages i.e., rates offered by individual banks may differ significantly from these averages, reflecting their different needs for borrowing short-term cash at any one point in time.

#### **4. Annual Investment Strategy**

- 4.1 CIPFA published a revised 'Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes' in December 2021. These define treasury management investments as investments that arise from the organisation's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.
- 4.2 The Treasury Management Strategy Statement for 2023/24, which includes the Annual Investment Strategy (AIS), was approved by the Full Council on 23 February 2023. It sets out the Council's investment priorities as being:
- Security (of Capital);
  - Liquidity;
  - Yield.
- 4.3 The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity, aligned with the Council's risk appetite. In the current economic climate, over and above keeping investments short-term to cover cash flow needs, there is a benefit to seek out value available in periods up to 12 months with high credit rated financial institutions, using the Link suggested creditworthiness approach, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information.
- 4.4 There are no policy changes to the TMSS. The details in this report update the position in the light of the updated economic position and budgetary changes already approved.
- 4.5 There have been some changes to individual counterparty credit ratings over the period. However, officers continue to closely monitor these, and other measures of creditworthiness to ensure that only appropriate counterparties are considered for investment purposes.

#### **5. Treasury Management Activity**

- 5.1 The chart below summarises the Council's investment position over the period 1 April to 30 September 2023. It shows the total sums invested each day split between Fixed Term investments and amounts held in Call accounts. The average is £13.1m comprising £5.3m Fixed and £7.8m Call.



## 5.2 Fixed Term Deposits pending maturity

The following table shows the fixed term deposits held at 30 September 2023 and identifies the long-term credit rating of counterparties at the date of investment. It is important to note that credit ratings are only one of the criteria that are taken into account when determining whether a potential counterparty is suitable. All the deposits met the necessary criteria, the minimum rating required for deposits made in terms of long-term A- (Fitch).

Counterparty	Date From	Date To	Days	Principal £	Rate %	Long Term Rating
None at 30/9/23	-	-	-	-	-	-

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

The table below shows the fixed term deposits which have matured in period in maturity date order. It is important to note that the table includes sums reinvested.

Counterparty	Date From	Date To	Days	Principal £	Rate %	Long Term Rating
Debt Management Office (DMO)	03/04/23	12/04/23	9	2,000,000	4.05%	*
DMO	05/04/23	12/04/23	7	1,300,000	4.05%	*
DMO	17/04/23	02/05/23	15	3,000,000	4.07%	*
DMO	02/05/23	27/06/23	56	3,000,000	4.32%	*
DMO	15/05/23	26/06/23	42	4,000,000	4.41%	*
DMO	01/06/23	26/06/23	25	5,000,000	4.42%	*
DMO	06/06/23	29/06/23	23	2,200,000	4.45%	*
DMO	07/06/23	16/06/23	9	11,000,000	4.38%	*
DMO	15/06/23	23/06/23	8	2,500,000	4.40%	*

DMO	27/06/23	29/06/23	2	4,300,000	4.88%	*
DMO	03/07/23	31/07/23	28	4,500,000	4.88%	*
DMO	07/07/23	12/07/23	5	3,000,000	4.88%	*
DMO	12/07/23	19/07/23	7	4,000,000	4.88%	*
DMO	17/07/23	24/07/23	7	2,200,000	4.88%	*
DMO	15/08/23	21/08/23	6	5,000,000	5.13%	*
DMO	04/09/23	11/09/23	7	4,500,000	5.13%	*
DMO	08/09/23	12/09/23	4	3,800,000	5.13%	*
DMO	15/09/23	18/09/23	3	3,600,000	5.18%	*

Note: \* indicates UK Government body and therefore not subject to a credit rating.

The weighted average rate of interest earned on deposits held in the period 1 April to 30 September 2023 was 4.49% (4.34% Q1). The average bank base rate for the period was 4.80%.

#### 5.4 Use of Deposit accounts

In addition to the fixed term deposits, the Council has made use of the following liquidity accounts in the period covered by this report, with the average amount held being £2.57m (£2.47m Q1), generating interest of £99k.

Counterparty	Balance at 30/9/23 £000	Average Balance £000	Interest Rate %
Santander Business Reserve Account	£2,900	£4,372	3.36%
Lloyds Bank Current Account	£458	£1,927	2.10%
Lloyds Bank Call Account	£610	£1,423	5.14%

#### 5.5 Money Market Funds

There were no funds Money Market Funds held at 30 September 2023, and there was no activity in the period.

#### 5.6 Bond Funds, Multi-Asset Income Funds and Property Funds

There were no Short Dated Bond Funds, Multi-Asset Income Funds or Property Funds held at 30 September 2023, and there was no activity in the period.

### 6. Capital Position

6.1 This table shows the revised estimates for capital expenditure and the changes since the 2023/24 capital programme was agreed at the Budget. Appendix B provides further details.

	Original Budget £000	Revised Budget £000	Forecast Outturn £000
HRA	13,591	17,291	15,759
General Fund	28,010	32,421	16,263
<b>Total Capital Expenditure</b>	<b>41,601</b>	<b>49,712</b>	<b>32,022</b>

- 6.2 The original budget has been updated for carry over underspends from the previous financial year and any supplementary budgets approved during the year. The Revised Budget has increased to £49.7m. The Forecast for the year is £32.0m as there has been significant deferral of schemes to 2024/25 and later years.
- 6.3 The financing of the capital programme has been updated in line with the changes in the table above (see Appendix B). The borrowing element will increase the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt, the Minimum Revenue Provision (MRP).

