East Sussex County Council

AUDIT COMMITTEE

FRIDAY, 22 NOVEMBER 2019

10.00 am COMMITTEE ROOM - COUNTY HALL, LEWES

MEMBERSHIP - Councillor Colin Swansborough (Chair)
Councillors Gerard Fox (Vice Chair), Matthew Beaver, Martin Clarke, Philip Daniel, Michael Ensor and Daniel Shing

A G E N D A

1 Minutes of the previous meeting held on 13 September 2019 *(Pages 3 - 6)*

2 Apologies for absence

3 Disclosures of interests

Disclosures by all members present of personal interests in matters on the agenda, the nature of any interest and whether the member regards the interest as prejudicial under the terms of the Code of Conduct.

4 Urgent items

Notification of items which the Chair considers to be urgent and proposes to take at the appropriate part of the agenda. Any members who wish to raise urgent items are asked, wherever possible, to notify the Chair before the start of the meeting. In so doing, they must state the special circumstances which they consider justify the matter being considered urgent.

5 Internal Audit Progress Report Q2 2019/20 *(Pages 7 - 24)*
Report by the Orbis Chief Internal Auditor

6 Strategic Risk Monitoring - Quarter 2, 2019/20 *(To Follow)*
Report by the Chief Operating Officer

7 Annual Audit Letter 2018/19 *(Pages 25 - 42)*
Report by the Chief Finance Officer

8 Treasury Management Annual Report 2018/19 and mid-year report 2019/20 *(Pages 43 - 62)*
Report by the Chief Finance Officer

9 Property Asset Disposal and Investment Strategy *(Pages 63 - 100)*
Report by the Chief Operating Officer

10 Work programme *(Pages 101 - 104)*

11 Any other non-exempt items previously notified under agenda item 4

12 Exclusion of Public and Press
To consider excluding the public and press from the meeting for the remaining agenda item on the grounds that if the public and press were present there would be disclosure to them of exempt information as specified in paragraph 3 of Part 1 of the Local Government Act 1972 (as amended), namely information

relating to the financial or business affairs of any particular person (including the authority holding that information).

13 Property Asset Disposal and Investment Strategy *(Pages 105 - 112)*
Report by the Chief Operating Officer

14 Any other exempt items previously notified under agenda item 4

PHILIP BAKER
Assistant Chief Executive
County Hall, St Anne's Crescent
LEWES BN7 1UE

14 November 2019

Contact Simon Bailey, Democratic Services Officer,
01273 481935
Email: simon.bailey@eastsussex.gov.uk

AUDIT COMMITTEE

MINUTES of a meeting of the Audit Committee held at County Hall, Lewes on 13 September 2019.

PRESENT	Councillor Colin Swansborough (Chair) Councillors Gerard Fox (Vice Chair), Matthew Beaver, Martin Clarke and Philip Daniel and Stephen Shing
ALSO PRESENT	Kevin Foster, Chief Operating Officer Ian Gutsell, Chief Finance Officer Russell Banks, Chief Internal Auditor Nigel Chilcott, Audit Manager Darren Wells, Grant Thornton

12 MINUTES OF THE PREVIOUS MEETING

12.1 The Committee RESOLVED to agree the minutes as a correct record.

12.2 The Committee RESOLVED to thank Martin Jenks, Senior Democratic Services Advisor, for his assistance to the Committee.

13 APOLOGIES FOR ABSENCE

13.1 Apologies for absence were received from Councillor Daniel Shing. It was noted that Councillor Stephen Shing was present as a substitute for him.

14 DISCLOSURES OF INTERESTS

14.1 There were none.

15 URGENT ITEMS

15.1 There were none.

16 REPORTS

16.1 Reports referred to in the minutes below are contained in the minute book.

17 EXTERNAL AUDITOR'S REPORT 2018/19: STATEMENT OF ACCOUNTS UPDATE

17.1 The Committee considered a report by the Chief Finance Officer (CFO) which provided an update on changes to the 2018/19 Statement of Accounts after approval by the Governance Committee on 16 July 2019. Darren Wells of external auditors Grant Thornton was also present to assist the Committee.

17.2 The Chief Finance Officer and Darren Wells set out that the issue was not exclusive to East Sussex. The CFO informed the Committee that an IAS19 actuarial statement from the Council's actuaries Hymans Robertson was obtained in March 2019 to enable the Statement of Accounts to be prepared. Mr Wells confirmed that a revised statement was requested in July, which highlighted a material difference, of around £48m, in the projected pension liabilities. Grant Thornton considered that the revised figure should be reflected in the Statement of Accounts - Income and Expenditure Account and Balance Sheet. As a result the Council's completed accounts, together with audit opinion, were not available for publication on 31 July. Mr Wells confirmed that the external auditors were satisfied with the revised accounts.

17.3 The Committee asked questions about the impact on the Council's finances and the revenue account. The CFO and Mr Wells assured the Committee that there was no impact on the Council's bottom line, and that this was a requirement of accounting standards.

17.4 Councillor Fox, a member of the Committee and Chair of the Pension Fund, provided clarification of the workings of the Pension Fund in assessing long term liabilities and the level of coverage of those liabilities by way of returns on its portfolio. He and the CFO confirmed that the Fund had a funding level greater than 90%, and was awaiting its triennial revaluation next year, which would produce a further estimate of future liabilities. The CFO highlighted that each estimate was a snapshot of the position at a given time, and that the estimated position might never materialise.

17.5 The Committee considered the issue of the streamlining of local authority accounts. They bore in mind the requirement to open the books to the public on 31 May, and to provide a status report to the public on 31 July. They also considered that this was the first year of a new relationship of the finance team and external auditors and the impact of those deadlines. The CFO confirmed that all parties involved would reflect on the lessons to be learned.

17.6 The Committee RESOLVED to note the report and verbal update on the status of the 2018/19 Statement of Accounts.

18 INTERNAL AUDIT PROGRESS REPORT Q1 2019/20

18.1 The Committee considered a report by the Orbis Chief Internal Auditor which presented an update on all internal audit and counter fraud activity completed during Quarter 1 2019/20, including a summary of all key findings. The report included details of progress on delivery of the annual audit plan and an update on the performance of the service.

18.2 In response to a query about how agreed actions are monitored, the Audit Manager set out that the higher risk actions are subject to tracking, with regular liaison with the relevant management team.

18.3 The Committee requested clarification on the Spydus (Libraries) feeder system to the General Ledger. It was set out that this was a high volume, low value, system operated by the Library Service to monitor book loans, fees and charges.

18.4 With regard to Waivers the Committee was informed that these were used in circumstances where following the Procurement Standing Orders was not appropriate. The Chief Operating Officer assured the Committee that each Waiver was subject to advice from Legal Services, and then signed off by the Head of Procurement and the relevant Chief Officer.

18.5 The Committee RESOLVED (1) to agree that there were no actions that needed to be taken in response to issues raised in the audits carried out in Quarter 1;

(2) to agree that there were no new or emerging risks for consideration for inclusion in the internal audit plan; and

(3) to congratulate the Orbis Internal Audit Service staff on the successful progress against the performance targets.

19 OVERSIGHT OF SAP 'SUPER USER' ACCESS CONTROLS - UPDATE REPORT

19.1 The Committee considered a report by the Chief Finance Officer which provided an update on the review of SAP “Super User” access raised by the external auditors in the 2018/19 Audit Report.

19.2 The Chief Finance Officer set out that IT & Digital had undertaken a review, and will create a new pathway for users to access the client maintenance functionality (SCC4) which will be subject to a new monitoring regime.

19.3 The Internal Audit team has also undertaken a follow-up review of SAP Application Controls, unusually for an audit that had been assessed as providing Reasonable Assurance. The follow-up provided Substantial Assurance, in that all but one of the six recommendations to management had been implemented. The final recommendation (documentation of change requests) would be in place in October 2019.

19.4 The Committee RESOLVED to note the update report and actions taken to review SAP “Super User” access.

20 WORK PROGRAMME

20.1 The Chair invited the Committee to discuss any items it would like to add to the work programme. The Committee noted that the proposed refreshing of the Counter Fraud Strategy would be brought to a future meeting (November 2019 or March 2020).

20.2 There were no further additions or changes to the future work programme.

The meeting ended at 10.50 am.

Councillor Colin Swansborough
Chair

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Report to:	**Audit Committee**
Date:	**22 November 2019**
By:	**Orbis Chief Internal Auditor, Business Services Department**
Title of report:	**Internal Audit Progress Report – Quarter 2 (01/07/19 – 30/09/19)**
Purpose of report:	**To provide Members with an update on all internal audit and counter fraud activity completed during the quarter, including a summary of all key findings. The report also includes details of progress on delivery of the annual audit plan along with an update on the performance of the internal audit service during the period.**

RECOMMENDATIONS

Members are asked to:

1. **Note the report and consider and agree any action required in response to the issues raised;**
2. **Identify any new or emerging risks for consideration for inclusion in the internal audit plan.**

1. Background

1.1 This progress report covers work completed between 1 July 2019 and 30 September 2019.

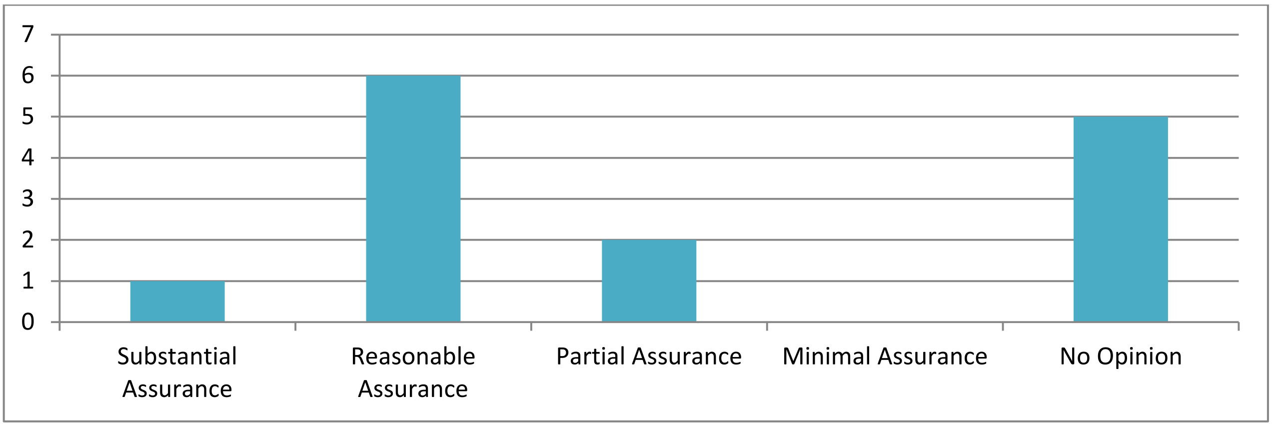
2. Supporting Information

2.1 The current annual plan for internal audit is contained within the Internal Audit Strategy and Annual Plan 2019-20 which was approved by Audit Committee on 25 March 2019.

3. Conclusion and Reasons for Recommendation

3.1 Key audit findings from final reports issued during Quarter 2 are summarised in Appendix A.

3.2 Overall, of the nine formal audits finalised during the quarter in which an opinion was given, one received an opinion of 'substantial assurance', six received 'reasonable assurance' (including one school) and two received 'partial assurance' (including one school). There were no opinions of 'minimal assurance'.



3.3 Although the same range of internal audit opinions are issued for all audit assignments (where an opinion is relevant), it is necessary to also consider the level of risk associated with each area under review when drawing an opinion on the Council's overall control environment. **Taking into account these considerations, the Chief Internal Auditor continues to be able to provide assurance that the Council has in place an effective framework of governance, risk management and internal control**.

3.4 The overall conclusion has been drawn based on all audit work completed in the year to date and takes into account the management response to audit findings and the level of progress in subsequent implementation. This is something which will continue to be monitored and reported on throughout the year.

3.5 Formal follow up reviews continue to be carried out for all audits where 'minimal assurance' opinions have been given and for higher risk areas receiving 'partial assurance'. Two follow up reviews were completed during the quarter and this resulted in improved opinions of reasonable and substantial assurance.

3.6 Members will recall that flexibility was built into the audit plan to allow resources to be directed to any new and emerging risks. We continue to liaise with departments to identify these but would also welcome input from this Committee. Details of those reviews added and removed from the plan so far this year are set out at the end of Appendix A.

3.7 Progress against our performance targets (focussing on a range of areas relating to our service) can be found in Appendix A. All targets have been assessed as on target (green).

RUSSELL BANKS, ORBIS CHIEF INTERNAL AUDITOR, BUSINESS SERVICES DEPARTMENT
Contact Officers: Nigel Chilcott, Audit Manager Tel No. 01273 481992

BACKGROUND DOCUMENTS: Internal Audit Strategy and Annual Plan 2019-20

Appendix A

Internal Audit and Counter Fraud

Quarter 2 Progress Report 2019/20

CONTENTS

1. Summary of Completed Audits
2. Counter Fraud and Investigation Activities
3. Action Tracking
4. Amendments to the Audit Plan
5. Internal Audit Performance

East Sussex County Council

1. Summary of Completed Audits

HR/Payroll

1.1 One of the largest areas of expenditure for the Council is the payment of employees. The Council's Payroll department is responsible for paying employees accurately in accordance with established policies. The average gross monthly salary costs for ESCC for the 2018/19 financial year was £19.07 million, with the average net salary costs being £14.39 million. As at April 2019, there were 10,685 people (8,371 non-teaching and 2,314 teaching) employed by the Council.

1.2 The purpose of the audit was to provide assurance that:

- starters are properly approved, and pay is calculated and paid from the correct dates;
- leavers are removed from the payroll in a timely manner and paid correctly and accurately to the correct dates;
- permanent variations to pay are properly approved, calculated and paid from the correct dates;
- pay-runs and BACS transmissions are correct and authorised;
- payroll data is regularly reconciled to the General Ledger;
- temporary payments (including additional hours, expense claims and payment to casual staff) are correctly authorised prior to processing; and
- changes to standing data are reviewed, accurately input and authorised.

1.3 As a result of our work, we were able to provide an opinion of **reasonable assurance**. We found that salary payments, including the relevant statutory and voluntary (e.g. pension) deductions are made correctly and that appropriate reconciliations take place between control accounts and the general ledger to ensure the accuracy of payments and their recording in the accounting system. We also found that appropriate segregation of duties is in place throughout the payroll system to reduce the risk of fraud or error.

1.4 However, some opportunities to strengthen controls further were identified. These included the need to:

- improve the recording of checks that confirm employees' eligibility to work;
- clarify the recording of VAT for relocation expenses;
- strengthen controls to confirm that reimbursements are only paid for *bona fide* expenses;
- improve the validation of data imported from schools into SAP to ensure the completeness of data transfer;
- ensure overtime is applied at the correct rates for claims by staff on higher grades; and
- ensure the timely closure of leavers' personnel records and network accounts.

1.5 A formal action plan has been agreed with management to address these issues.

LCS/ContrOCC

1.6 Liquid Logic Children's System (LCS) is the Council's case management and authorisation system for children, including looked after and adopted children. ContrOCC is the Council's contracts and budget management system for Children's social care clients. The system is also used to make payments to care providers and an automated interface allows LCS and ContrOCC to share key information.

1.7 In the period April 2018 to February 2019, payments of almost £12.5 million were made from the ContrOCC system to care providers.

1.8 The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:

- Access to the system is secure and strictly controlled, including any third party access;
- Service provision only takes place after appropriate approval has been received;
- Payments are complete, accurate and timely and are only made to *bona fide* providers of care in respect of approved services to ESCC care clients;
- Scheduled system processes are adequately controlled to ensure that automated interfaces between ContrOCC and SAP run complete and as expected.

1.9 Our testing found that payments were complete, accurate and timely and only made to genuine care providers in respect of approved services. Payment runs were found to have been reconciled correctly and satisfactory processes are in place for issuing invoices and collecting overpayments. As a result, we were able to provide an opinion of **reasonable assurance**.

1.10 However, we identified a number of areas for improvement and actions have, therefore, been agreed with management in the following areas:

- An automated alert will be developed to provide early notification of the end of care packages to reduce the risk of overpayments;
- Duplicate service user reports will be developed to highlight instances where service users are set up with more than one record in LCS, which may weaken the Council's ability to co-ordinate effective care packages; and
- LCS user accounts that have not been accessed for more than six weeks will be disabled to ensure that only current users can access client records.

1.11 These actions have been captured in a detailed management action plan.

Building Condition – Asset Management

1.12 This audit review was carried out to assess the adequacy of the arrangements that are in place to maintain the Council's properties and ensure that the property assets comply with the relevant health and safety regulations.