## **7. Borrowing**

- 7.1 The Council's capital financing requirement (CFR) for 2023/24 is forecast as £198.0m (GF £143.7m and HRA £54.3m). The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing), or from internal balances on a temporary basis (i.e. internal borrowing). The balance of external and internal borrowing is generally driven by market conditions.

### **PWLB Rates**

- 7.2 Gilt yields and PWLB certainty rates were on a generally rising trend throughout the first half of 2023/24. At the beginning of April, the 5-year rate was the cheapest and touched 4.14% whilst the 25-year rate was relatively expensive at 4.58%. July saw short-dated rates peak at their most expensive. The 1-year rate spiked to 6.36% and the 5-year rate to 5.93%. Although, in due course, short-dated rate expectations fell, the medium dates shifted higher through August and the 10-year rate pushed higher to 5.51% and the 25-year rate to 5.73%. The 50-year rate was 4.27% on 5<sup>th</sup> April but rose to 5.45% on 28<sup>th</sup> September. Link forecast rates to fall back over the next two to three years as inflation dampens.
- 7.3 Link's core debt management advice remains unaltered, to continue to reappraise any capital expenditure plans/profiles, and internally/temporarily borrow for any financing and re-financing. Only seek longer-dated debt if there is absolute certainty on the long-term rates and can conclude it is affordable, sustainable and prudent if funded at prevailing levels.

### **External Debt**

- 7.4 The Council's long term borrowing at 30 September was £112.6m (£112.6m Q1) from the Public Works Loan Board (PWLB). Debt at the start of the year was £113.7m and £1.1m of loans have been repaid. A further £1.1m will mature in March 2024. The long term borrowing is at fixed rates of interest ranging from 1.6% to 5.0%. No new long term borrowing has been undertaken this year to-date. This is a prudent and cost-effective approach in the current economic climate but the position is continually monitored.
- 7.5 The table below details short term (less than one year) borrowing from other local authorities. As at 30 September 2023, £67m of loans were held (£67m at Q1). During the second quarter, £10m of loans matured and were repaid on time.

Lender	Principal £000	Date From	Date To	Days	Rate %
<b>Loans held</b>					
Barrow Borough Council	3,000	20 Jan 23	20 Nov 23	304	3.85%
Warwickshire County Council	5,000	8 Feb 23	7 Feb 24	364	4.00%
Salford City Council	5,000	8 Feb 23	7 Feb 24	364	4.00%
Tameside MBC	5,000	13 Feb 23	15 Jan 24	336	4.20%
Gwent Police	4,000	11 Apr 23	29 Dec 23	262	4.40%
West of England Combined Authority	10,000	28 Apr 23	26 Apr 24	364	4.85%
West Yorkshire Combined Authority	5,000	9 May 23	9 Feb 24	276	4.25%
Bolton MBC	10,000	22 May 23	20 May 24	364	4.35%
Wokingham BC	10,000	7 Jun 23	28 Mar 24	295	4.50%
West Midlands Combined Authority	5,000	27 Jul 23	29 Jan 24	186	4.10%
Kent Police and Crime Commissioner	5,000	3 Aug 23	1 Dec 23	120	5.30%
<b>Loans repaid</b>					
North Northamptonshire Council	5,000	27 Jan 23	27 Jul 23	181	4.00%
Tendring DC	5,000	1 Nov 22	1 Aug 23	273	3.90%

## 8. Debt Rescheduling

- 8.1 Debt rescheduling opportunities have increased in the year where gilt yields, which underpin PWLB rates and market loans, have risen materially. The Council will be advised if there is value to be had by rescheduling or repaying a part of the debt portfolio. This is dependent on levels of investment balances. No debt rescheduling has currently been undertaken in the financial year.

## 9. Capital Financing Costs Summary

- 9.1 The table below summaries the General Fund (GF) interest payable, minimum revenue provision (MRP) and interest receivable forecast for the year.

General Fund	Original Budget £000	Forecast Outturn £000	Q2 Actual £000
Interest Payable - Borrowing	2,750	4,643	1,504
MRP	649	603	-
Interest Receivable – Treasury Investments	(99)	(463)	(255)
Interest Receivable – Loans	(1,299)	(1,450)	(53)
<b>Net Interest Cost</b>	<b>2,001</b>	<b>3,333</b>	<b>1,196</b>

- 9.2 The forecast outturn has increased by £1.3m to £3.3m. Interest payable includes a £1.6m increase on short term borrowing and £0.3m increase on interest payable by the general fund on HRA reserves and balances. The increase is due to (i) base rates have increased from 3.5% in January to 5.25% currently and (ii) the level of short term borrowing is higher than the estimated position for the year made in January.

The estimated position assumed a fall in short term borrowing but the current forecast of £67m is an increase. Regarding the Q2 actual position, interest on PWLB

loans is repayable in September 2023 and March 2024 and interest on Short Borrowing is due on maturity. MRP is calculated at the end of the financial year.

- 9.3 The table below summaries the Housing Revenue Account (HRA) interest payable and interest receivable forecast for the year.

HRA	Original Budget £000	Forecast Outturn £000	Q2 Actual £000
Interest Payable	1,781	1,593	-
Interest Receivable	(57)	(339)	-
<b>Net Interest Cost</b>	<b>1,724</b>	<b>1,254</b>	-

- 9.4 Interest receivable has increased due a change in which of the HRA reserves and balances interest is now paid on and also the base rate rises to 5.25%. The actual amounts are calculated at the end of the financial year.

## 10. Compliance with Treasury and Prudential Limits

- 10.1 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators (affordability limits) are included in the approved Treasury Management Strategy Statement and Treasury Management Practices (TMPs).

- 10.2 The tables below show the Prudential and Treasury Indicators position comparing the Budget to the Forecast for the year.

Prudential Indicators	2023/24 Budget	2023/24 Forecast
Authorised Limit for external debt	£241m	£241m
Operational Boundary for external debt	£219m	£219m
Capital Financing Requirement (CFR) - GF	£146m	£145m
Capital Financing Requirement (CFR) - HRA	£53m	£53m
Gross External debt – GF (including loans to Housing Companies £30m)	£118m	£129m
Gross External debt - HRA	£47m	£51m
Total Debt compared to CFR under / (over) borrowing	£34m	£18m
Proportion of GF Financing Costs to Net Revenue Stream	25.4%	29.4%
Proportion of HRA Financing Costs to Rental Income (excluding depreciation)	10.7%	10.2%
Proportion of net income from commercial and service investments to Net Revenue Stream	16.1%	16.1%
Investment returns %	2.5%	4.23%

Note - Section 6 and Appendix B provide the requirements for a Capital Expenditure indicator.



<b>Treasury Indicators</b>	<b>2023/24 Budget</b>	<b>2023/24 Forecast</b>
Upper limit for principal sums invested for longer than 365 days	£2m	£2m
Maturity structure of fixed rate borrowing - upper limits		
Under 12 months	75%	75%
12 months to 2 years	75%	75%
2 years to 5 years	75%	75%
5 years to 10 years	75%	75%
10 years and above	75%	75%

Note – Paragraphs 10.7 to 10.9 and Appendix C provide the requirements for a Liability Benchmark indicator.

- 10.3 As at 30 September 2023, indicators are on target or remain within acceptable parameters with the exception of Gross External Debt and the Proportion of GF Financing Costs to Net Revenue Stream.
- 10.4 Gross External Debt (GF and HRA) is forecast at £180m, an increase of £15m on the estimated (January 2023) position of £165m but remains within the Council's Operational Debt Boundary for debt. The debt total at 31 March 2023 was £177m and so the current forecast is £3m higher. Linked to debt, is the Proportion of GF Financing Costs (gross of interest receivable) to Net Revenue Stream which has increased to 29.4%. Paragraph 9.2 above provides an explanation of why interest payable has increased and the table in paragraph 7.5 shows how variable interest rates on short term borrowing have increased. Higher rates are payable on replacement debt as existing debt matures.
- 10.5 The Capital Financing Requirement (CFR) has reduced by £1m from an estimated £199m (Feb 2023) to a Forecast £198m. The reduction is due to lower capital expenditure which is financed through borrowing.
- 10.6 Approved limits within the Annual Investment Strategy were not breached during the period ending 30 September 2023, except for the balance held with Lloyds Bank (the Council's own bank), which exceeded the £5m limit for 11 days during the first half of the year (4 days Q1). Exceptions normally occur where (i) other investments have been recalled back to Lloyds a day early in readiness for larger than usual outgoings the following day or (ii) other investments are received back too late in the day to reinvest so remain with Lloyds overnight. During August there was also a period of 4 days where the Lloyds limit was exceeded, due to annual leave and limited staff resources, as balances were kept higher than normal.

### **Liability Benchmark**

- 10.7 There is a requirement to provide a comparison of the existing loan portfolio against committed borrowing needs in order to understand future debt requirements. The chart covers the following four areas:
- i. Existing Loan Debt = current borrowing portfolio;
  - ii. Capital Financing Requirement (loans only);

- iii. Net Loans Requirement = loan debt (less treasury management investments) forecast based on approved prudential borrowing and planned MRP;
- iv. Liability Benchmark = Net Loans Requirement plus short term liquidity allowance.

10.8 Appendix C includes liability benchmark charts for both the General Fund and HRA. Only approved expenditure and financing budgets for the period to 2025/26 are to be included although the charts cover the full debt maturity profile and MRP to 2068/69.

10.9 The GF chart shows the CFR, Loan Debt Outstanding and Liability Benchmark reducing in line over time. The HRA chart shows the CFR and Liability Benchmark increasing and then levelling out as there are no MRP payments or capital receipts. The HRA PWLB Loan Debt reduces over time as debt matures. Any gaps between actual loan debt outstanding and the liability benchmark will need to be managed in the future.

## **11. Non-treasury investments**

11.1 The non-treasury investment activity includes the Council provision of a financial guarantee through its subsidiary company, Investment Company Eastbourne Limited (ICE) Limited. The principal activity of the company is to guarantee an external financial liability with Canada Life and the future rental income of Infrastructure Investments Leicester Limited by virtue of contractual arrangement. In return for providing the above Guarantee (including rental guarantee) in 2018, ICE receives a £0.3m annual guarantee fee (indexed pa). The ICE Board of Directors meet regularly and review key financial monitoring (including the guarantee fees payment schedule) in line with the agreed governance arrangements/agreement.