1.13 The Property Team has recently undertaken a major restructure that has seen a number of long-serving officers leave the authority with a corresponding reallocation of responsibilities, increasing the risk that key knowledge of the estate was lost. Moreover, the structure went live with a number of key posts remaining unfilled, reducing capacity at an already challenging time. This audit recognised the impact of the restructure and acknowledged the work undertaken by management to manage these risks.

1.14 The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:

- The Property Operations department have sufficient understanding of the condition of the Council's property portfolio and property requirements to allow them to maintain the estate to an acceptable standard;
- Preventative and reactive maintenance are effectively aligned to ensure that expenditure delivers value for money; and
- All maintenance work is completed to the required standard and in accordance with the requirements of the contract.

1.15 Whilst management had already recognised that a decision, taken nearly a decade ago, to stop the routine surveying of properties had made it more difficult to plan an effective maintenance programme, the effect of this was too recent to have secured the necessary improvements to controls. As a result, we were only able to provide an audit opinion of **partial assurance**, although throughout our review, we found that management was working to mitigate the effect that recent restructures, including the loss of a number of senior officers, had had on the department. It had also drafted a new property asset management plan and reinstated a modest programme of surveys to facilitate more effective targeting of its maintenance budget.

1.16 The key areas for improvement we identified were the need to:

- carry out a full programme of building condition surveys across the estate to facilitate an effective preventative maintenance programme; and
- consolidate property records held across a number of different platforms, which is currently making them more difficult to access.

1.17 Appropriate actions have been agreed with management to address these issues in a comprehensive action plan. A follow up audit will be undertaken in 2020/21 to ensure that the actions have been implemented.

E-recruitment

1.18 On 1 April 2019, the three Orbis partners (East Sussex County Council, Surrey County Council and Brighton & Hove City Council) implemented a joint Applicant Tracking System (ATS) with an objective to converge recruitment service processes administered by Business Operations. The system implemented is known as TribePad and it replaced the three separate systems that the Orbis partners had previously.

1.19 The purpose of this review was to provide assurance that:

- governance structures, including roles and responsibilities, are clearly defined, understood and effective;
- system access is restricted to appropriately authorised individuals and the permissions to those users are in line with job functions; and
- the recruitment process is fair, open and transparent and in accordance with Council policy and legislation.

1.20 Our testing found that appropriate governance structures were in place, with roles and responsibilities being clearly defined. We also found the existence of robust access controls and that the system allowed appropriate control over the approval of recruitment and the relevant pre-employment checks.

1.21 As some areas of the system were still in the process of implementation during our review, no audit opinion was given. However, a small number of areas for improvement were identified. These related to:

- the opportunity to consider whether the system could be strengthened to prevent job adverts being published without the knowledge of the Council's Recruitment Team;
- the need to take further action to ensure that the system becomes fully GDPR compliant; and
- the opportunity to clarify some roles once the system has been fully implemented.

1.22 A formal action plan has been agreed with management to address these issues.

Cyber Security

1.23 Cyber-attacks on the Council's IT systems and devices are a threat to the security of the Council's data, and could have an adverse impact on service delivery. We undertook an audit of the Authority's high-level arrangements for protecting its systems and services from cyber-attack; including arrangements for responding effectively to a cyber-attack should one occur.

1.24 We were able to provide **reasonable assurance** over the controls operating in this area because our work found that:

- defences are in place to protect the Council's systems, including firewall and anti-virus products and the blocking of potentially harmful emails;
- defences are regularly tested by external penetration testers;
- proactive measures are taken by relevant staff to keep informed of emerging cyber security threats and trends; and
- the Council shows a strong awareness of cyber security issues, with these documented on the strategic risk register. The Council has also achieved Cyber Essentials Plus accreditation, demonstrating its commitment to cyber security.

1.25 Some areas were, however, identified where arrangements could be further strengthened. These included:

- Maximising the detection, alerting and logging of unusual activity;
- Improving mechanisms for vulnerability detection;
- Introducing web filtering on mobile devices;
- Strengthening response plans specific to cyber security incidents.

1.26 We noted that the council has recently procured a security information and event management (SIEM) product which has been procured cross-Orbis. The system has not yet been fully configured for ESCC. However, if correctly configured, it will increase the Council's cyber-resilience and support effective management of the weaknesses identified within the audit.

1.27 Actions to address the above issues were agreed with management as part of a formal action plan.

Surveillance Cameras (Follow Up)

1.28 Local authorities are required to pay due regard to the surveillance camera code of practice (SC Code) where they operate surveillance cameras overtly in a public space (e.g. in town centres, municipal buildings, libraries, leisure centres, body worn videos worn by enforcement officers).

1.29 The SC code sets out 12 principles for the operation of surveillance camera systems. The Surveillance Camera Commissioner will be writing to Senior Responsible Officers (SRO) in all local authorities to conduct a survey of compliance with the Protection of Freedoms Act 2012 (PoFA) with the results of the survey to be included in the Commissioner's annual report to Parliament.

1.30 In anticipation of this exercise, this review was a follow-up of the previous audit undertaken in November 2018 which gave a partial assurance opinion on the use of Surveillance Camera Systems and compliance with the SC Code. The follow-up audit focused specifically on the implementation of actions agreed during the audit of November 2018.

1.31 We were able to provide **reasonable assurance** in relation to this work as a result of improvements made. Some areas still required further action, however, relating to the sign off of data Privacy Impact Assessments (PIA) (which are required to ensure the Council upholds individuals' rights in processing personal data and complies with relevant legislation); the sign off of technical risk assessments (which are required to demonstrate the use and deployment of surveillance technology is fit for purpose); and ensuring that CCTV images around the Council's buildings are routinely deleted within the Council's retention period.

1.32 Management has agreed a formal plan to ensure the timely implementation of these actions.

SAP Application Controls (Follow Up)

1.33 The SAP system is the Council's key software system for its financial management, budgeting and reporting functions. The system is also used for making payments to employees, suppliers and billing of revenue. SAP is a mission critical system at the Council and there are risks that inaccuracy or lack of availability of SAP would prevent receipt and disbursement of funds, as well as producing inaccurate management information.

1.34 An audit of SAP Application Controls was undertaken in 2018 resulting in a reasonable assurance opinion.

1.35 Whilst we would not ordinarily undertake a follow-up of a reasonable assurance audit, this review was undertaken at the request of the Chief Finance Officer, in response to the technical SAP audit undertaken by External Auditors (Grant Thornton), which identified concerns at a technical level, specifically in terms of permissions granted to key individuals.

1.36 In completing our work, we were able to provide a revised opinion of **substantial assurance** as a result of all but one of the agreed actions from the previous audit being implemented.

1.37 The one outstanding action related to required improvements to the template used to record change requests for updates and developments. Our review found that a new template had been designed but had yet to be fully implemented by the team. Action to implement fully the template was agreed.

Parking

1.38 Section 6 of the Traffic Management Act 2004 gives local authorities the power to introduce and enforce parking controls. ESCC operates civil parking enforcement schemes in the Eastbourne, Hasting and Lewes areas.

1.39 NSL Limited manages on-street parking on behalf of the Council. Enforcement of parking in controlled areas is carried out by Civil Enforcement Officers (CEOs) who are employed by NSL Limited. NSL has sub-contracted responsibility for collecting cash from pay and display machines. Collection of unpaid parking tickets is managed by bailiffs appointed by the Council. Gross income from parking, for the year 2018/19, was £4.632m.

1.40 The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:

- All parking activities comply with legislative requirements;
- All contracts for the provision of parking related services are subject to robust monitoring and reporting arrangements and payments are only made in compliance with the contract for services received;
- All income from parking is collected and accounted for accurately and promptly; and
- Penalty Charge Notice appeals are managed strictly in accordance with Council policy and procedures.

1.41 Overall, we found that appropriate contract arrangements were in place with NSL Ltd, supported by clear policies. Parking controls were generally compliant with statutory guidance. As a result of our work, we were able to give an opinion of **reasonable assurance**.

1.42 Some minor areas for improvement were, however, identified, including:

- the strengthening of reconciliation processes to provide assurance that all income due has been received intact; and

- seeking further assurance that NSL's Civil Enforcement Officers have the required level of Disclosure and Barring Service (DBS) check to enable them to work near schools.

1.43 Actions to address these issues have been agreed with management in a formal action plan.

Troubled Families

1.44 The Troubled Families (TF2) programme has been running in East Sussex since January 2015 and is an extension of the original TF1 scheme that began in 2012/13. The programme is intended to support families who experience problems in certain areas, with funding for the local authority received from the Ministry of Housing, Communities and Local Government (MHCLG), based on the level of engagement and evidence of appropriate progress and improvement.

1.45 Children's Services submit periodic claims to the MHCLG to claim grant funding under its 'payment by results' scheme. The MHCLG requires Internal Audit to verify 10% of claims prior to the Local Authority's submission of its claim. During quarter 2, Children's Service submitted two tranches of claims and we undertook reviews of both. We reviewed 17 of the 168 families included in the April/July 2019 grant submission and 22 of the 215 families in the July/September submission.

1.46 In completing this work, we found that valid 'payment by results' (PBR) claims had been made and outcome plans had been achieved and evidenced in each case. All of the families in the sample of claims reviewed had firstly met the criteria to be eligible for the TF2 programme and had either achieved significant and sustained progress and/or had moved from out of work benefits into continuous employment. We therefore concluded that the conditions attached to the TF2 grant determination programme had been complied with.

Bus Services Operators' Grant

1.47 The Bus Service Operators' Grant (BSOG) is a discretionary grant paid to operators of eligible local bus services to help them recover some of their fuel costs. The amount each bus operator receives is based on the amount of fuel they use. BSOG aims to benefit passengers by helping operators keep fares down and to enable operators to run services that might otherwise be unprofitable.

1.48 To qualify for the grant, community transport services must be eligible services operated by non-profit making bodies on the basis of a permit issued under section 19 of the Transport Act 1985. During 2018/19, the Council received a grant payment for £442k. The purpose of our work was to confirm that expenditure had been used in accordance with the terms of the grant and that the figures stated in the annual return were correct. As a result of our work, we were able to confirm that use of the grant had met these terms and the annual declaration was signed and returned to the DfT by the required deadline of 30 September 2019.

Department for Transport Grant

1.49 The Council receives grant funding from the Department for Transport (DfT) to support capital investment in the local road infrastructure. The DfT lays down conditions for expenditure and the Council is required to confirm that its use of the grant was in accordance with the required conditions. For 2018/19, grant funding amounted to a total of £19.159m.

1.50 We reviewed the expenditure incurred under the terms of the grant and were able to confirm that it complied with the DfT's requirements. As a result, the Council was able to submit its return to the DfT by the required deadline of 30 September 2019.

School Audits

1.51 Our work in schools has continued in order to assess the adequacy of financial governance and to gauge the effectiveness of training to governors, headteachers and school business managers. In quarter 2, the following individual school reviews were completed:

School	Type	Location	2019/20 Budget £'000	Opinion
Heathfield Community College	Community	Heathfield	£6.221	Partial Assurance
Cradle Hill Community Primary School	Community	Seaford	£2.172	Reasonable Assurance

2. Counter Fraud and Investigation Activities

Proactive Counter Fraud Work

2.1 Internal Audit deliver both reactive and proactive counter fraud services across the Orbis partnership. Work to date has focussed on the areas set out below.

National Fraud Initiative Exercise

2.2 The results from this exercise were received on 31 January 2019 and have been prioritised for review over the coming months. Periodic updates on any outcomes from this work will be provided as part of future internal audit progress reports.

Counter Fraud Policies

2.3 Each Orbis partner has in place a Counter Fraud Strategy that sets out their commitment to preventing, detecting and deterring fraud. Internal Audit are in the process of reviewing the sovereign strategies to align with best practice and to ensure there is a robust and consistent approach to tackling fraud.

Fraud Risk Assessments

2.4 Fraud risk assessments have been consolidated and are regularly reviewed to ensure that the current fraud threat for the Council has been considered and appropriate mitigating actions identified.

Fraud Response Plans

2.5 The Fraud Response Plans take into consideration the results of the fraud risk assessments and emerging trends across the public sector in order to provide a proactive counter fraud programme. This includes an increased emphasis on data analytics. The Fraud Response Plans set out the proactive work plan for Internal Audit in 2019/20. Areas identified include analysis in the following areas:

- Conflict of Interest
- Gifts and Hospitality
- Payments to GPs and Pharmacies
- Purchasing and Fuel Cards

Fraud Awareness

2.6 The team has been refreshing eLearning content to provide engaging and current material available to the whole organisation. This will be run in conjunction with fraud awareness workshops to help specific, targeted services identify the risk of fraud and vulnerabilities in their processes and procedures. An awareness campaign is planned to coincide with National Fraud Awareness Week in November.

Reactive Counter Fraud Work - Summary of Completed Investigations

Employee Misconduct

2.7 During the quarter we provided support to an HR investigation following a complaint that an employee was overstating their travel claims. Analysis was performed on mileage claimed against mileage permitted under the travel and expenses policy. The matter was passed back to management to progress with the support of HR as it was deemed to be an issue of workplace location rather than misconduct.

3. Action Tracking

3.1 All high priority actions agreed with management as part of individual audit reviews are subject to action tracking. As at the end of quarter 2, 100% of high priority actions due had been implemented.

4. Amendments to the Audit Plan

4.1 In accordance with proper professional practice, the internal audit plan for the year remains under regular review to ensure that the service continues to focus its resources in the highest priority areas based on an assessment of risk. Through discussions with management, the following reviews have been added to the audit plan so far this year:

- Orbis Customer Access Portal - Lessons Learned from Procurement Exercise
- Broadband UK Grant Return
- Troubled Families
- Logotech Treasury Management System
- Home to School - Follow Up
- DfT Grant
- BSOG Grant
- Governance
- Risk Management
- Library Antiquarian Asset Management
- SAP Applications Control – Follow Up
- Buzz Active

4.2 In order to allow these additional audits to take place, to-date the following audits have been removed or deferred from the audit plan and, where appropriate, will be considered for inclusion in the 2020/21 plan as part of the overall risk assessment completed during the annual audit planning process. These changes are made on the basis of risk prioritisation and/or as a result of developments within the service areas concerned requiring a rescheduling of audits:

- IT&D Project Management

5. Internal Audit Performance

5.1 In addition to the annual assessment of internal audit effectiveness against Public Sector Internal Audit Standards (PSIAS), the performance of the service is monitored on an ongoing basis against a set of agreed key performance indicators as set out in the following table:

Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score	Actual Performance
Quality	Annual Audit Plan agreed by Audit Committee	By end April	G	Approved by Audit Committee on 25 March 2019
	Annual Audit Report and Opinion	By end July	G	2018/19 Annual Report and Opinion approved by Audit Committee on 12 July 2019
	Customer Satisfaction Levels	90% satisfied	G	100%
Productivity and Process Efficiency	Audit Plan – completion to draft report stage	90%	G	52.8% completed to draft report stage by end of Q2 (against a Q2 target of 45%)
Compliance with Professional Standards	Public Sector Internal Audit Standards	Conforms	G	January 2018 – External assessment by the South West Audit Partnership gave an opinion of 'Generally Conforms' – the highest of three possible rankings June 2019 - internal self-assessment completed
	Relevant legislation such as the Police and Criminal Evidence Act, Criminal Procedures and Investigations Act	Conforms	G	No evidence of non-compliance identified
Outcome and degree of influence	Implementation of management actions agreed in response to audit findings	95% for high priority agreed actions	G	100%

Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score	Actual Performance
Our staff	Professionally Qualified/Accredited	80%	G	96.3%[1]

[1] Includes part-qualified staff and those in professional training

Appendix B

Audit Opinions and Definitions

Opinion	Definition
Substantial Assurance	Controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Reasonable Assurance	Most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Partial Assurance	There are weaknesses in the system of control and/or the level of non-compliance is such as to put the achievement of the system or service objectives at risk.
Minimal Assurance	Controls are generally weak or non-existent, leaving the system open to the risk of significant error or fraud. There is a high risk to the ability of the system/service to meet its objectives.

Report to: **Audit Committee**

Date of meeting: **22 November 2019**

By: **Chief Finance Officer**

Title: **Annual Audit Letter – 2018/19**

Purpose: **To inform the Committee of the Annual Audit Letter and fee outturn for 2018/19**

RECOMMENDATION: The Audit Committee is recommended to note the Annual Audit Letter and the fee update for 2018/19

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1. Supporting Information

1.1 The Grant Thornton Annual Audit Letter (AAL), attached at Appendix A, summaries the work undertaken by Grant Thornton (GT) and the key issues raised as part of the external audit of the 2018/19 Statement of Accounts. The report raises no new issues or findings and reflects the recommendations that were reported to Audit Committee and Governance Committee within the "Independent Auditor's Report to those charged with Governance and Statement of Accounts 2018/19" report.

1.2 GT issued an unqualified opinion on the Council's financial statements on 20 September 2019. This was later than the deadline of 31 July 2019, due to the late requirement to adjust the accounts to reflect a revised assessment of future pension liabilities. GT attended the Audit Committee on 13 September 2019 to report back on the reason for this change.