11.2 The Council provide loans to its two subsidiary companies Eastbourne Housing Investment Company Limited and South East Environmental Services Limited and Aspiration Homes LLP which is a joint venture with Lewes District Council. As at 31 March 2023, £28.8m of loans had been provided and a further £3.9m is forecast for 2023/24. Interest received on those loans is forecast at £1.4m in 2023/24.

## **12. Environmental, Social and Governance (ESG) Investment**

12.1 The Cabinet at its meeting on 8 February 2023 approved the 2023/24 Treasury Management and Investment Strategy, which included Non-Specified investments such as ESG products that meet the Council's internal and external due diligence criteria.

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

12.3 There were no green deposits held at 30 September 2023, and there was no activity in the period.

### **13. Financial Appraisal**

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

### **14. Risk Management Implications**

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

### **15. Equality Analysis**

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

### **16. Legal Implications**

16.1 There are no legal implications from this report.

### **17. Environmental sustainability implications**

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

### **18. Appendices**

18.1 Appendix A - Link Group - Economic Commentary

18.2 Appendix B - EBC Capital Programme 2023/24

18.3 Appendix C - Liability Benchmarks

18.4 Appendix D - Glossary of Terms

### **19. Background Papers**

19.1 Treasury Management and Prudential Indicators 2023/24, Capital Strategy & Investment Strategy (Cabinet 8/2/23)

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## Link Group – Economic commentary

### Economics Update

- The first half of 2023/24 saw:
  - Interest rates rise by a further 100bps, taking Bank Rate from 4.25% to 5.25% and, possibly, the peak in the tightening cycle.
  - Short, medium and long-dated gilts remain elevated as inflation continually surprised to the upside.
  - A 0.5% m/m decline in real GDP in July, mainly due to more strikes.
  - CPI inflation falling from 8.7% in April to 6.7% in August, its lowest rate since February 2022, but still the highest in the G7.
  - Core CPI inflation declining to 6.2% in August from 7.1% in April and May, a then 31 years high.
  - A cooling in labour market conditions, but no evidence yet that it has led to an easing in wage growth (as the 3myy growth of average earnings rose to 7.8% in August, excluding bonuses).
- The 0.5% m/m fall in GDP in July suggests that underlying growth has lost momentum since earlier in the year. Some of the weakness in July was due to there being almost twice as many working days lost to strikes in July (281,000) than in June (160,000). But with output falling in 10 out of the 17 sectors, there is an air of underlying weakness.
- The fall in the composite Purchasing Managers Index from 48.6 in August to 46.8 in September left it at its lowest level since COVID-19 lockdowns reduced activity in January 2021. At face value, it is consistent with the 0.2% q/q rise in real GDP in the period April to June, being followed by a contraction of up to 1% in the second half of 2023.
- The 0.4% m/m rebound in retail sales volumes in August is not as good as it looks as it partly reflected a pickup in sales after the unusually wet weather in July. Sales volumes in August were 0.2% below their level in May, suggesting much of the resilience in retail activity in the first half of the year has faded.
- As the growing drag from higher interest rates intensifies over the next six months, we think the economy will continue to lose momentum and soon fall into a mild recession. Strong labour demand, fast wage growth and government handouts have all supported household incomes over the past year. And with CPI inflation past its peak and expected to decline further, the economy has got through the cost-of-living crisis without recession. But even though the worst of the falls in real household disposable incomes are behind us, the phasing out of financial support packages provided by the government during the energy crisis means real incomes are unlikely to grow strongly. Higher interest rates will soon bite harder too. We expect the Bank of England to keep interest rates at the probable peak of 5.25% until the second half of 2024. Mortgage rates are likely to stay above 5.0% for around a year.

- The tightness of the labour market continued to ease, with employment in the three months to July falling by 207,000. The further decline in the number of job vacancies from 1.017m in July to 0.989m in August suggests that the labour market has loosened a bit further since July. That is the first time it has fallen below 1m since July 2021. At 3.0% in July, and likely to have fallen to 2.9% in August, the job vacancy rate is getting closer to 2.5%, which would be consistent with slower wage growth. Meanwhile, the 48,000 decline in the supply of workers in the three months to July offset some of the loosening in the tightness of the labour market. That was due to a 63,000 increase in inactivity in the three months to July as more people left the labour market due to long term sickness or to enter education. The supply of labour is still 0.3% below its pre-pandemic February 2020 level.
- But the cooling in labour market conditions still has not fed through to an easing in wage growth. While the monthly rate of earnings growth eased sharply from an upwardly revised +2.2% in June to -0.9% in July, a lot of that was due to the one-off bonus payments for NHS staff in June not being repeated in July. The headline 3myy rate rose from 8.4% (revised up from 8.2%) to 8.5%, which meant UK wage growth remains much faster than in the US and in the Euro-zone. Moreover, while the Bank of England's closely watched measure of regular private sector wage growth eased a touch in July, from 8.2% 3myy in June to 8.1% 3myy, it is still well above the Bank of England's prediction for it to fall to 6.9% in September.
- CPI inflation declined from 6.8% in July to 6.7% in August, the lowest rate since February 2022. The biggest positive surprise was the drop in core CPI inflation, which declined from 6.9% to 6.2%. That reverses all the rise since March and means the gap between the UK and elsewhere has shrunk (US core inflation is 4.4% and in the Euro-zone it is 5.3%). Core goods inflation fell from 5.9% to 5.2% and the further easing in core goods producer price inflation, from 2.2% in July to a 29-month low of 1.5% in August, suggests it will eventually fall close to zero. But the really positive development was the fall in services inflation from 7.4% to 6.8%. That also reverses most of the rise since March and takes it below the forecast of 7.2% the Bank of England published in early August.
- In its latest monetary policy meeting on 20 September, the Bank of England left interest rates unchanged at 5.25%. The weak August CPI inflation release, the recent loosening in the labour market and the downbeat activity surveys appear to have convinced the Bank of England that it has already raised rates far enough. The minutes show the decision was "finely balanced". Five MPC members (Bailey, Broadbent, Dhingra, Pill and Ramsden) voted for no change and the other four (Cunliffe, Greene, Haskel and Mann) voted for a 25bps hike.
- Like the US Fed, the Bank of England wants the markets to believe in the higher for longer narrative. The statement did not say that rates have peaked and once again said if there was evidence of more persistent inflation pressures "further tightening in policy would be required". Governor Bailey stated, "we'll be watching closely to see if further increases are needed". The Bank also retained the hawkish guidance that rates will stay "sufficiently restrictive for sufficiently long".
- This narrative makes sense as the Bank of England does not want the markets to decide that a peak in rates will be soon followed by rate cuts, which would loosen financial conditions and undermine its attempts to quash inflation. The language also gives the Bank of England the flexibility to respond to new developments. A rebound in services inflation, another surge in wage growth and/or a further leap in oil prices could conceivably force it to raise rates at the next meeting on 2nd November, or even pause in November and raise rates in December.
- The yield on 10-year Gilts fell from a peak of 4.74% on 17th August to 4.44% on 29th September, mainly on the back of investors revising down their interest rate expectations. But even after their recent pullback, the rise in Gilt yields has exceeded the rise in most

other Developed Market government yields since the start of the year. Looking forward, once inflation falls back, Gilt yields are set to reduce further. A (mild) recession over the next couple of quarters will support this outlook if it helps to loosen the labour market (higher unemployment/lower wage increases).

- The pound weakened from its cycle high of \$1.30 in the middle of July to \$1.21 in late September. In the first half of the year, the pound bounced back strongly from the Truss debacle last autumn. That rebound was in large part driven by the substantial shift up in UK interest rate expectations. However, over the past couple of months, interest rate expectations have dropped sharply as inflation started to come down, growth faltered, and the Bank of England called an end to its hiking cycle.
- The FTSE 100 has gained more than 2% since the end of August, from around 7,440 on 31st August to 7,608 on 29th September. The rebound has been primarily driven by higher energy prices which boosted the valuations of energy companies. The FTSE 100's relatively high concentration of energy companies helps to explain why UK equities outperformed both US and Euro-zone equities in September. Nonetheless, as recently as 21<sup>st</sup> April the FTSE 100 stood at 7,914.

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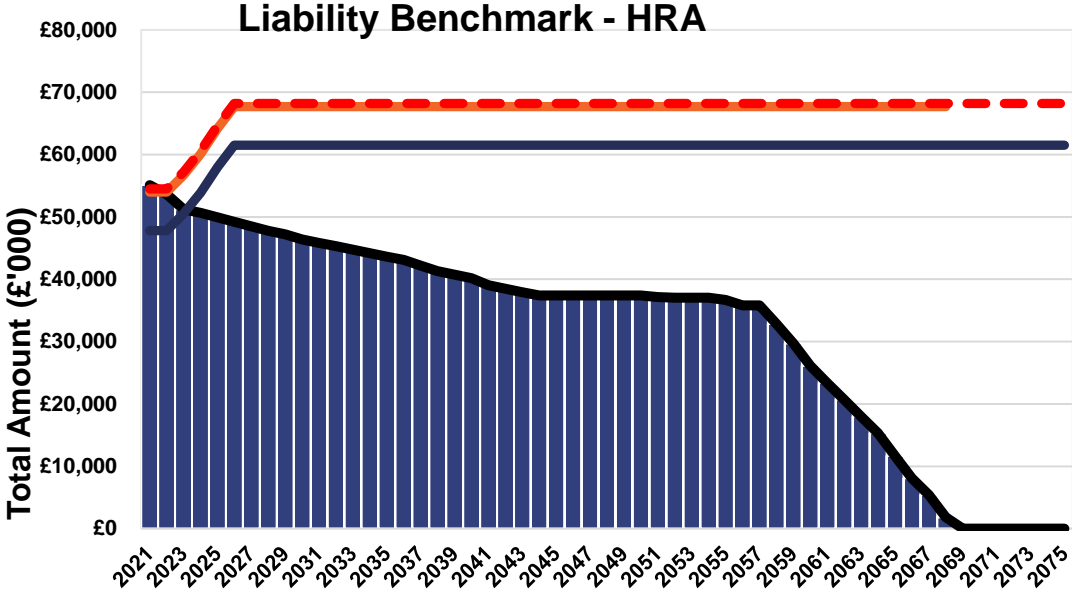
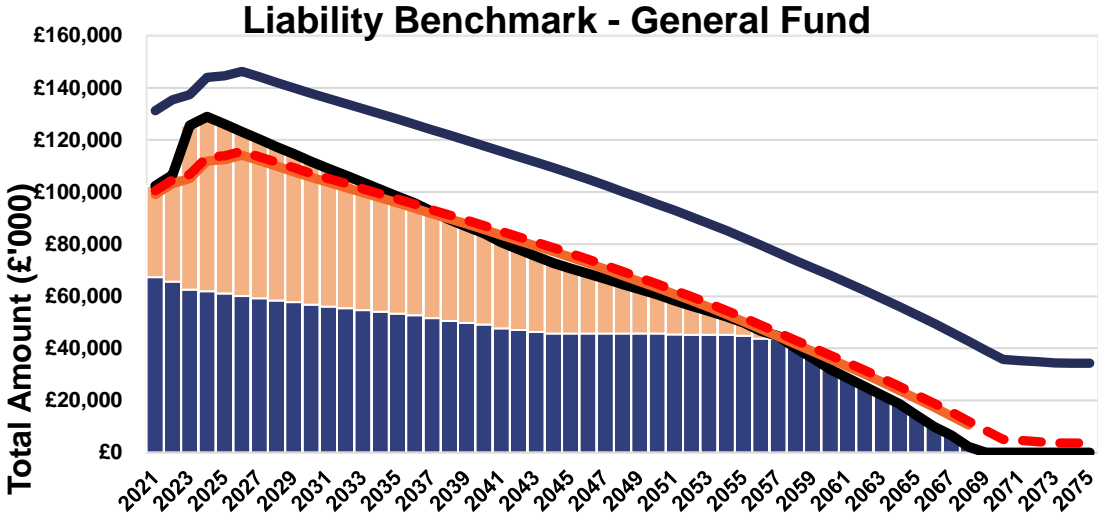
<b>Capital Programme 2023/24</b>	<b>Original Budget</b>	<b>Revised Budget</b>	<b>Forecast Outturn (at Q2)</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>HOUSING REVENUE ACCOUNT (HRA)</b>			
Construction of New Dwellings	8,141	10,961	9,429
Improvement to Stock	5,000	5,880	5,880
Adaptations for Disabled Tenants	450	450	450
<b>Total HRA</b>	<b>13,591</b>	<b>17,291</b>	<b>15,759</b>
<b>GENERAL FUND (GF)</b>			
Housing Grants	1,135	1,486	1,226
Housing Grants	1,200	2,248	2,233
Loans to Housing Companies	751	1,804	1,819
Community Services	3,136	3,516	3,105
Tourism and Leisure	150	100	120
Corporate Services	570	1,023	462
Regeneration (including Levelling Up)	17,947	18,638	5,840
Asset Management	4,256	5,092	2,684
<b>Total General Fund</b>	<b>28,010</b>	<b>32,421</b>	<b>16,263</b>
<b>Total Capital Expenditure</b>	<b>41,601</b>	<b>49,712</b>	<b>32,022</b>