1.3 The AAL will be circulated to all Councillors and published on the Council's website. This report is being presented to the Audit Committee en route to Cabinet on 10 December 2019.

2. External Audit Fees

2.1 The external audit fee for 2018/19, as advised by Public Sector Audit Appointments (PSAA), was £84,837 (County Council of £64,350 and East Sussex Pension Fund of £20,487). The AAL sets out on pages 12-13, proposed additional fees totalling £21,000 (County Council of £16,000 and East Sussex Pension Fund of £5,000), which represents an increase of 24.8% on the original fees.

2.2 There are a number of reasons put forward to support the additional fees, from a national requirement for increased assurance from the Financial Reporting Council, to extra work required as this was the first year for GT auditing the authority. These additional fees are being challenged back to GT, and via the PSAA, and have not been paid.

3. Conclusion and Recommendation

3.1 The report and AAL summarise the key findings from the external audit of the 2018/19 Statement of Accounts for the Council and the East Sussex Pension Fund, together with the 2018/19 Value for Money conclusion and recommendations to management.

3.2 The Audit Committee is asked to note the report and the update regarding the 2018/19 audit fees.

IAN GUTSELL
Chief Finance Officer
Contact Officer: Ian Gutsell, Chief Finance Officer
Tel. No: 01273 481399
Email: ian.gutsell@eastsussex.gov.uk

The Annual Audit Letter for East Sussex County Council

Year ended 31 March 2019

October 2019

Contents

Your key Grant Thornton team members are:

Darren Wells
Engagement Lead
T: 01293 554120
E: Darren.J.Wells@uk.gt.com

Marcus Ward
Engagement Manager
T: 020 7726 3350
E: Marcus.wards@uk.gt.com

Mary Adeson
In-charge
T: 020 7865 2561
E: mary.t.Adeson@uk.gt.com

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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at East Sussex County Council (the Council) for the year ended 31 March 2019.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit Committee in our Audit Findings Report on 12 July 2019.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two);
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £15m, which is approximately 2% of the Council's gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 20 September 2019.
Whole of Government Accounts (WGA)	We completed work on the Council’s consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.
Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit findings report to the Council on 12 July 2019.
Certificate	We certified that we completed the audit of the financial statements of East Sussex County Council in accordance with the requirements of the Code of Audit Practice on 20 September 2019.

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Council's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Council's financial statements to be £15m, which is approximately 2% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We set a lower threshold of £750,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the financial statements, the narrative report and the annual governance statement to check their consistency with our understanding of the Council and with the financial statements on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Improper revenue recognition We considered the rebuttable presumed risk under ISA (UK) 240 that revenue may be misstated due to the improper recognition of revenue. Having considered the revenue streams at the Council we rebutted this presumed risk for revenue streams which are derived from Council Tax, Business Rates and Grants on the basis that they are income streams that are hard to manipulate. We did not deem it appropriate to rebut this presumed risk for fees, charges and other service income.	• We reviewed and evaluated the Council's accounting policy for recognition of income for appropriateness and compliance with the Local Government Accounting Code of Practice; • We reviewed and sample tested fees, charges and other service income income to supporting documentation; • We reviewed and challenged significant estimates and judgements made by management.	Our audit work did not identify any issues.
Management override of internal controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entries.	• We evaluated the design effectiveness of management controls over journals; • We obtained a full listing of journal entries which was then analysed to identify high risk unusual journals; • We tested unusual journals recorded during the year and post year end for appropriateness and corroboration; • We considered the reasonableness of significant accounting estimates and critical judgements made by management; • We evaluated the rationale for any changes in accounting policies or significant transactions.	We identified journal entries being prepared and recorded with no descriptions, increasing the potential for erroneous or fraudulent posting to go unnoticed. We raised a recommendation in this regard. Our audit work did not identify any other issues.

Audit of the Financial Statements

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of Property, Plant and Equipment The Council revalues land and buildings on an rolling three-year basis. The valuation of property, plant and equipment at the balance sheet date represents a significant estimate by management in the financial statements. We identified the valuation of land and buildings revaluations as a risk requiring special audit consideration.	• We reviewed and evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • We considered the competence, expertise and objectivity of management's expert (valuer); • We discussed with the valuer the basis on which the valuation is carried out and challenged their key assumptions; • We reviewed the information used by the valuer to ensure it is robust and consistent with our understanding; • We tested revaluations made during the year to ensure they had been input correctly into the Council's asset register; • We evaluated the assumptions made by management for those assets that were revalued during the year using management's indexation approach; • We evaluated the assumptions made by management for those assets not revalued during the year and how management had satisfied themselves that these were not materially different to current value.	Our audit work did not identify any issues.

Audit of the Financial Statements

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of pension net liability The Local Government Pension Scheme net liability represents a significant estimate in the financial statements We identified valuation of the pension net liability as a risk requiring special audit consideration	• We identified the controls put in place by management to ensure the pension fund liability is not materially misstated. We also assessed whether these controls were implemented as expected; • We evaluated the competence, expertise and objectivity of the actuary who carried out the pension fund valuation. We gained an understanding of the basis on which the valuation is carried out; • We undertook procedures to confirm the reasonableness of the actuarial assumptions by using our own auditor's expert; • We checked the consistency of the pension fund asset and liability disclosures in notes to the financial statements with the actuarial report from the actuary.	We found the pension net liability to be materially misstated due to the Council using an estimated rate of return on assets provided by its actuary. The Council obtained a revised actuarial report and the financial statements were adjusted to show the actual return on assets, which increased the net liability. Our audit work did not identify any other issues.
Private Finance Initiative (PFI) liability The Council has two builds which are financed through PFI schemes: Waste and Peacehaven School. As these PFI transactions are significant, complex and involve a degree of subjectivity in the measurement of financial information we have categorised them as a significant risk.	• We reviewed the Council's PFI models and assumptions contained therein; • We reviewed and tested the output produced by the PFI models to generate the financial balances within the financial statements; • We reviewed the PFI disclosures to ensure they are consistent with the Code of Practice on Local Authority Accounting and the International Accountancy Standard IFRIC12.	Our audit work did not identify any issues.

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Audit of the Financial Statements

Pension Fund Significant Audit Risks

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work on the pension fund.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of level 3 investments Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end. We therefore identified the valuation of level 3 investments as a significant risk.	• We gained an understanding of management's process for valuing Level 3 investments and evaluating the design of the associated controls; • We reviewed the nature and basis of estimated Level 3 valuations and considered what assurance management has over the year end valuations provided for these investments; • For a sample of investments, we tested the valuation by obtaining and reviewing the audited accounts as at 31 December 2018 for individual investments and agreeing these to fund manager reports at that date and reconciling those values to the valuations reported at 31 March 2019 with reference to known movements in the intervening period.	Our audit work did not identify any issues.

Audit of the Financial Statements

Audit opinion
We gave an unqualified opinion on the Council's financial statements on 20 September 2019.

Preparation of the financial statements
The Council presented us with draft financial statements in accordance with the national deadline. We were provided with a good set of working papers although not all were available at the start of the audit in early June. The finance team responded promptly to our queries during the course of the audit however there were delays in receiving appropriate supporting evidence from the wider organisation.

Issues arising from the audit of the financial statements
We reported the key issues from our audit to the Council's Audit Committee on 12 July 2019 and updated the Audit Committee on 13 September 2019.

Annual Governance Statement and Narrative Report
We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Pension fund accounts
We gave an unqualified opinion on the pension fund accounts on 20 September 2019. We reported the key issues from our audit of the pension fund accounts to the Council's Audit Committee on 12 July 2019.

Whole of Government Accounts (WGA)
We carried out work on the Council's Data Collection Tool in line with instructions provided by the NAO . We issued an assurance statement which did not identify any issues for the group auditor to consider on 20 September 2019.

Other statutory powers
We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

Certificate of closure of the audit
We certified that we have completed the audit of the financial statements of East Sussex County Council in accordance with the requirements of the Code of Audit Practice on 20 September 2019.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

As part of our Audit Findings report agreed with the Council in 12 July 2019, we agreed recommendations to address our findings.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2019.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Financial sustainability Rising demand for the Council's services and falling government grants are putting the Council's finances under considerable strain. The Council needs to manage its resources carefully to ensure a sustainable future.	We carried out a detailed review of the Council's Medium Term Financial Plan, including savings plans, financial governance (monitoring of finances) and reserve levels.	No issues noted – we concluded the Council had the processes and procedures in place to secure economy, efficiency and effectiveness in its use of resources.
Working in partnership with the NHS Failure to secure maximum value from partnership working with the NHS could impact negatively on social care and public health services, leading to worse health outcomes for residents and also increased current and future costs.	As part of our work we reviewed documentation and spoke to officers at the Council and NHS partners to understand the Council's significant NHS collaboration initiatives, including East Sussex Better Together and Connecting 4 You, as well as plans for the future.	No issues noted – we concluded the Council had the processes and procedures in place to secure economy, efficiency and effectiveness in its use of resources.
Brexit With the UK due to leave the European Union on 29 March 2019, there will be national and local implications for which you will need to plan.	As part of our work we reviewed the Council's arrangements and plans relating to Brexit. Our review focussed on areas such as workforce planning, supply chain analysis and impact on finances.	No issues noted – we concluded the Council had the processes and procedures in place to secure economy, efficiency and effectiveness in its use of resources.

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and confirm there were no fees for the provision of non audit services.

Reports issued

Report	Month issued
Audit Plan	March 2019
Audit Findings Report	July 2019
Annual Audit Letter	October 2019

Fees – external audit

	Planned £	Actual fees £	2016/17 fees £
Statutory audit of the Council	64,350	80,350	83,572
Audit of Pension Fund	20,487	25,487	26,607
Total fees	**84,837**	**105,837**	**110,179**

Fees – grant certification

	Planned £	Actual fees £	2016/17 fees £
Teachers' Pension grant certification	4,200	TBC	Unknown
Total fees	**4,200**	**TBC**	

Audit fee variation

As outlined in our audit plan, the 2018-19 scale fee published by PSAA of £64,350 for the County and £20,487 for the Pension Fund assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in a table on the next page.

Fee variations are subject to PSAA approval.

A. Reports issued and fees

Council area	Reason	Fee proposed
Assessing the impact of the McCloud ruling	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we reviewed the revised actuarial assessment of the impact on the financial statements along with any audit reporting requirements.	£3,000
Pensions – IAS 19	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this fact. We carried out additional work to address the material error in the draft financial statements in relation to the return on pension assets.	£3,000
PPE Valuation – work of experts	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. In addition, the use of a second valuer report, late working papers and lack of clarity about which items had been revalued led to further work being required. We have increased the volume and scope of our audit work to reflect these factors.	£5,000
Audit overruns	We have discussed with officers, a number of areas where we had to apply additional resources to deliver the audit. These include, but are not limited to; transaction listings with multiple 'ins and outs' lengthening the process to select a sample which reflected the year end balance; time consuming reconciliations between transaction listings received at interim and those at year end; and response delays to audit queries arising from sample testing.	£5,000
Total		**£16,000**

Pension Fund area	Reason	Fee proposed
IAS19 letters	We were asked to provide IAS19 letters for a number of local authority auditors which caused us additional work.	£5,000
Total		**£5,000**

Our commitment to our local government clients

- Senior level investment
- Local presence enhancing our responsiveness, agility and flexibility.
- High quality audit delivery
- Collaborative working across the public sector
- Wider connections across the public sector economy, including with health and other local government bodies
- Investment in Health and Wellbeing, Social Value and the Vibrant Economy
- Sharing of best practice and our thought leadership.
- Invitations to training events locally and regionally – bespoke training for emerging issues
- Further investment in data analytics and informatics to keep our knowledge of the areas up to date and to assist in designing a fully tailored audit approach

Our relationship with our clients– why are we best placed?

- We work closely with our clients to ensure that we understand their financial challenges, performance and future strategy.
- We deliver robust, pragmatic and timely financial statements and Value for Money audits
- We have an open, two way dialogue with clients that support improvements in arrangements and the audit process
- Feedback meetings tell us that our clients are pleased with the service we deliver. We are not complacent and will continue to improve further
- Our locally based, experienced teams have a commitment to both our clients and the wider public sector
- We are a Firm that specialises in Local Government, Health and Social Care, and Cross Sector working, with over 25 Key Audit Partners, the most public sector specialist Engagement Leads of any firm
- We have strong relationships with CIPFA, SOLCAE, the Society of Treasurers, the Association of Directors of Adult Social Care and others.

New opportunities and challenges for your community

The Local Government economy

Local authorities face unprecedented challenges including:

- Financial Sustainability – addressing funding gaps and balancing needs against resources
- Service Sustainability – Adult Social Care funding gaps and pressure on Education, Housing, Transport
- Transformation – new models of delivery, greater emphasis on partnerships, more focus on economic development
- Technology – cyber security and risk management

At a wider level, the political environment remains complex:

- The government continues its negotiation with the EU over Brexit, and future arrangements remain uncertain.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.

Delivering real value through:

- Early advice on technical accounting issues, providing certainty of accounting treatments, future financial planning implications and resulting in draft statements that are 'right first time'
- Knowledge and expertise in all matters local government, including local objections and challenge, where we have an unrivalled depth of expertise.
- Early engagement on issues, especially on ADMs, housing delivery changes, Children services and Adult Social Care restructuring, partnership working with the NHS, inter authority agreements, governance and financial reporting
- Implementation of our recommendations have resulted in demonstrable improvements in your underlying arrangements, for example accounting for unique assets, financial management, reporting and governance, and tax implications for the Cornwall Council companies
- Robust but pragmatic challenge – seeking early liaison on issues, and having the difficult conversations early to ensure a 'no surprises' approach – always doing the right thing
- Providing regional training and networking opportunities for your teams on technical accounting issues and developments and changes to Annual Reporting requirements
- An efficient audit approach, providing tangible benefits, such as releasing finance staff earlier and prompt resolution of issues.

Grant Thornton in Local Government

Our client base and delivery

- We are the largest supplier of external audit services to local government
- We audit over 150 local government clients
- We signed 95% of our local government opinions in 2017/18 by 31 July
- In our latest independent client service review, we consistently score 9/10 or above. Clients value our strong interaction, our local knowledge and wealth of expertise.

Our connections

- We are well connected to MHCLG, the NAO and key local government networks
- We work with CIPFA, Think Tanks and legal firms to develop workshops and good practice
- We have a strong presence across all parts of local government including blue light services
- We provide thought leadership, seminars and training to support our clients and to provide solutions

Our people

- We have over 25 engagement leads accredited by ICAEW, and over 250 public sector specialists
- We provide technical and personal development training
- We employ over 80 Public Sector trainee accountants

Our quality

- Our audit approach complies with the NAO's Code of Audit Practice, and International Standards on Auditing
- We are fully compliant with ethical standards
- Your audit team has passed all quality inspections including QAD and AQRT

Our technical support

- We have specialist leads for Public Sector Audit quality and technical
- We provide national technical guidance on emerging auditing, financial reporting and ethical areas
- Specialist audit software is used to deliver maximum efficiencies

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Report to:	**Audit Committee**
Date:	**22 November 2019**
By:	**Chief Finance Officer**
Title of report:	**Treasury Management – Stewardship Report 2018/19**
Purpose of report:	**To present a review of the Council's performance on treasury management for the year 2018/19 and Mid Year review for 2019/20.**

RECOMMENDATION: The Audit Committee is recommended to note the Treasury Management performance in 2018/19 incorporating the Mid Year review for the first half of 2019/20.

1. Background

1.1 The annual stewardship report presents the Council's treasury management performance for 2018/19 and Mid Year performance for 2019/20, as required by the Code of Practice for Treasury Management.

2. Supporting Information

2.1 The Council's treasury management activities are regulated by a variety of professional codes, statutes and guidance. The Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Sector and operates the treasury management function in compliance with this Code. These require that the prime objective of the treasury management activity is the effective management of risk, and that its borrowing activities are undertaken in a prudent, affordable and sustainable basis and treasury management practices demonstrate a low risk approach. The Code requires the regular reporting of treasury management activities to:

- Forecast the likely activity for the forthcoming year (in the Annual Treasury Strategy Report); and
- Review actual activity for the preceding year (this Stewardship Report).
- A mid year performance review (this Stewardship Report).

2.2 This report sets out:

- A summary of the original strategy agreed for 2018/19 and the economic factors affecting this strategy (Appendix A).
- The treasury management activity during the year (Appendix B);
- The treasury management mid year activity for 2019/20 (Appendix C);
- The Prudential Indicators, which relate to the Treasury Management function, Minimum Revenue Policy (MRP) and compliance with limits (Appendix D).

3. The economic conditions compared to our Strategy for 2018/19

3.1 The strategy and the economic conditions prevailing in 2018/19 are set out in Appendix A. 2018/19 remained a challenging environment with concerns over the UK, European and global economies rising.

4. The Treasury activity during the year on short term investments and borrowing

<u>The Treasury Management Strategy</u>

4.1 The strategy for 2018/19, agreed in February 2018, continued the prudent approach and ensured that all investments were only to the highest quality rated institutions with regard to security, liquidity and yield. For banks the maximum investment period was one year and for other local authority lending two years. For the 2018/19 strategy Building Societies, Pooled Property Funds, Corporate Bond Funds and Multi Asset Funds were included to broaden the risk profile by reducing liquidity and to include suitable, alternative investment products.

Short term lending

4.2 At the Monetary Policy Committee (MPC) meeting 2 August 2018, the MPC voted unanimously to increase the Bank of England base rate from 0.50% to 0.75%.

4.3 The total amount received in short term interest for 2018/19 was £2.1m at an average rate of 0.89%. This was above the average base rates in the same period (0.67%) and above the average returns achieved with peer authorities from treasury advisors (Link Asset Services) investment benchmarking. The Return for 2018/19 was against a backdrop of ensuring, so far as possible in the current financial climate, the security of principal and the minimisation of risk with a view to broaden options where appropriate.

Longer term lending

4.4 As part of the revised approach to investments in August 2018, the council invested £5m in the CCLA Property Fund, a pooled property fund. The return to date has been £230k.

Long term borrowing

4.5 Details of long term borrowing are included in Appendix B of the report. The important points are:

- No new borrowing was undertaken in 2018/19.
- The average interest rate of all debt at 31 March 2019 (£243m) was 4.77%.
- A restructuring opportunity arose in October 2018, with one of the council's market lenders (RBS) offering to allow the council to repay £23m loans on attractive terms. The Council funded the repayment through using cash within the investment portfolio, thereby reducing the overborrowed position of the Council's Capital Financing Requirement (CFR).
- Public Works Loan Board (PWLB) Debt maturing during 2018/19 totalled £4.67m and was at an average rate of 8.13%.

Minimum Revenue Provision (MRP)

4.6 Full details of the 2018/19 MRP policy are set out in appendix D, the policy was reviewed and following consultation with Audit Committee on 20 September 2018, updated and formally approved at Full Council on the 5 February 2019.

5. Treasury Management Mid Year Review 2019/20

5.1 The Treasury Management and Annual Investment Strategy for 2019/20 were approved by Full Council on 5 February 2019 and was prepared within the context of the financial challenge being faced by the County Council.

5.2 The total amount received in short term interest for 6 months to 30 September 2019 was £1.2m at an average rate of 1.06%. This was above the average base rates in the same period (0.75%) and investment benchmarking with peer authorities.

5.3 No further PWLB borrowing was undertaken in the period and no cost effective opportunities to restructure debt have taken place. During 2019/20 PWLB to mature totals £3.9m, this historic debt is at an average rate of 8.17%. Taking total debt down to £239.2m by 31 March 2020.

5.4 On the 9 October the Government announced an unexpected increase to the PWLB interest rate for all new loans. The increase added 1% (100bps) to the cost of borrowing. It also increased the statutory limit on how much the PWLB can have lent out at once, from £85bn to £95bn. The increase to future borrowing cost will have an impact and will be factored into the development of the 2020/21 to 2029/30 Capital Strategy.

6. Prudential Indicators which relate to the Treasury function and compliance with limits

6.1 The Council is required by the CIPFA Prudential Code to report the actual prudential indicators after the end of each year. There are eight indicators which relate to treasury management, set out in Appendix D; the Council is fully compliant with these indicators.

7. Conclusion and reason for recommendation

7.1 This report updates the Audit Committee and fulfils the requirement to submit an annual/half yearly report in the form prescribed in the Treasury Management Code of Practice. Short term lending throughout the 18 month period covered achieved returns between 0.65% and 1.08%. The key principles of security, liquidity and yield are still relevant. Officers are currently investigating further opportunities within the strategy to minimise costs and increase investment income within the key principles.

IAN GUTSELL
Chief Finance Officer

Contact Officer: Ian Gutsell Tel No. 01273 481399

BACKGROUND DOCUMENTS

Cabinet	23 January 2018 Treasury Management Strategy for 2018/19
	22 January 2019 Treasury Management Strategy for 2019/20

CIPFA Prudential Code and Treasury Management in the Public Services- Code of practice
Local Government Act 2003 Local Government Investments guidance.

Appendix A

A summary of the strategy agreed for 2018/19 and the economic factors affecting this strategy

1. Background information

1.1 Full Council approved the annual Treasury Management Strategy report in February 2018, which sets out the proposed strategy for the year ahead. This strategy includes the limits and criteria for organisations to be used for the investment of cash surpluses and has to be approved by the Council.

1.2 This Council has always adopted a prudent approach to its investment strategy and in the last few years, there have been regular changes to the list of the approved organisations used for investment of surpluses. This list is regularly reviewed to ensure that the Council is able to invest in the best available rates consistent with low risk; the organisations are regularly monitored to ensure that their financial strength and low risk has been maintained.

1.3 The original strategy for 2018/19 was drawn up outling various options for increasing investment income. Details of the changes proposed to investment and borrowing investment strategies include:

- Seek to reduce liquidity where possible and extend duration of investments within current limits. A sensible rebalancing of liquidity requirements will improve yield without significant additional risk;
- Wider use of other Local Authorities and Building Societies where rates are favourable;
- Inclusion of Short Dated Bond Funds and Corporate Bonds;
- Inclusion of pooled property funds and pooled mixed asset funds. Given the low returns from short-term bank investments, the Council will diversify with the use of pooled funds. With the assistance of the Council's treasury advisors (Link Asset Services), a selection process will take place in the new year where members and officers can scrutinise a suitable selection of funds;
- No external borrowing was planned for 2018/19; officers will be monitoring the situation in the next 12 months. Officers continue to regularly review opportunities for debt rescheduling, PWLB debt restructuring is now much less attractive as consideration would have to be given to the large premiums (cash payments) which would be incurred by prematurely repaying existing PWLB loans. It is very unlikely that these could be justified on value for money grounds if using replacement PWLB refinancing.

1.4 At the same time, the Treasury Management Policy Statement was agreed as unchanged for 2018/19.

East Sussex County Council defined its treasury management activities as:

"The management of the organisation's cash flows, its banking, money market and Capital market transactions (other than those of the Pension Fund) the effective management of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

The Council regards the successful identification, monitoring and management of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.

This authority acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management".

2. Investment

2.1 When the strategy was agreed in January 2018, it emphasised the continued importance of credit quality. The Treasury Management advisors Link Asset Services commented on short term interest rates, the UK economy, inflation, the outlook for long term interest rates and these factors were taken into account when setting the strategy. The key principles of security, liquidity and yield are still relevant. Officers are currently investigating further opportunities within the strategy to minimise costs and increase investment income within the key principles.

2.2 Officers regularly review the investment portfolio, counterparty risk and construction, and use market data, information on government support for banks and the credit ratings of that government support. Latest market information is arrived at by reading the financial press and through city contacts as well as access to the key brokers involved in the London money markets.

2.3 This Council in addition to other tools uses the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- credit default swap (CDS) spreads to give early warning of likely changes in credit ratings; and
- sovereign ratings to select counterparties from only the most creditworthy countries.

2.4 The strategy going forward was to continue with the policy of ensuring minimum risk, but was also intended to deliver secure investment income of at least bank rate on the Councils cash balances.

2.5 As was clear from the events globally and nationally since 2008, it is impossible in practical terms to eliminate all credit risk.

2.6 The strategy aimed to ensure that in the economic climate it was essential that a prudent approach was maintained. This would be achieved through investing with selected banks and funds which met the Council's rating criteria. The emphasis would continue on security (protection of the capital sum invested) and liquidity (keeping money readily available for expenditure when needed) rather than yield.

2.7 The Council's investment policy has regard to the Ministry of Housing, Communities & Local Government's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Link Asset Services al Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, and then return.

2.8 Investment instruments identified for use in the financial year are listed in section 3.2 and 4.1 under the 'Specified and Non-Specified' Investments categories. Counterparty limits will be as set through the Council's Treasury Management Practices – Schedules.

2.9 The weighted scoring system produces an end product of a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments, i.e., using counterparties within the following durational bands provided they have a minimum AA+ sovereign rating from three rating agencies:

- Yellow 2 years
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year

- Red 6 months
- Green 3 months
- No Colour, not to be used

Y	*P*	*B*	*O*	*R*	*G*	*N/C*
Up to 2yrs	*Up to 2yrs*	*Up to 1yr*	*Up to 1yrs*	*Up to 6 mths*	*Up to 100days*	*No Colour*

2.10 The Link Asset Services credit worthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue influence to just one agency's ratings.

2.11 Typically the minimum credit ratings criteria the Authority use, will be a short term rating (Fitch or equivalents) of short term rating F1, long term rating A-, viability rating of A-, and a support rating of 1. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored daily. The Authority is alerted to changes to ratings of all three agencies through its use of the Link Asset Services credit worthiness service.

- if a downgrade results in the counterparty or investment scheme no longer meeting the Authority's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Authority will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Authority's lending list.

2.12 The Link Asset Services methodology was revised in October 2015 and determines the maximum investment duration under the credit rating criteria. Key features of Link Asset Services credit rating policy are:

- a mathematical based scoring system is used taking ratings from all three credit rating agencies;
- negative and positive watches and outlooks used by the credit rating agencies form part of the input to determine a counterparty's time band (i.e. 3, 6, 9, 12 months etc.).
- CDS spreads are used in Link Asset Services creditworthiness service as it is accepted that credit rating agencies lag market events and thus do not provide investors with the most instantaneous and "up to date" picture of the credit quality of a particular institution. CDS spreads provide perceived market sentiment regarding the credit quality of an institution.
- After a score is generated from the inputs a maximum time limit (duration) is assigned and this is known as the Link Asset Services colour which is associated with a maximum suggested time boundary.

2.13 All of the investments were classified as Specified (i.e., investment is sterling denominated and has a maximum maturity of 1 year) and non-Specified Investments (i.e., any other type of investment not defined as Specified). These investments were sterling investments for up to two years maturity with institutions deemed to be high credit quality or with the UK Government (Debt Management Account Deposit Facility). These were considered low risk assets where the possibility of loss of principal or investment income was small.

2.14 If investment instruments identified in the financial year under the 'Non-Specified and Specified' Investments categories were used, the Council funds would be invested as follows:

3. Specified Investments

3.1 An investment is a specified investment if all of the following apply:

- the investment is denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling;
- the investment is not a long term investment (i.e. up to 1 year);
- the making of the investment is not defined as Capital expenditure by virtue of regulation 25(1)(d) of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [SI 3146 as amended];
- the investment is made with a body or in an investment scheme of high credit quality (see below) or with one of the following public-sector bodies:
    - The United Kingdom Government;
    - A local authority in England or Wales (as defined under section 23 of the 2003 Act) or a similar body in Scotland or Northern Ireland; and
    - High credit quality is defined as a minimum credit rating as outlined in section 4.2 of this strategy.

3.2 The use of Specified Investments

Investment instruments identified for use in the financial year are as follows:

- The Table below set out the types of investments that fall into each category, counterparties available to the Council, and the limits placed on each of these. A detailed list of each investment type is available in the Treasury Management Practices guidance notes;
- all investments will be within the UK or AA+ sovereign rated countries.
- The Council's investment in Lloyds Banking Group were based on the fact that this group is part-nationalised by UK Government, and any changes to their credit ratings will impact on the duration of the Council investment with the Group.

Criteria for specified Investments:

Counterparty	Country/ Domicile	Instrument	Maximum investments	Max. maturity period
Debt Management and Depost Facilities (DMADF)	UK	Term Deposits (TD)	unlimited	1 yr
Government Treasury bills	UK	TD	unlimited	1 yr
Local Authorities	UK	TD	unlimited	1 yr
Lloyds Banking Group • *Lloyds Bank* • *Bank of Scotland*	UK	TD (including callable deposits), Certificate of Deposits (CD's)	£60m	1 yr
RBS/NatWest Group • *Royal Bank of Scotland* • *NatWest*	UK		£60m	1 yr
HSBC	UK		£60m	1 yr
Barclays	UK		£60m	1 yr
Santander	UK		£60m	1 yr

Counterparty	**Country/ Domicile**	**Instrument**	**Maximum investments**	**Max. maturity period**
Goldman Sachs Investment Bank	UK		£60m	1 yr
Standard Chartered Bank	UK		£60m	1 yr
Nationwide Building Society	UK		£60m	1 yr
Coventry Building Society	UK		£60m	1yr
Individual Money Market Funds (MMF) CNAV and LVNAV	UK/Ireland/ domiciled	AAA rated Money Market Funds	£60m	Instant access
VNAV MMF's and Ultra Short Dated Bond Funds	UK/Ireland/ domiciled	AAA Bond Fund Rating	£60m	Liquidity up to 1 yr
Counterparties in select countries (non-UK) with a Sovereign Rating of at least AA+				
Australia & New Zealand Banking Group	Australia	TD / CD's	£60m	1 yr
Commonwealth Bank of Australia	Australia	TD / CD's	£60m	1 yr
National Australia Bank	Australia	TD / CD's	£60m	1 yr
Westpac Banking Corporation	Australia	TD / CD's	£60m	1 yr
Royal Bank of Canada	Canada	TD / CD's	£60m	1 yr
Toronto Dominion	Canada	TD / CD's	£60m	1 yr
Development Bank of Singapore	Singapore	TD / CD's	£60m	1 yr
Overseas Chinese Banking Corp	Singapore	TD / CD's	£60m	1 yr
United Overseas Bank	Singapore	TD / CD's	£60m	1 yr
Svenska Handelsbanken	Sweden	TD / CD's	£60m	1 yr
Nordea Bank AB	Sweden	TD / CD's	£60m	1 yr
ABN Amro Bank	Netherlands	TD / CD's	£60m	1 yr
Cooperative Rabobank	Netherlands	TD / CD's	£60m	1 yr
ING Bank NV	Netherlands	TD / CD's	£60m	1 yr
DZ Bank	Germany	TD / CD's	£60m	1 yr
UBS	Switzerland	TD / CD's	£60m	1 yr
Credit Suisse	Switzerland	TD / CD's	£60m	1 yr
Danske Bank	Denmark	TD / CD's	£60m	1 yr

4. Non Specified Investments

4.1 Non-Specified investments are any other types of investment that are not defined as specified. The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below.

Non-Specified Investment	Minimum credit criteria	Maximum investments	Max. maturity period
UK Local Authorities	Government Backed	£60m	2 years
Corporate Bond Fund(s)	Investment Grade	£30m	2-5 years
Pooled Property Fund(s)	N/A	£30m	5+ years
Mixed Asset Fund(s)	Appropriate rating	£30m	2-5 years

4.2 The maximum amount that can be invested will be monitored in relation to the Council surplus monies and the level of reserves. The approved counterparty list will be maintained by referring to an up-to-date credit rating agency reports, and the Council will liaise regularly with brokers for updates. Counterparties may be added to or removed from the list only with the approval of the Chief Finance Officer.

4.3 **UK Local Authorities:** Should a suitable opportunity in the market occur to lend to other Local Authorities of more than a 1 year duration, at a reasonable level of return the deal would be classed as a low risk Non-Specified Investment.

4.4 **Corporate Bonds:** The Ministry of Housing, Communities and Local Government recently changed the rules on capital expenditure for English Local Authorities, meaning that investing in corporate bonds was no longer classified as capital spending. In essence, companies issue bonds in order to raise long-term capital or funding, rather than issuing equity. These are non-standardised compared to other investment vehicles, each having an individual legal document known as a 'bond indenture'. The document specifies the rights of the holder and the obligations that must be met by the issuer, as well as the characteristics of that particular bond. Investing in a corporate bond usually offers a fixed stream of income (except floating rate notes), known as a coupon, payable twice a year, for a fixed, pre-determined period of time, in exchange for an initial investment of capital.

4.5 **Investment in Pooled Property Fund(s):** Local authorities have for many years invested in non-liquid assets or property by directly purchasing properties, but a simpler and more efficient route would be to invest in an appropriate property unit trust. This is a more diversified form of investment than an individual purchase of property and would give greater geographic spread and access to assets that the Council could not afford to own through use of its own resources. Property investment should be considered as a long term investment and should only be committed to if the Council is prepared to accept that in some years capital values may decline, but in the longer run capital growth should be possible. If a fund achieves its objectives then the Council will achieve capital growth and reasonable returns. Property Funds offer all the advantages of a professionally managed property portfolio, with broadly diversified exposure to high quality properties in the strongest areas of the market. By investing in the Fund, the Council avoid the potential problems, costs and administrative difficulties of investing in properties directly. Officers in conjunction with the Council's treasury advisors will be reviewing investment options within the area of Property Fund's and make use of them as and when sufficient due diligence has been undertaken.