<b>HRA Financing</b>			
Capital Receipts	3,318	3,318	1,747
Grants & Contributions	1,200	3,641	3,756
Major Repairs Reserve	5,450	6,330	6,330
Revenue	-	-	557
Borrowing Need	3,623	4,002	3,369
<b>Total HRA</b>	<b>13,591</b>	<b>17,291</b>	<b>15,759</b>

<b>GF Financing</b>			
Capital Receipts	250	250	-
Grants & Contributions	20,036	21,697	8,005
Revenue	50	50	15
Borrowing Need	7,674	10,424	8,243
<b>Total GF</b>	<b>28,010</b>	<b>32,421</b>	<b>16,263</b>

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### Liability Benchmark Charts



- PWLB Loans
- LOBO Loans
- Variable rate loans
- Market Loans (exc LOBO loans)
- Short Term inc LA Temporary Borrowing (<1 year)
- - - Net Loans Requirement - HRA
- Existing Loan Debt Outstanding - HRA
- Loans CFR - HRA
- - - Liability Benchmark - HRA

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## GLOSSARY

### Local Authority Treasury Management Terms

Term	Description
<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>Capital Financing Requirement (CFR)</b>	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 Minimum Revenue Provision (MRP).
<b>CIPFA</b>	The Chartered Institute of Public Finance and Accountancy (CIPFA) is a UK-based international accountancy membership and standard-setting body.
<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>CPI</b>	Consumer Price Index - the main measure of inflation for macroeconomic purposes.
<b>Deposit</b>	A regulated placing of cash with a financial institution.
<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>DLUHC</b>	Department for Levelling Up, Housing and Communities supports communities across the UK to thrive.
<b>DMO</b>	Debt Management Office is an executive agency of HM Treasury responsible for debt and cash management for the UK Government lending to local authorities and managing certain public funds.
<b>Equity</b>	An investment which usually confers ownership and voting rights.
<b>FTSE</b>	Financial Times Stock Exchange – an important indicator of the health of the UK stock market and economy. The FTSE100 is an index made up of shares from the biggest 100 companies by market capitalisation.
<b>GDP</b>	Gross Domestic Product is the total monetary or market value of all the finished goods and services produced within a country in a specific time period.
<b>Income Return</b>	Return on investment from dividends, interest and rent but excluding capital gains and losses.
<b>Gilts</b>	A gilt is a UK government liability denominated in sterling, issued by HM Treasury and listed on the stock exchange.