5. The economy in 2018/19 – Commentary from Link Asset Services in April 2019.

5.1 After weak economic growth of only 0.2% in quarter one of 2018/19, growth picked up to 0.4% in quarter 2 and to a particularly strong 0.7% in quarter 3, before cooling off to 0.2% in the final quarter. Given all the uncertainties over Brexit, this weak growth in the final quarter was as to be expected. However, some recovery in the rate of growth is expected going forward. The annual growth in Q4 came in at 1.4% y/y confirming that the UK was the third fastest growing country in the G7 in quarter 4

5.2 The Monetary Policy Committee raised the Bank Rate from 0.5% to 0.75% in August 2018 and it is little surprise that they have abstained from any further increases since then. We are unlikely to see any further action from the MPC until the uncertainties over Brexit clear. If there were a disorderly exit, it is likely that Bank Rate would be cut to support growth.

5.3 Nevertheless, the MPC has been having increasing concerns over the trend in wage inflation which peaked at a new post financial crisis high of 3.5%, (excluding bonuses), in the three months to December before falling only marginally to 3.4% in the three months to January. British employers ramped up their hiring at the fastest pace in more than three years in the three months to January as the country's labour market defied the broader weakness in the overall economy as Brexit approached.

5.4 CPI inflation has been on a falling trend since peaking at 3.1% in November 2017, reaching a new low of 1.8% in January 2019 before rising marginally to 1.9% in February. However, in the February 2019 Bank of England Inflation Report, the latest forecast for inflation over both the two and three year time horizons remained marginally above the MPC's target of 2%.

5.5 The major UK news event of the year was the ongoing arrangements for Brexit. The Conservative minority government was unable to muster a majority in the Commons over its Brexit deal. The EU deadline of April 12 for the House of Commons to propose what form of Brexit it would support was not met. The now extended deadline of the 31st October is the next key milestone in the Brexit process.

5.6 However the degree of disagreement within each of the two main political parties is probably now even greater than before the initial deadline; this could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

Appendix B

The Treasury Management activity during the year 2018/19

1. Investment activity interest rates

1.1 Following consultation, the strategy for 2018/19 aimed to broaden the risk profile by reducing liquidity and to include some suitable, alternative investment products that are held for the medium (2-5 years) to longer term (5 years+). These products can generate better overall returns but there is a higher risk of volatility of performance so a longer term commitment is required. The inclusion of an investment product category in the strategy does not automatically result in investments being placed. Following due diligence, each investment decision considers the relative risks, returns and cash flow requirements within the context of the full investment portfolio.

1.2 The revised broader group of investment instruments included pooled property funds, short dated bond funds, and pooled mixed asset funds. The inclusion of these instruments provides options for the Council to invest its longer term cash, which assists in both diversifying the investment portfolio whilst providing an improvement to the overall yield. The council's first step in using these wider instruments was with a £5m investment in the CCLA Pooled Property fund in July 2018 following a fund selection process. In its first 12 months, this investment achieved an annualised yield of 3% over and above what the council could achieve for one year deposits with banks at the time.

1.3 Base interest rate was increased in August 2018 to 0.75%. The average rate for the year was 0.67%.

1.4 The total amount received in short term interest for 2018/19 was £2.1m at an average rate of 0.89%. This was above the average of base rates in the same period (0.67%) and against a backdrop of ensuring, so far as possible in the financial climate, the security of principal and the minimisation of risk within a broader boundary.

2. Long term borrowing

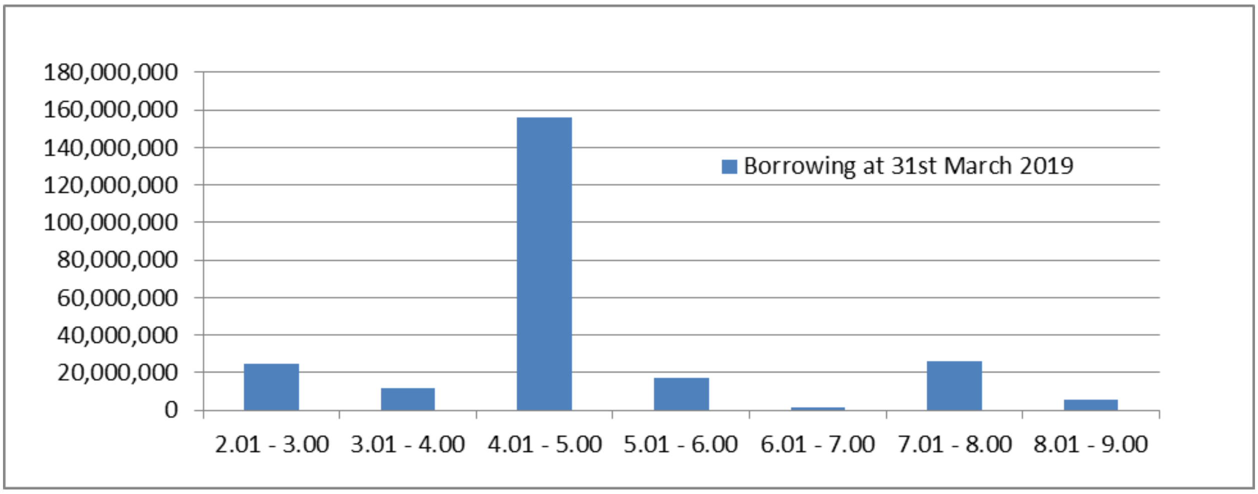
2.1 Officers constantly reviewed the need to borrow taking into consideration the potential movements in borrrowing costs, the need to finance new capital expenditure, refinancing maturing debt, and the cost of carry that might incur a revenue loss between borrowing costs and investment returns.

2.2 During 2018/19 £4.67m of PWLB debt matured at a coupon rate of 8.13%. This historic maturing debt was not replaced with additional in year new borrowing.

2.3 The average interest rate of all debt at 31 March 2019 of £243m was 4.77%. No beneficial rescheduling of debt has been available, due to a considerable widening of the difference between new borrowing and repayment rates, which has made PWLB debt restructuring now much less attractive. Consideration would have to be given to the large premiums (cash payments) which would be incurred by prematurely repaying existing PWLB loans. It is very unlikely that these could be justified on value for money grounds if using replacement PWLB refinancing.

2.4 A restructuring opportunity arose in October 2018, with one of the council's market lenders (RBS) offering to allow the council to repay the £23m loans on attractive terms. The Council funded the repayment through using cash within the investment portfolio, thereby reducing the overborrowed position of the Council's CFR.

2.5 The range of interest rates payable in all of the loans is illustrated in the graph below:



3. Short term borrowing

3.1 No borrowing was undertaken on a short-term basis during 2018/19 to date to cover temporary overdraft situations.

4. Treasury Management Advisers

4.1 The Strategy for 2018/19 explained that the Council uses Link Asset Services as its treasury management consultant on a range of services which include:

- Technical support on treasury matters, Capital finance issues and advice on reporting;
- Economic and interest rate analysis;
- Debt services which includes advice on the timing of borrowing;
- Debt rescheduling advice surrounding the existing portfolio;
- Generic investment advice on interest rates, timing and investment instruments;
- Credit ratings from the three main credit rating agencies and other market information;
- Assistance with training on treasury matters

4.2 Whilst the advisers provide support to the internal treasury function, under current market rules and the CIPFA Code of Practice the final decision on treasury matters remained with the Council. This service remains subject to regular review.

4.3 Link Asset Services is the largest provider of Treasury Management advice services to local authorities in the UK and they claim to be the market leading treasury management service provider to their clients. The advice has been and will continue to be monitored regularly to ensure a continued excellent advisory service.

Appendix C

The Treasury Management Activity Mid-Year Report - 2019/20

1. Background

1.1 The Treasury Management and Annual Investment Strategy for 2019/20 were approved by the Cabinet 22 January 2019. The 2019/20 strategy broadened the approved instruments to improve yield and diversify the investment portfolio. Changes to the strategy are summarised below.

Investment option	2018/19	2019/20
Money Market Funds (Including LVNAV)	✓	✓
Bank Notice Accounts	✓	✓
Fixed Term Bank Deposits	✓	✓
UK Local Authorities	✓	✓
Enhanced Money Market Funds (VNAV)	✓	✓
Building Societies	✓	✓
Pooled Property Funds	✓	✓
Corporate Bond Funds	✓	✓
Multi Asset Funds	✓	✓
Equity Funds	✗	✓

1.2 This report considers treasury management activity over six months of the financial year.

2. Summary of financial implications

2.1 During the first half year investments have been held in bank notice accounts, money market funds, other local authorities and the CCLA Local Authority Property Fund. Counterparty credit quality remains a primary concern for the treasury team, with security, liquidity and yield in that order a priority. Measures have been taken to reduce the level of liquidity (prudently) to improve returns.

2.2 The Bank of England's Monetary Policy Committee have held interest rates at 0.75% over the period.

2.3 The average investment balance to September 2019 was £224m and generated investment income of £1.12m. The forecast for 2019/20 is £2.3m.

2.4 The level of Council debt at 30 September 2019 was £242m with two loans totalling £2.6m maturing with the PWLB in the next 6 months to 31st March 2020. The forecast for interest paid on long-term debt in 2019/20 is approximately £11.45m and is within the budgeted provision.

2.5 Opportunities to reduce the cost of carry (interest paid against interest received) are constanly being explored as and when options arise.

3. Treasury Management Strategy

3.1 The Council approved the 2019/20 treasury management strategy at its meeting on 22 January 2019. The Council’s stated investment strategy is to prudently manage an investment policy achieving first of all, security (protecting the Capital sum from loss), liquidity (keeping money readily available for expenditure when needed), and to consider what yield can be obtained consistent with those priorities.

3.2 The Council's exposure to security and interest rate risk have been monitored closely. No further external borrowing has been undertaken in the period. Rescheduling any existing loans under the current economic conditions the costs of doing so in terms of interest and premium payable would be prohibitive.

3.3 The Council is exploring with its Treasury Adviosrs the use of pooled property, mixed asset funds and equity funds. However in the current climate political and economic climate the timing of investment must be a consideration.

3.4 The Chief Finance Officer is pleased to report that all treasury management activity undertaken from April 2019 to September 2019 period complied with the approved strategy, the CIPFA Code of Practice, and the relevant legislative provisions.

4. Economic Review (provided by Link Asset Services, November 2019)

4.1 2019 has been a year of upheaval on the political front as Theresa May resigned as Prime Minister to be replaced by Boris Johnson on a platform of the UK leaving the EU on 31 October 2019, with or without a deal. However, MPs blocked leaving on that date and the EU has agreed an extension to 31 January 2020.

4.2 In addition, a general election has been called for 12 December 2019. Given the uncertainty about the result of the general election and what MPs could afterwards decide, any interest rate forecasts are subject to material change as this situation evolves.

4.3 The first half of 2019/20 has seen UK economic growth fall as Brexit uncertainty took a toll. In its Inflation Report of 1 August, the Bank of England was notably downbeat about the outlook for both the UK and major world economies. The MPC meeting of 19 September reemphasised their concern about the downturn in world growth and also expressed concern that the prolonged Brexit uncertainty would contribute to a build-up of spare capacity in the UK economy, especially in the context of a downturn in world growth. This mirrored investor concerns around the world which are now expecting a significant downturn or possibly even a recession in some major developed economies.

4.4 The Monetary Policy Committee (MPC) left Bank Rate unchanged at 0.75% throughout 2019, so far, and is expected to hold off on changes until there is some clarity on what is going to happen over Brexit. However, it is also worth noting that the new Prime Minister is making some significant promises on various spending commitments and a relaxation in the austerity programme. This will provide some support to the economy and, conversely, take some pressure off the MPC to cut Bank Rate to support growth.

4.5 Inflation (CPI) has been hovering around the Bank of England’s target of 2% during 2019, but fell to 1.7% in August. It is likely to remain close to 2% over the next two years and so it does not pose any immediate concern to the MPC at the current time. However, if there was a no deal Brexit, inflation could rise towards 4%, primarily as a result of imported inflation on the back of a weakening pound.

4.6 The labour market, despite the contraction in quarterly GDP growth of -0.2%q/q, (+1.3% y/y), in quarter 2, employment continued to rise, but at only a muted rate of 31,000 in the three months to July after having risen by no less than 115,000 in quarter 2 itself: the latter figure, in particular, suggests that firms are preparing to expand output and suggests there could be a return to positive growth in quarter 3. Unemployment continued at a 44 year low of 3.8% on the Independent Labour Organisation measure in July and the participation rate of 76.1% achieved a new all-time high. Job vacancies fell for a seventh consecutive month after having previously hit record levels. However, with unemployment continuing to fall, this month by 11,000, employers will still be having difficulty filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to a high point of 3.9% in June before easing back slightly to 3.8% in July, (3 month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 2.1%. As the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months.

4.7 The latest GDP statistics also included a revision of the savings ratio from 4.1% to 6.4% which provides reassurance that consumers' balance sheets are not over stretched and so will be able to support growth going forward. This would then mean that the MPC will need to consider carefully at what point to take action to raise Bank Rate if there is an agreed Brexit deal, as the recent pick-up in wage costs is consistent with a rise in core services inflation to more than 4% in 2020.

5.0 Link Asset Services (LAS) forecasts (November 2019)

5.1 LAS do not currently suggest that the MPC would increase Bank Rate before any clearing of the fog on Brexit and agreement being reached on a UK/EU trade deal. They have moved back their forecast for the first increase from quarter 4 2020 to quarter 1 2021 and the second increase from quarter 1 2021 to quarter 2 2021.

5.2 Forecasts for average investment earnings beyond the three year time horizon will be heavily dependent on economic and political developments.

5.3 LAS, has provided the following forecast:

Link Asset Services Interest Rate View	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.30	2.40	2.40	2.50	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.10	3.20	3.20
10yr PWLB Rate	2.60	2.70	2.70	2.70	2.80	2.90	3.00	3.10	3.20	3.20	3.30	3.30	3.40	3.50
25yr PWLB Rate	3.20	3.30	3.40	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00	4.10	4.10
50yr PWLB Rate	3.10	3.20	3.30	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90	4.00	4.00

6. Borrowing advice:

6.1 PWLB rates have fallen significantly up until 100 bps were added to all PWLB rates in October 2019. As the current long term forecast for Bank Rate is 2.25%, and all PWLB certainty rates are above 2.25%, there is little value in borrowing from the PWLB. Accordingly, the authority will need to reassess its risk appetite in terms of either seeking cheaper alternative sources of borrowing or switching to short term borrowing in the money markets until such time as the Government might possibly reconsider the margins charged over gilt yields.

6.2 Any new borrowing should also take into account the continuing cost of carry, the difference between investment earnings and borrowing rates.

Appendix D

1. Prudential Indicators which relate to the Treasury function and compliance with limits

1.1 The Council is required by the Prudential Code to report the actual prudential indicators after the end of each year. There are eight indicators which relate to treasury management and they are set on an annual basis and monitored, they comprise:-:

- Operational and authorised borrowing limits which includes short term borrowing (paragraph 2.1 below)
- Interest rate exposure (paragraph 3.1 below)
- Interest rate on long term borrowing (paragraph 4.1 below)
- Maturity structure of investments (paragraph 5.1 below)
- Compliance with the Treasury Management Code of Practice (paragraph 6.1 below)
- Interest on investments (paragraph 7.1 below)
- Capital Financing Requirement and Minimum Revenue Provision (paragraph 8.1 below)

2. Operational and authorised borrowing limits.

2.1 The tables below sets out the estimate and projected Capital financing requirement and long-term borrowing in 2018/19

	Capital Financing Requirement	**2018/19 Estimate**	**2018/19 Actual**
		£m	**£m**
	Capital Financing Requirement at 1 April 2018	**341**	**336**
add	Financing of new assets	18	2
add	Long Term Loans	-	1
less	Provision for repayment of debt	(12)	(10)
	Capital Financing Requirement at 31 March 2019	**347**	**329**
add	Short Term Borrowing Provision	10	
	Operational Boundary	**357**	
add	Short Term Borrowing Provision	20	
	Authorised Limit	**377**	

	Actual Borrowing	**2018/19 Actual**
		£m
	Long Term Borrowing at 1 April 2018	**271**
less	Loan redemptions	(28)
add	New Borrowing	-
	Long Term Borrowing at 31 March 2019	**243**

*The Capital loan relates to an outstanding loan with other local authority.

2.2 The Capital Financing Requirement includes PFI Schemes and Finance Leases totalling £89m, excluding these results in an underlying need to borrow of £239m.

2.3 The Operational Boundary was consistent with the Council's current commitments, existing plans and the proposals for Capital expenditure and financing, and with its approved treasury management policy statement and practices. It was based on the estimate of most likely, prudent but not worst case scenario. Risk analysis and risk management strategies were taken into account as were plans for Capital expenditure, estimates of the Capital financing requirement and estimates of cash flow requirements for all purposes. The Operational boundary represents a key management tool for in year monitoring and long term borrowing control.

2.4 The Authorised Limit for borrowing was based on the same estimates as the Operational Boundary but includes additional headroom for a short term borrowing to allow, for example, for unusual cash movements or late receipt of income.

2.5 The Authorised limit is the "Affordable Borrowing Limit" required by S3 of the Local Government Act 2003 and must not be breached. The Long Term borrowing at 31st March 2019 of £243m is under the Operational boundary and Authorised limit set for 2018/19. The Operational boundary and Authorised limit have not been exceeded during the year.

3. Interest rate exposure

3.1 The Council continued the practice of seeking to secure competitive fixed interest rate exposure for 2018/19. There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs or improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments;
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- Maturity structure of borrowing. These gross limits are set to reduce the council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

	2018/19	**2019/20**	**2020/21**
Interest rate exposure	**Upper**	**Upper**	**Upper**
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates based on net debt	15%	15%	15%
Maturity structure of fixed interest rate borrowing 2018/19			
	Lower	**Upper**	**Actual 2018/19**
Under 12 months	0%	25%	1%
12 months and within 24 months	0%	40%	2%
24 months and within 5 years	0%	60%	6%
5 years and within 10 years	0%	80%	11%
10 years and within 20 years	0%	80%	23%
20 years and within 30 years	0%	80%	22%
30 years and within 40 years	0%	80%	37%
40 years and above	0%	80%	0%

3.2 The Council has not exceeded the limits set in 2018/19. Not more than £20m of debt should mature in any financial year and not more than 15% to mature in any two consecutive financial years. Borrowing has been undertaken giving due consideration to the debt maturity profile, ensuring that an acceptable amount of debt is due to mature in any one financial year. This helps to minimise the authority's exposure to the risk of having to replace a large amount of debt in any one year or period when interest rates may be unfavourable. The bar chart in the attached Annex 1 shows the maturity profile.

4. Interest rate on long term borrowing

4.1 The rate of interest taken on any new long term borrowing has been defined with the assistance of Link Asset Services. The team have set up a recording process to monitor set trigger rates and work to an agreed protocol for potential future borrowing activity to fund the Capital programme.

5. Maturity structure of investments

5.1 The Investment Guidance issued by the government, allowed local authorities the freedom to invest for more than for one year. All investments over one year were to be classified as Non-Specified Investments. The Council had taken advantage of this freedom and non-Specified Investments are allowed to be held within our overall portfolio of investments and in line with our prudent approach in our strategy.

6. Compliance with the Treasury Management Code of Practice

6.1 East Sussex County Council has adopted the Chartered Institute of Public Finance and Accountancy (CIPFA), Code of Practice for Treasury Management in the Public Services. In December 2017, CIPFA, issued a revised Treasury Management Code and Cross Sectoral Guidance Notes, and a revised Prudential Code.
A particular focus of these revised codes was how to deal with local authority investments which are not treasury type investments e.g. by investing in purchasing property in order to generate income for the Authority at a much higher level than can be attained by treasury investments. The outcome is a new Capital Strategy document which was presented to Cabinet as part of the 2019/20 budget papers.

7. Interest on investments

7.1 The table below sets out the average monthly rate received on our investments and compares it to the Bank of England Base rate to reflect both the interest rates available in the market and limitation in the use of counterparties.

Month	Amount £'000	Monthly rate	Margin against Base Rate
April	130	0.65%	0.15%
May	151	0.71%	0.21%
June	138	0.68%	0.18%
July	151	0.69%	0.19%
August	193	0.82%	0.07%
September	206	0.92%	0.17%
October	205	0.97%	0.22%
November	184	1.00%	0.25%
December	192	1.04%	0.29%
January	196	1.06%	0.31%
February	177	1.06%	0.31%
March	192	1.08%	0.33%
Total for 2018/19	**2,116**	**0.89%**	**0.22%**

7.2 The total amount received in short term interest for the year was £2.1m at an average rate of 0.89%. This was above the average of base rates in the same period (0.67%) but ensuring, so far as possible in the financial climate, the security of principal and the minimisation of risk. This Council has continued to follow a prudent approach with security and liquidity as the main criteria before yield.

8. Capital Financing Requirement and Minimum Revenue Provision (MRP)

8.1 The Council is required to pay off an element of the accumulated General Fund capital spend each year (the Capital Financing Requirement - CFR) through a revenue charge (the minimum revenue provision - MRP). Ministry of Housing, Communities and Local Government (MHCLG) regulations require the full Council to approve an MRP Statement in advance of each year. A variety of options are available to councils, so long as the principle of any option selected ensures a prudent provision to redeem its debt liability over a period which is commensurate with that over which the capital expenditure is estimated to provide benefits (i.e. estimated useful life of the asset being financed).

8.2 The below 2018/19 MRP Policy Statement reflects a change in policy for borrowing incurred both before and after 2008. The Policy (as required by Ministry of Housing, Communities & Local Government Guidance) was approved as part of the Treasury Management Strategy Report for 2019/20 on 22 January 2019.

8.3 The Council was recommended to approve the following MRP Statement for 2018/19 onwards:

For borrowing incurred before 1 April 2008, the MRP policy will be:

- Annuity basis over a maximum of 40 years.

From borrowing incurred after 1 April 2008, the MRP policy will be:

- Asset Life Method (annuity method) – MRP will be based on the estimated life of the assets, in accordance with the proposed regulations. A maximum useful economic life of 50 years for land and 40 years for other assets. This option will also be applied for any expenditure capitalised under a capitalisation directive.

For PFI schemes, finance leases and closed landfill sites that come onto the Balance Sheet, the MRP policy will be:

- Asset Life Method (annuity method) - The MRP will be calculated according to the flow of benefits from the asset, and where the principal repayments increase over the life of the asset. Any related MRP will be equivalent to the "capital repayment element" of the annual charge payable.

There is the option to charge more than the prudent provision of MRP each year through a Voluntary Revenue Provision (VRP).

8.4 For loans to third parties that are being used to fund expenditure that is classed as capital in nature, the policy will be to set aside the repayments of principal as capital receipts to finance the initial capital advance in lieu of making an MRP.

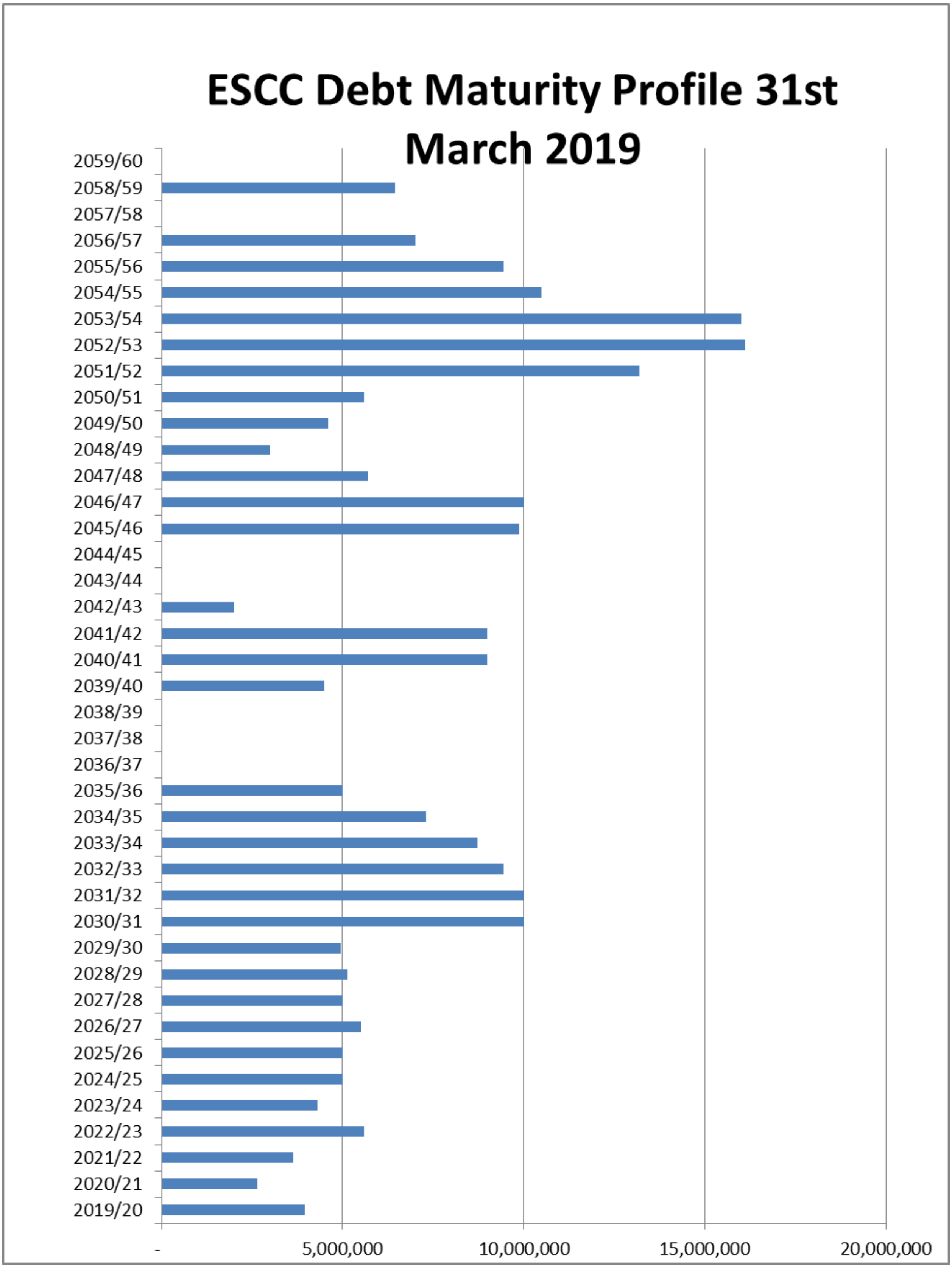
8.5 In view of the variety of different types of capital expenditure incurred by the Council, which is not in all cases capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure. This approach also allows the Council to defer the introduction of an MRP charge for new capital projects/land purchases until the year after the new asset becomes operational rather than in the year borrowing is required to finance the capital spending.

8.6 The Council's CFR for the year is shown below, and represents a key prudential indicator. It includes PFI and leasing schemes on the balance sheet, which increase the Council's borrowing need. No borrowing is actually required against these schemes as a borrowing facility is included in the contract.

CFR including appropriate balances and MRP charges for PFI Schemes and Finance Leases.

	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
	£m	£m	£m	£m
Total CFR	**329**	**343**	**371**	**380**
Movement in CFR	-	14	28	9

Annex 1



ESCC Debt Maturity Profile 31st March 2019
2059/60
2058/59
2057/58
2056/57
2055/56
2054/55
2053/54
2052/53
2051/52
2050/51
2049/50
2048/49
2047/48
2046/47
2045/46
2044/45
2043/44
2042/43
2041/42
2040/41
2039/40
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2037/38
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2034/35
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2032/33
2031/32
2030/31
2029/30
2028/29
2027/28
2026/27
2025/26
2024/25
2023/24
2022/23
2021/22
2020/21
2019/20
-
5,000,000
10,000,000
15,000,000
20,000,000

Report to: **Audit Committee**

Date of meeting: **22 November 2019**

By: **Chief Operating Officer**

Title: **Property Asset Disposal and Investment Strategy (PADIS)**

Purpose: **To provide Audit Committee with an annual report on the progress and implementation of the Strategy**

RECOMMENDATIONS

It is recommended for Audit Committee to:

1. **note the contents of this report;**
2. **consider, and recommend, any actions that should be taken in response to the contents of this report;**
3. **note that progress continues against the background of some wider market uncertainties, and the need to support capacity to ensure delivery; and**
4. **identify any new or emerging items for consideration.**

---

1. Background

1.1 The County Council's strategic framework for investment supports the development of income and funding streams to enhance the financial resilience of the Council. In April 2018 Cabinet resolved to approve a Property Asset Disposal and Investment Strategy, as part of its suite of activities. At its meeting on 22 November 2018, this Committee reviewed an update on the strategy and property related activities, together with the high level model/principles used to support activities underway. It requested that an Annual Report be brought back to this Committee.

1.2 The Strategy

1.2.1 The Strategy provides the Council with three principle activities:

i) the ability to drive added value from its current estate from disposal activity
ii) the option to retain assets to support corporate or service needs and
iii) enable investment in new assets or projects in support of economic growth opportunities.

1.2.2 The County Council has determined not to follow the route of purchasing income generating property assets per se to support its operational funding activities – ie through taking on PWLB loans to acquire commercial investments. Recent market concerns - over bidding activity and risk exposure by some local authorities with limited professional investment management advice - is highlighted by recently raised PWLB loan rates - supporting the caution aired by Members. Commercial property as an investment class will always remain an option within a professionally managed balanced portfolio, but is as much about timing and selection, not simply a chase to the top.

1.3 Governance

1.3.1 Programme and Project governance remains primarily through the Capital Board, which remains an important gateway review mechanism for any evolving business opportunities.

1.3.2 In June 2019 an update on vacant and surplus assets was reported to Place Scrutiny Committee which included a summary review of both the process around surplus assets as well as an update on several key sites, whilst highlighting some of the dependencies hurdles and issues being addressed. This Report is at Appendix A and has supported the past year's activity.

1.3.3 The processes outlined form a core of activity that support the reviews of assets, under our PADIS, in so far as the Council will i) continue to create lists of opportunities ii) build on the current prioritisation process, and iii) ensure these are based on acceptable risk, speed and extent of delivery of revenue (income or capital) benefits, or other desired outcomes (care, community transfer, collaborative working etc)

1.4.1 The County Council's Capital Strategy is being updated as part of the RPPR process for 2020/21. A 20 year strategy will be supported by a 10 year planned capital programme. This programme will be reviewed annually as part of the RPPR process to ensure it reflects service need and council priorities. To be consistent, and to allow alignment to the PADIS regarding investment decisions, the first 3 years of the planned programme will seek to represent some firm planning assumptions for key sites.

1.4.2 As the Capital Strategy links strategies and plans to investment across all departments, the opportunity will also be taken to update governance arrangements to facilitate ongoing strategy management, information sharing and joined up working across services.

1.5 Strategic Asset Management Plan

1.5.1 In support of wider estate and investment strategy, a revised Strategic Asset Management Plan for the period 2020 to 2025 has been drafted, which continues to highlight the emphasis on optimisation of value and development potential from the Council's residual asset base, with or without input from core public sector partners.

1.5.2 This document, attached at Appendix B, once formally signed off by the Lead Member for Resources, notes not only the importance and alignment between estate activities and service business planning – the need for a One Council led approach - but also opportunities to resource and deliver with a number of our public sector partners.

1.6 Resources

1.6.1 To bring sites forward, revenue and people resource is required to support added value programme management and individual project led activities.

1.6.2 Over the past 12 months, a wider review of the Orbis Partnership had identified the option for property resources and activities to be returned to their sovereign authority control, whilst retaining notable Centres of Expertise (such as energy). In practical terms the main effect of Orbis property staff reverting to management of their sovereign estates was that gaps in our own structure emerged where functions provided by Surrey CC staff across the partnership were no longer provided. This combined with existing vacancies in the permanent structure caused a drop in service levels as existing ESCC staff struggled to cover all operational functions.

1.6.3 Our response has been to recruit as quickly as possible using both permanent and interim resources. This has been successful but further recruitment remains in hand to restore full service. We are also taking this time as an opportunity to ensure we have capacity and capability that ensures we can maintain a strategic and commissioning led service going forward, whilst using a mix of in house and external delivery models, and still provide a fully operational service supporting the needs of frontline services (particularly Childrens and Adults) across our operational estate.

1.7 Site Activity

1.7.1 The Council nevertheless continues to progress work across individual sites with many subject to their own specific constraints, issues, risks and opportunities. Timing across most sites is always difficult to predict but close monitoring of projects benefits and financial outcomes remain key.

1.7.2 A later Agenda Item provides a more detailed summary of activities for review (Part 2 Exempt).

1.7.3 A highlight of activity across these key sites include:

a) identification of an ESCC owned site that could be brought forward as a 7-10MW solar farm opportunity. A more detailed feasibility is underway but high level modelling and desk top risk assessment (planning, land, size and delivery) indicate the potential for good rates of return on capital. The strategic outline business case will be worked upon over the next few months.

b) One large site with the benefit of a planning consent for major housing, but whose delivery is still being held back by lack of a Secretary of State consent.

c) One site which has been subject to demolition activity during the past 6 months and which needs to be taken forward into the planning arena for either a housing or service led development (decision awaited in support of care)

d) A number of sites which remain within stages of the town planning system.