<b>Term</b>	<b>Description</b>
<b>LIBID and LIBOR</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. 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. No longer in use, see SONIA below.
<b>LOBO</b>	Lender's Option Borrower's option.
<b>MMF</b>	A Money Market Fund is a type of mutual fund that invests in cash, cash equivalents and short term debt securities.
<b>MPC</b>	The Bank of England's Monetary Policy Committee (MPC) are responsible for making decisions about the bank rate.
<b>Minimum Revenue Provision (MRP)</b>	Minimum Revenue Provision (MRP) is the charge to revenue made in respect of paying off the principal sum of the borrowing undertaken to finance the capital programme.
<b>OBR</b>	The Office for Budget Responsibility gives independent and authoritative analysis of the UK's public finances. OBR is an executive non-departmental public body, sponsored by HM Treasury.
<b>PMI</b>	Purchasing Managers' Index (PMI) is an index of the prevailing direction of economic trends in the manufacturing and service sectors. Market conditions can be expanding, staying the same or contracting.
<b>PWLB</b>	Public Works Loan Board is 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.
<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>TMSS</b>	Treasury Management Strategy Statement.

<b>Report to:</b>	<b>Audit and Governance Committee</b>
<b>Date:</b>	<b>28th November 2023</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 risk 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 and after an election.

## **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 October 2023 Review**

- 3.1 The Strategic Risk Register was taken to Corporate Management Team on 18<sup>th</sup> October 2023 for the quarterly review.
- 3.2 The Corporate Management Team reviewed the risk scores for all the risks and considered that the scores should remain at their current levels based on the cost of living crisis and issues with recruitment.
- 3.3 Consideration was also given to a risk raised by the Chair of the Audit and Governance Committee. This is the risk around the outstanding audits of accounts by the external auditors and the possibility that Government will allow Modified opinions be given to clear the backlog. The Director of Finance and Performance (Chief Finance Officer/S. 151 Officer) clarified that it was still too early to record a risk and a decision has still yet to be made on a national level. When a decision has been made then the risks associated with that decision will be considered.
- 3.4 It was also considered that a further control should be added with regard to Homelessness. This was added to two risks, SR\_002 Changes to the economic environment makes the council economically less sustainable and SR\_003 Unforeseen socio-economic and/or demographic shifts creating significant changes of demands and expectations.
- 3.5 Under each risk the following internal control has been added:  
Close monitoring of housing need costs. Build added capacity to prevention resources. Continue to engage with DLUHC and other local government networks. Lead the debate at a national level.
- 3.6 The Strategic Risk Register can be seen at Appendix A.

### **4. Financial appraisal**

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

### **5. Legal implications**

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

### **6. Risk management implications**

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

### **7. Equality analysis**

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



**8. Appendices**

8.1 Appendix A - Strategic Risk Register

**9. Background papers**

9.1 None

Jackie Humphrey

Chief Internal Auditor

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# Strategic Risk Register (Eastbourne)



**Report Type:** Risks Report  
**Generated on:** 24 October 2023

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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	06-Feb-2024
SR_002	Changes to the economic environment makes the council economically less sustainable.	1. Economic development of the town suffers. 2. Council objectives cannot be met. 3. Inflation affecting council costs is having a serious impact on the council's finances. 4. The council's Recovery and Stabilisation programme fails to meet its objectives.	5	5	25	<u>Reduces Impact</u> 1. Robust Medium-Term Financial Strategy reviewed annually and monitored quarterly. Refreshed in line with macroeconomic environment triennially.  2. Creating an organisational architecture that can respond to changes in the environment.  <u>Reduces Likelihood</u> 3. The council is continuously monitoring its financial plans to ensure early actions are taken to mitigate financial or operational risks. Additionally, the council's reserves and balances are regularly reviewed to ensure compliance with its reserve policy.	Director of Finance and Performance (Chief Finance Officer – S.151 Officer)	5	5	25	Red	06-Feb-2024

Strategic Risk Register Quarterly Review – Appendix A: Strategic Risk Register

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
		<p>5. Rising energy prices and inflation affecting the cost of living will affect the ability of customers to pay rent and council tax.</p> <p>6. Increased homelessness presentations due to the economic situation, lack of available social housing and rising private sector rents leads to an increased number that require prevention or place into emergency accommodation. This will have a detrimental impact on the resource required for prevention and the General Fund. The nightly paid accommodation budget will be impacted and, more significantly, the loss of Housing Benefit Subsidy will increase at the end of the financial year.</p>				<p>4. Regular monitoring of the progress and outcomes of the Recovery and Stabilisation programme, including the recommendations of the CIPFA Assurance Review.</p> <p>5. Continuous review and monitoring of the council's Housing Revenue Business Plan in light of the recently introduced rent cap.</p> <p>6. Close monitoring of housing need costs. Build added capacity to prevention resources. Continue to engage with DLUHC and other local government networks. Lead the debate at a national level.</p> <p>7. Continuous review and monitoring of the council's capital programme and financing costs.</p> <p><u>Reduces Likelihood and Impact</u></p> <p>8. Full action plan in place in the Housing Options and Wellbeing team with a target of a reduction of 100 placements by December 23. Creation of a physical Housing Hub, co-locating with partners to deliver a local, joined-up, preventative model. Lead the East Sussex Housing Partnership providing Health and Housing outcomes.</p>						
SR_003	Unforeseen socio-economic and/or demographic shifts creating significant changes of demands and expectations.	<p>1. Unsustainable demand on services.</p> <p>2. Service failure.</p>	5	5	25	<p><u>Reduces Likelihood and Impact</u></p> <p>1. Grounding significant corporate decisions based on up-to-date, robust, evidence base. (e.g. Census; Corporate Plan Place Surveys; East Sussex in Figures data modelling).</p>	Director of Service Delivery	3	3	9	Amber	06-Feb-2024