1.8 Opportunity workshops

1.8.1 A set of workshops has been concluded (by Property and Economic Development teams) over the past quarter with all our District and Boroughs to ensure all opportunities for asset planning, economic development and collaborative proposals are highlighted. From this action, as well as our current work through SPACES and our One Public Estate activities, a number of wider opportunities have been highlighted for review. These include:

a) Collaboration on a partnering arrangement to secure added value from a land holding

b) Joint working to assess options to share training facilities to enable release of space for collaborative working

c) Land swaps

d) Potential acquisition to support shared use of asset and front line community services

1.9 Business Cases

1.9.1 Whilst each opportunity site has evolved over the recent past despite the difficult background and constraints noted above, overall progress toward a performance target of bringing a set number of sites through feasibility and option appraisal stages continues to be challenging.

1.9.2 The recent focus has been on concluding our option appraisal work around our Corporate Office estate to support savings, enable workplace improvements whilst facilitating greater co sharing opportunities with public partners to deliver front line services

1.9.3 Key sites identified for disposal within our established capital receipts programme remain part of a four year target to deliver £16m of receipts to support the current MTFP by 22/23. Those projects remain on target, but Committee is asked to note that a number of ESCC owned sites have been identified, and listed, as assets of community value thus enabling the right to bid for an asset, but requiring a 6 month moratorium on disposals.

1.9.4 Collation of information from services around business plans and future delivery models to support operational and administrative property reviews is ongoing and this is aligned to the wider appraisal work and utilisation studies that have recently been concluded around investment opportunities for our corporate office estate.

2. Supporting Information

2.1 In order to bring capacity and capability to the fore, we are seeking to procure a Multi Disciplinary consultant to bring forward initial viability and feasibility reports on some sites.

2.2 The future operational management of completed sites that may be retained as investments has yet to be fully assessed. Delivery mechanisms such as subordinate company, joint venture or outsourced arrangements still require further review and remain work in progress.

2.3 The scale of the opportunities and the risk appetite of the Council has yet to be fully tested but the level of opportunities already identified or in hand continue to offer considerable encouragement, and outcome benefits

3. Conclusion and recommendations

3.1 Audit Committee is asked to note the contents of this report and consider and recommend any actions that should be taken in response to the contents.

Kevin Foster
Chief Operating Officer

Contact Officer: Graham Glenn
Tel. No: 01273 336237
Email: graham.glenn@eastsussex.gov.uk

Appendices

Appendix A Place Scrutiny Committee Report 11 June 2019 – Marked Exempt

Appendix B Draft Strategic Asset Management Plan 2020-2025

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NOT FOR PUBLICATION – EXEMPT/CONFIDENTIAL INFORMATION

Report to:	**Place Scrutiny Committee**
Date:	**11 June 2019**
By:	**Chief Operating Officer**
Title of Report	**Surplus Property**
Purpose of Report	**To provide Place Scrutiny Committee with an update on processes and activities supporting vacant or surplus assets.**

This report contains exempt/confidential information as specified in paragraph 3 of Part 1 of the Local Government Act 1972 (as amended) namely information relating to the financial or business affairs of any particular person (including the authority holding that information)

RECOMMENDATIONS: The Committee is recommended to note the information which supports an earlier agenda item

1 Background

1.1 Asset and estate management is about supporting the delivery of the strategic goals and objectives, highlighted in the Council Plan, through the effective use and management of property assets.

1.2 Against this background, assets are often identified as either becoming fully surplus, or to be vacated by the service pending further decisions. Once an asset has been identified as surplus, option appraisals, and opportunities can be considered and taken forward through business case or Member led decisions.

2 Supporting information

2.1 The County Council has a current list of 16 properties listed as surplus to service needs, or vacant. This includes:

- temporarily surplus: where assets are held for alternative service use; or
- permanently surplus: where an asset is not required for any service use.

2.2 Where an asset is identified as becoming available the first step is to assess any current or wider service needs. If it is not recycled, or the property is not fit for purpose, it will be assessed as a development, disposal or 'strategic hold' opportunity. A summary review of activity in Appendix 1.

3 Conclusion and Reason for Recommendations

3.1 The information contained in this report supports an earlier agenda item.

KEVIN FOSTER
Chief Operating Officer

Contact Officer: Graham Glenn
Tel. No: 07890 561245 01273 336237
Email: graham.glenn@eastsussex.gov.uk

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Appendix B

Strategic Asset Plan

2020 - 2025

East Sussex
County Council

Foreword

As Lead Member for Resources I am acutely aware of the way we use our property and its impact on the environment. As a council we have declared a climate change emergency with the aim of becoming carbon neutral before 2050 whilst continuing to do our best to support growth, regeneration, and deploying our assets for the benefit of the people of East Sussex.

Our ONE Council ambition remains strong. To achieve better accessibility to, and delivery of, frontline services we have some exciting opportunities available, particularly across some of our main operational buildings, that will enable us to review places and spaces where we want and need to be.

Progress towards implementing a corporate landlord model continues in a measured way taking account of reducing budgets and changing work styles and practices. We will use our resources wisely through our strategic commissioning policies and working closely with our partners in the Districts, Boroughs and the wider public estate.

.

Councillor Nick Bennett
Deputy Leader and Lead Member for Resources

On a general note, as this Strategic Asset Plan demonstrates, we continue to challenge our own processes and assumptions to drive the best outcomes for our property estate. I welcome this new Strategic Asset Plan and commend you to endorse it.

Introduction

Local Authorities across the UK hold large property portfolios (assets made up of buildings and land) which have been acquired, gifted or inherited over many years.

East Sussex County Council is no different, owning or operating over 9,000 plots of land (including highways) and over 470 building assets. This totals at a gross internal floor area of around 717,000m^2 the same as about 100 football pitches.

To achieve our goals we want to use all our resources effectively and efficiently as possible and this includes our land and buildings. The council has adopted a new Strategic Asset Plan which comprises three separate parts as follows:

- An Asset Management Policy
- An Asset Management Strategy
- An Asset Management Action Plan

These are intended to be live documents to be refreshed over time. Accordingly, readers are advised to ensure that they have the most up to date versions and separate parts are always read together to ensure the correct context is understood.

The benefit of adopting such a structure is that policy areas and objectives are more likely to remain constant for several years at the Portfolio level, whereas individual asset level management strategies are likely to have a shorter life.

Supporting these two documents is an Action Plan. This is a ‘living document’ and will change most frequently as projects are delivered.

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Asset Management Policy
2020 - 2025

Asset Management Objectives

The council has published eight asset management policies dealing with the way in which it manages its property assets (acquisitions, leasing, compliance, maintenance, sustainable buildings, disposals, community asset transfer and carbon). In addition this section establishes clear principles by which we will manage our land and buildings. It will remain in place for the next five years and be reviewed annually to ensure it is remains relevant to what we are trying to achieve.

1

To plan and manage property as a corporate resource for the benefit of the people of the County of East Sussex:

- Driving sustainable economic growth
- Keeping vulnerable people safe
- Helping people help themselves
- Making best use of resources

2

To provide the right places and spaces for the council to deliver its services aligned to operating principles:

- Strategic commissioning
- One Council: working as a single organisation
- Strong partnerships

3

To manage and maintain property effectively, efficiently and sustainably, optimising financial return and commercial opportunities from the rationalisation and disposal of land and buildings

4

To use land and buildings to stimulate development and growth, support local business needs and encourage new business investment in the area

5

To promote partnership and joint working particularly where it will provide benefits for service delivery and enable efficiencies

Our Assets

Our Assets are our forward-looking programme, forming part of the overarching transformational programme structure.

The key drivers for the programme are set out here:

- **Closing the buildings that we don't need** – operating efficiently within the office buildings that we need and disposing of the buildings we don't
- **Addressing the essential maintenance needs of our remaining buildings** – repairing mechanical and electrical (M&E) systems and prolonging their operational lifespan; addressing critical structural issues
- **Complying with statutory regulations** – ensuring that actions are taken to ensure that buildings are compliant with statutory obligations for Fire, Legionella and Asbestos
- **Optimising income** – protecting existing income streams from assets and investing in buildings where additional income can be generated
- **Delivering Climate Change agendas and Using less energy** – improving energy efficiency in our offices and other buildings and reducing running costs
- **Enabling more efficient team-working** – working more flexibly within our buildings, through promotion of agile working, and providing modern fit-for-purpose workplaces
- **One Public Estate** – enable Public Sector providers to collaborate on strategic planning and management of their land and buildings as a collective resource
- **Serving our customers more efficiently –** focusing on what our customers need, using accessible and inclusive facilities to serve them

Actions and Behaviours

In developing these objectives there are actions and behaviours that we need to adopt relating to our land and buildings. These are set out under each objective in no particular order of priority. It is accepted that there will be occasions where some elements may appear to be in conflict. The key challenge for the Council is to ensure that we maintain an appropriate balance between all of these elements as decisions around land and buildings are made.

OBJECTIVE 1

To plan and manage property as a corporate resource for the benefit of the people of East Sussex

- Recognition that property is a key component within corporate business strategies and impacts on outcomes for employees, services, communities and business opportunities
- We will ensure effective balance between corporate and service priorities, aligned to a core understanding of our frontline service needs
- We will work to ensure that property information is accurate, current, accessible and comprehensive
- Capital Projects will be managed efficiently and effectively, and prioritised to support the Council's priorities

OBJECTIVE 2

To provide the right places and spaces for the Council to deliver its services aligned to operating principles (strategic commissioning, One Council and strong partnerships)

- We will work with service to ensure that property is suitable and sufficient for service delivery
- We will work to ensure that property is flexible and planned to respond to future need
- We will ensure that property is secure, safe to use and fulfils our statutory requirements
- We will continue to work with Districts, Boroughs, public sector partners and third sector organisations to optimise the use of assets where most beneficial
- We will ensure that equalities are fully considered in the development of our asset plans, engaging and consulting with communities

OBJECTIVE 3

To manage and maintain property effectively, efficiently and sustainably, together with optimising financial return and commercial opportunities from the rationalisation and disposal of land and buildings

- We will ensure property is suitably managed and maintained within budget constraints
- We will challenge the current use of assets and identify co-location opportunities, to include partners, resulting in rationalisation and disposal of our land and buildings where appropriate
- We will seek efficiencies in occupancy and utilisation and continue to introduce new ways of working
- We will challenge the cost of property activities to drive performance improvement
- We will seek to optimise financial return and commercial opportunities
- We will ensure that property is as sustainable as possible in design, construction, operation and maintenance
- We will reduce energy and water consumption, and CO_2 emissions, using renewable energy where appropriate, to achieve carbon neutrality by 2050
- We will minimise waste through reduction, recycling and re-use.

OBJECTIVE 4

To use land and buildings to stimulate development and growth, support local business needs and encourage new business investment in the area

- We will use key assets to stimulate and support regeneration and inward investment
- We will utilise available funding for income generation and to create local employment and training opportunities
- We will manage our commercial portfolio effectively, balancing regeneration needs, job creation and income generation
- We will work with our Districts and Boroughs to identify a future supply of land suitable for housing and employment needs

OBJECTIVE 5

To promote joint working where it will provide benefit for service delivery and in securing efficiencies

- We will work with other agencies to promote co-location and joint service delivery
- We will work to support the integration of health and social care agendas
- We will work closely with our wider public sector partners through our SPACES partnership to deliver the benefits of One Public Estate agendas to drive savings and secure economies of scale.

Asset Management Strategy
2020-2025

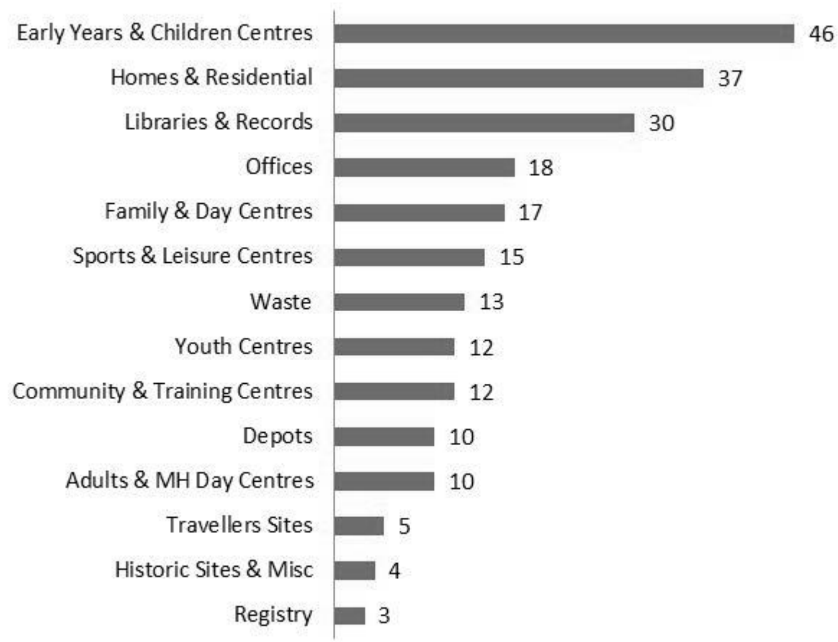
Our Land and Buildings

The County Council portfolio comprises a wide range of assets - offices, schools, day centres, care facilities, libraries, depots and assets leased to community organisations - as well as investments held to generate a commercial income.

The diagram opposite provides an overview of our current property estate by asset type, providing a total number for each type of asset.

The reasons for holding these assets will vary and, as a result, we may need to measure their performance and service delivery in different ways. Performance of each asset must therefore be linked to the strategic purpose for holding it. Assets deliver a mixture of front line services, indirect service provision, and in supporting local communities. Assets must have a purpose and we constantly need to be challenging this.

No & Type of Operational Sites - Non-Schools



No & Type of Establishments - Schools

The Council's property portfolio extends to some 9,000 land parcels, and over 425 building assets, with a current balance sheet value of around £800 million. This is the amount that is included within the Councils' accounts and, whilst it is not the amount that we could receive if we sold all our assets, it demonstrates the considerable resource held with our land and buildings, and why they need to be carefully managed.

Without careful management, there is potential to waste money by keeping buildings that are not fit for purpose or unnecessary.

All assets have a market value and, if they are no longer required for their current purpose, we may sell them with a view to securing best value through the market or planning process, or hold the land for further investment, service, or redevelopment benefit.

As the way delivery of services change, our asset base also needs to adapt and change. We may need to invest in new assets to ensure we provide services fit for the future.

The Council has a duty to manage the risk and assess the impact of statutory regulation on its assets in relation to Asbestos, Accessibility, Fixed Wiring, Legionella and Fire Regulation compliance. To ensure that the asset portfolio is compliant with statutory requirements, regular inspection and review of property is undertaken.

The Council continues to extend its corporate landlord model in the maintenance and day-to-day running of our buildings to maximise value for money and minimise risk of non-compliance. These processes also ensure that capital works are prioritised appropriately, based on evidence from building condition surveys, and in alignment with the operational priorities of those services in occupation.

Our asset review process ensures that under performing, inefficient or uneconomic buildings are reviewed appropriately before financial or other decisions are made on them. Our Capital Board provides governance and assurance that money is spent appropriately.

Our Money

East Sussex County Council has experienced significant funding reductions and we need to make careful choices in where we prioritise the money we spend. We work closely with Services to ensure that property related funds are spent in the most appropriate manner.

Our energy team, who manage accounts for other public sector bodies, have generated considerable savings by ensuring best value is secured in energy contracts, correct billing and by promoting and delivering energy efficiency schemes.

Despite financial challenges, the Council is committed to supporting the County's economic growth, and encouraging job creation and investment through its capital programme. New development plays an important part in this and it is crucial to note that the council's capital investment attracts further inward investment. This helps the local economy to grow and thrive so that every pound invested by the authority generates a local economic and social benefit well in excess of this initial investment.

The maintenance budget is used to ensure that Council property is fit for purpose and meets current and future service needs.

Any improvements or enhancements must meet set criteria, aligned to the Chartered Institute of Public Finance and Accountancy (CIPFA) guidance of capitalisation of expenditure, extending the usable life of the asset and increasing the extent to which the asset can be used.

Commercial lease renewals and rent reviews are undertaken to maximise the income to the council from the portfolio and protect the Council's interest.

The Council operates a disposal programme, identifying assets for sale or rationalisation, and releasing surplus assets in line with the objective to secure best value and maximise economic and regeneration benefits, often through joint working with partners.

Regeneration and Development

The Council plays a prominent role as facilitator of regeneration and development activities across East Sussex. Examples include:

- £20m Growing Places Fund (GPF) loan funding from the South East Local Economic Partnership (SELEP) secured for various property and infrastructure developments across the county, with 3 new workspace developments delivered through Sea Change Sussex
  - Havelock Place/Priory Quarter, Hastings
  - Bexhill Enterprise North Business Park
  - Pacific House, Eastbourne

- Local Growth Fund (LGF) capital grant funding from SELEP towards the development of commercial property, including:
- High Weald House (£7m)
- Newhaven Eastside South Business Park (£1.6m)
- Swallow Business Park (£1.4m)
- The latter two unlocked respectively £6m and £11m of private investment.
- In March 2019 additional LGF monies were secured for both Bexhill Enterprise North Business Park (£1.9m) and Sidney Little Business Park (Hastings) of £500k - again unlocking respectively a further £19m and £2m private investment.