Strategic Risk Register Quarterly Review – Appendix A: Strategic Risk Register

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>5. Increased homelessness presentations due to the economic situation, lack of available social housing and rising private sector rents leads to an increased number that require prevention or place into emergency accommodation. This will have a detrimental impact on the resource required for prevention and the General Fund. The nightly paid accommodation budget will be impacted and, more significantly, the loss of Housing Benefit Subsidy will increase at the end of the financial year.</p>				<p>2. Ensuring community and interest group engagement in policy development (e.g. Neighbourhood Management Schemes; Corporate Consultation Programme).</p> <p>3. Close monitoring of housing need costs. Build added capacity to prevention resources. Continue to engage with DLUHC and other local government networks. Lead the debate at a national level.</p> <p>4. Full action plan in place in the Housing Options and Wellbeing team with a target of a reduction of 100 placements by December 23. Creation of a physical Housing Hub, co-locating with partners to deliver a local, joined-up, preventative model. Lead the East Sussex Housing Partnership providing Health and Housing outcomes</p>						
SR_004	The employment market provides unsustainable employment base for the needs of the organisation.	Employment market unable to fulfil recruitment, and council unable to retain staff, resulting in a decline in performance	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>	Director of Organisational Development/ Director of Devonshire Quarter	5	2	10	Amber	06-Feb-2024

Strategic Risk Register Quarterly Review – Appendix A: Strategic Risk Register

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
		standards and an increase in service costs.				2. Appropriate reward and recognition policies reviewed on a regular basis. <u>Reduces Likelihood and Impact</u> 3. Pursuit of mutually beneficial shared service arrangements. 4. Maximising flexibility around recruitment and retention.						
SR_005	Not being able to sustain a culture that supports organisational objectives and future development.	1. Decline in performance. 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.	4	4	16	<u>Reduces Likelihood</u> 1. Build an organisational culture that supports equality 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.	Director of Organisational Development/ Director of Devonshire Quarter	3	4	12	Amber	06-Feb-2024
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	06-Feb-2024

Strategic Risk Register Quarterly Review – Appendix A: Strategic Risk Register

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
						3. Regularly reviewed and tested Business Continuity Plans and updated contingency plans actioned. 4. Regularly reviewed and tested Disaster Recovery Plan.						
SR_007	Council materially impacted by the medium to long term effects of an event under the Civil Contingencies Act.	1. Service profile of the council changes materially as a result of the impact of the event. 2. Cost profile of the council changes materially as a result of the impact of the event. 3. Work adversely affected by reduced staff numbers due to effects of pandemic virus. 4. Emergency caused by a climate change event (e.g. increased flooding risks)	5	5	25	<u>Reduces Likelihood and Impact</u> 1. Working in partnership with other public bodies. 2. Robust emergency planning and use of council's emergency powers. 3. Working with the Environment Agency on climate change measures. <u>Reduces Impact</u> 4. Ongoing and robust risk profiling of local area (demographic and geographic). 5. Review budget and reserves in light of risk profile. 6. Funds set aside to help fund responses to an event. <u>Reduces Likelihood</u> 7. Adoption of, and action to implement, the council's Climate Emergency Strategy.	Chief Executive	2	4	8	Amber	06-Feb-2024
SR_008	Failure to meet regulatory or legal requirements.	1. Trust and confidence in the council is negatively impacted. 2. Deterioration of financial position as a result of regulatory intervention/penalties.	3	4	12	<u>Reduces Likelihood</u> 1. Developing, maintaining and monitoring robust governance framework for the council. 2. 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	Chief Executive	2	4	8	Amber	06-Feb-2024

Strategic Risk Register Quarterly Review – Appendix A: Strategic Risk Register

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
		3. Deterioration of service performance as a result of regulatory intervention/penalties.				<p>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 where service and/or cultural issues arise.</p> <p>7. Ensure that fire risk regulations are adhered to and that Fire Risk Assessments are regularly reviewed.</p>						
SR_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>	<p>Director of Regeneration and Planning And Chief Executive</p>	4	3	12	Amber	06-Feb-2024



Strategic Risk Register Quarterly Review – Appendix A: Strategic Risk Register

Code	Title	Description	Likelihood	Impact	Original Risk Score	Internal Controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Next Review Date
SR_010	The council suffers a personal data breach by inadequate handling of data or by an IT incident.	1. Trust and confidence in the council is negatively impacted. 2. Deterioration of financial position as a result of regulatory intervention/penalties. 3. Deterioration of service performance as a result of regulatory intervention/penalties. 4. Increased probability of compensation claims by persons affected by a personal data breach.	3	4	12	<u>Reduces Likelihood</u> 1. Ongoing corporate training for data protection. 2. Ensure all staff complete the e-learning Data Protection course. 3. Ensure that the Data Protection Policy is regularly reviewed. 4. Ensure the Data Protection Officer is afforded the resources to discharge their statutory functions. 5. Ensure that managers regularly remind staff of their responsibilities under data protection, including personal data breach reporting arrangements. 6. Ensure the suite of IT policies is kept up to date. 7. Ensure that IT security is in place and regularly tested. <u>Reduces Impact</u> 8. Incident management procedures to mitigate loss or breach of data are in place.	Chief Executive	2	4	8	Amber	06-Feb-2024

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