Our Corporate Landlord Approach

The way we manage our assets is important. We continue to review how our land and buildings are managed as corporate resources, that the right stakeholders are involved, and decisions are made in the context of the Councils' priorities and objectives.

The concept of a Corporate Landlord Approach is that the ownership of an asset and the responsibility for its management and maintenance is transferred from service areas into the corporate centre. The service area then becomes a corporate tenant and their priority is to plan and deliver their service to the best of their ability.

The Corporate Landlord's responsibility extends to the acquisition, development, management and disposal of land and buildings, including asset planning, review, feasibility and option appraisals for the needs of all service areas, but most importantly, making decisions based on corporate priorities.

The Council continues to extend its implementation of the corporate landlord model in the following areas:

- Statutory Compliance of Buildings
- Energy Management
- Management and Commissioning of Repairs and Maintenance
- Facilities Management (in relation to cleaning, catering, security, caretaking and area facilities officers)
- Estates and Valuation Services
- Strategic Asset Management Planning
- Management of the Council's Investment Property

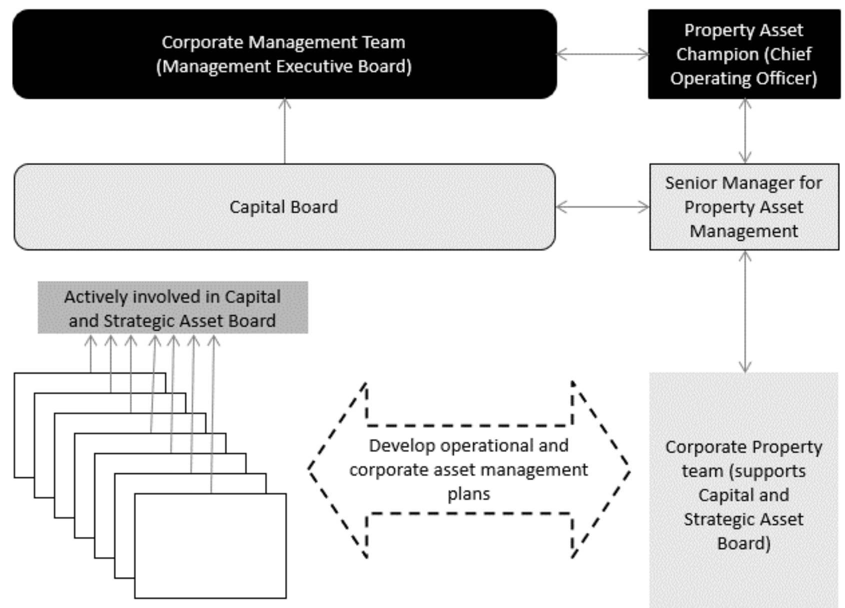
Members' Involvement

We consult and keep our Members informed of property matters that may impact on their local area. It is recognised that Members add considerable value to these discussions because of their knowledge of the areas and the communities they represent. This ensures that our property strategies reflect the needs of the local populations to whom we provide services.

Our Governance Arrangements

There is a governance structure in place providing direction and transparency of the management of the council's estate as outlined by the diagram. The corporate property ream provides the day to day expertise and support and manages key parts of the council's property estate (e.g. corporate offices).

The services produce their own service delivery plans which include some property provision. Collectively these feed in to the Capital Board chaired by the Chief Operating Officer. This board sets strategy for the Council's assets and receives reports on performance and key projects, ensuring progress is maintained and resources are made available or managed appropriately. The Board also decides on priorities where resource is stretched. Finally the Board's activities and decisions are reported to CMT at a corporate level.



Measuring our Performance

To measure our assets effectively we need to know how they are performing. We use a number of Key Performance Measures to report on the performance of certain aspects of the estate such as the running costs per sq. m for the corporate office estate.

We are replacing the current asset management system and as part of that project are refreshing the performance reporting.

These extended measures will include:

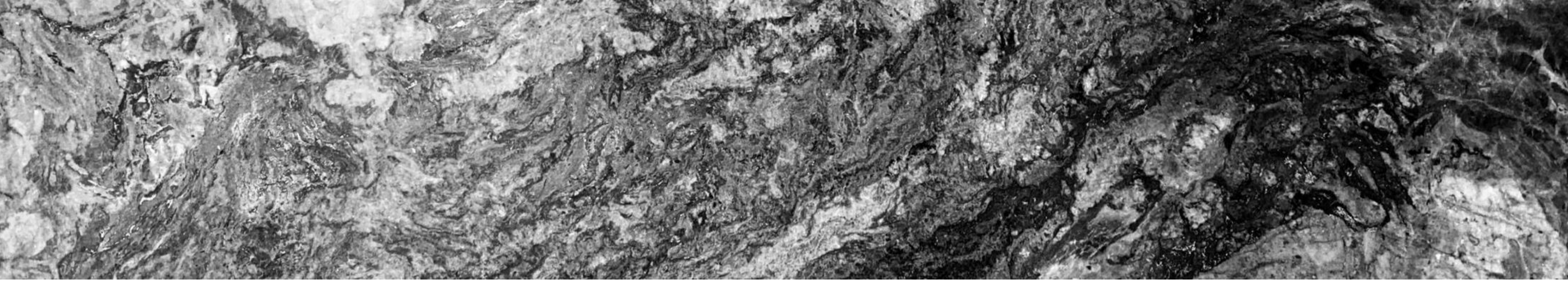
- Running costs for different types of building
- Energy costs and efficiencies
- Backlog maintenance
- Helpdesk volumes (of calls/requests)
- Time taken to carry out repairs
- Outstanding repairs by priority
- Planned vs Reactive spend
- Management costs

Challenging our Assets

We will be reviewing all of our assets, across our portfolios, on a continuous rolling programme. This ensures that only those service assets that are needed are retained, and our budgeted programmes for maintenance and investment secure best value. The ultimate aim of Asset Reviews is to reduce costs, identify assets that should be retained for use and/or available for wider service or investment benefit , as well as identifying those that are surplus to requirements.

Each asset is otherwise assessed using a step-by-step challenge and review process, ensuring that every asset has been fundamentally tested against a common set of criteria.

Strategic Purpose	**Opportunities and Risks**	**Performance Appraisal**	**Option Appraisal**	**Pre-Implementation Consultation**	**Outcome**
• Why do we own this asset?	• What are the opportunities for this asset?	• What financial/ non-financial outcomes are delivered?	• Balance of performance, opportunities and risks	• Internal stakeholders	• Retained within portfolio
• Who is accountable for its performance?	• What are the barriers and constraints?	• Can the non-financial outcomes be measured (or qualitative)?	• Options available?	• External stakeholders	• Replaced
• Is this financial/non-financial?	• Do we understand the risks?	• What are the management costs?	• What are the relative costs and benefits of these options?	• Partners • Members	• Remodel • Re-use
• How do we know it is fulfilling its purpose?	• Is risk transfer an opportunity?	• Any other invisible costs?	• Do any options carry added risk?		• Dispose (sell/transfer)



Maintaining our Assets

Maintenance and statutory liabilities cost an ever-increasing amount, with our annual spend of around £15 million. It is vitally important that we look after our assets. Our overall strategy is to ensure that our finite maintenance resources are prioritised toward appropriate buildings where the money is needed most. We identify these priorities by conducting a rolling programme of condition surveys which aim to identify maintenance requirements over a period of 10 years, with aspirations to complete lifecycle condition surveys on selected assets to cover a period of 25 years. This will enable a better-informed decision-making approach and maximise efficiencies by planning spend over a longer time horizon.

Our four key aims for Building Maintenance are:

- To ensure buildings are safe and secure for the people who use them
- To allocate funding to projects that will achieve the maximum positive impact
- To achieve an efficient balance between planned and reactive maintenance work
- Achieving maximum efficiencies in the way we procure building maintenance work

Working with Partners

Local authorities and other public sector agencies face a period of unprecedented financial challenge. In order to meet these challenges, and to maintain and improve core public services, it is essential that all agencies work together. Opportunities for sharing of resources will remain key topics moving forward - whether physical assets or property services, whether joint commissioning and procurement of services, or through joint investment activities. These opportunities underpin the principles of us securing best value, economies of scale and ensuring we maximise benefits from our combined buying power. In addition, by working strategically with our partners, we can ensure we learn from our common experience and share best practice.

Strategic Property Asset Collaboration in East Sussex (SPACES) is a 10 year property collaboration programme (2013-23) consisting of a wide range of public and voluntary sector partners working together to achieve a shared vision.

It aims to reduce costs and generate capital receipts by seeking opportunities to co-locate and collaborate through property sharing and alignment of services.

The County Council has seconded a Programme Manager, to enable and support the co-ordination of activities and initiatives. SPACES targets to be achieved, between the partner organisations, are:

- £10 million reduction in revenue cost of property assets
- Reduction in carbon emissions by 10,000 tonnes
- £30 million in capital receipts through the disposal of property

Engaging with our Communities

Local people are often best placed to manage community facilities in their area. They already make extensive use of these assets and their local knowledge and hands-on management often result in lower overheads and better value-for-money. Community organisations also use volunteers and take great pride in their local area.

We have a number of our properties leased or licenced to small enterprises and community groups, as well as voluntary and community organisations. We continue to facilitate use of some property assets for local groups on short term arrangements when supported by an appropriate level of due diligence on their proposed use, and where the occupation does not conflict with wider asset plans.

The Council supports this Meanwhile Use of assets for community benefit to both unlock and use the resilience, and commitment, of local communities to help people help themselves.

Meanwhile Use cam help avoid vacant property costs such as empty business rates, maintenance and ensuring insurance policy compliance. Vacant properties offer little to local economies and present a risk through vandalism.

Whatever the mechanism, we are fully committed to using our assets to form and support partnerships with community organisations, to create stronger, more cohesive and more sustainable communities.

Supporting our Service Areas

In support of service areas across the Council and external partners, the strategy will enable and facilitate service transformation by maximising the use of assets across the Public Sector. Examples of these include:

Health and Social Care: The linking of Health and Social Care has resulted in the council and Public Sector partners examining how these services are accessed and delivered, alongside the effectiveness of different facilities. We are looking at a more modern approach, providing us with opportunities to re-assess the use and occupation of associated property in alignment to asset rationalisation.

Youth Offending Team and Looked After Children Service: Relocation of the services from their existing premises into appropriate locations to release valuable assets for disposal.

Community Associations – engagement: Engagement with Community Associations to support them in maintaining provision of activities at council-owned Community Centres. Dialogue has been maintained with Community Associations and we are looking at providing appropriate lease arrangements, certainty of occupation and restructuring council charges to Community Associations to address some of the issues raised.

Asset Management Action Plans

2020-2025

A. Strategic

B. Operational

C. Service Improvement

STRATEGIC					Key Milestones		
Action Reference Number	Action Description	Key Asset Management Strategy Objective	SMART Objective	2019-20	2020-21	2021-22	Accountability
A1	Review of investment Strategy - including Acquisitions, Investments and Disinvestments	To manage and maintain property effectively, efficiently and sustainably, together with optimising financial return and commercial opportunities	By 31 March 2020 have in place an Investment Strategy to identify commercial opportunities and prioritisation of resources	Engage with Investment specialists to develop Investment Strategy for the future management of assets			Interim Chief Property lead Capital and Investment Board
A2	Review and development of Corporate office strategy for core office buildings	To provide the right places and spaces to deliver services aligned to operating principles: Strategic Commissioning; One Council; Strong Partnerships	By 31st December 2019 to have agreed strategy (by CMT) for corporate office estate for period 2020-2025	Engage with consultant to develop options appraisal for core buildings and alternative provision Begin market search for alternative premises in Hastings	Identify alternative property in Hastings, model impacts for proposed Eastbourne and Hastings options Begin negotiations with landlords in E'bourne and Hastings	Achieve cabinet sign off to the delivery of new corporate offices	Corporate property Capital and Investment Board
A3	Review and improve Community Asset Transfer Strategy (CAT)	To plan and manage property as a corporate resource for the benefit of the people of the ES	By 31 March 2020 modernise the current CAT strategy	Review the existing CAT strategy (in consultation with community organisations) to streamline and improve the process			Capital and Investment Board

STRATEGIC					Key Milestones		
Action Reference Number	Action Description	Key Asset Management Strategy Objective	SMART Objective	2019-20	2020-21	2021-22	Accountability
A4	Disposals Strategy and Programme Management	To plan and manage property as a corporate resource for the benefit of the people of the ES	By 31 March 2020 implement and embed a strategy to provide a consistent approach to disposal of assets	Develop a fit-for-purpose Disposals Strategy, implementing the performance and programme management arrangements to support it			Interim Chief Property lead Capital and Investment Board
A5	Property Asset Management System	To manage and maintain property effectively, efficiently and sustainably, together with optimising financial return and commercial opportunities	To have identified a preferred supplier for new PAMS and signed contracts by 31 March 2020	To manage to set up implementation and data transfer.	Embed new processes in property team and other users e.g. schools and contractors	Switch off current Atrium system and rely soley on new PAMS	Corporate Property S151 Officer
A6	Review of performance regime (links to PAMS)	To manage and maintain property effectively, efficiently and sustainably, together with optimising financial return and commercial opportunities	By 31 March 2020 agree a suite of asset performance metrics for presentation to Capital and Strategic Asset Board	To agree new suite of asset performance metrics	Implement performance reporting on quarterly basis to Capital and Strategic Asset Board		Corporate Property Capital and Investment Board
A7	Review contribution of assets to the Regeneration Agenda	To use land and buildings to stimulate development and growth, together with supporting local business needs and encouraging new business to the area	By 31 January 2020 formalise engagement with Regeneration Service in identifying how assets can influence and be a catalyst for change	Formulate a route for dialogue and collaboration with Regeneration Service			Corporate Property Regeneration Service

OPERATIONAL					Key Milestones		
Action Reference Number	Action Description	Key Asset Management Strategy Objective	SMART Objective	2019-20	2020-21	2021-22	Accountability
B1	Assets Data and information systems integration	To manage and maintain property effectively, efficiently and sustainably, together with optimising financial return and commercial opportunities	By 30 June 2020 new PAMS will be fully operational, enabling access to live asset performance data		Complete the data cleanse and validation of SAM assets data Implement full reporting capability	Embed performance reports in quarterly reporting to Capital and Strategic Asset Board	Corporate Property Capital and Investment Board
B2	Schools Capital Programme	To manage and maintain property effectively, efficiently and sustainably, together with optimising financial return and commercial opportunities	By 31 March 2020 identify schemes, commission works and manage delivery of prioritised statutory and maintenance requirements for Schools	Manage and report on 2019/20 Schools Capital Programme Prepare capital funding requests for 2020/21 programme	Manage and report on 2020/21 Schools Capital Programme Prepare capital funding requests for 2021/22 programme	Manage and report on 2021/22 Schools Capital Programme Prepare capital funding requests for 2022/23 programme (subject to academy conversion)	Corporate Property Capital and Investment Board S151 Officer
B3	Statutory Compliance function (Fire, Asbestos, Legionella, Contract Management)	To manage and maintain property effectively, efficiently and sustainably, together with optimising financial return and commercial opportunities	By 31 March 2020 assure compliance with all building related statutory regulations	Recruitment of a dedicated Fire Safety Officer in the Corporate Property Service structure Ensure new PAMS incorporates all asset compliance data into a single source	Quarterly/Monthly Statutory Compliance report with exceptions alert		Corporate Property Capital and Investment Board Legal team

OPERATIONAL					Key Milestones		
Action Reference Number	Action Description	Key Asset Management Strategy Objective	SMART Objective	2019-20	2020-21	2021-22	Accountability
B4	Commercial Estate Management	To manage and maintain property effectively, efficiently and sustainably, together with optimising financial return and commercial opportunities	By 31 March 2021 maximise occupancy and income through timely lease renewals, rent reviews, Service Charges and management of debt, alongside a review of assets leased-in.	Review leases (including service charges) and rent reviews due in 2019/20. Work with tenants and Debt Management to reduce debt levels. Commence quarterly performance reporting of the Commercial Portfolio	Review leases, s/c and rent reviews due in 2020/2. Identify investment and disinvestment to maximise income and reduce cost	Review leases (including service charges) and rent reviews due in 2021/22	Corporate Property Capital and Investment Board
B5	Asset Lifecycle Condition	To plan and manage property as a corporate resource for the benefit of the people of ES	By 31 March 2021 complete Asset Lifecycle Condition Surveys for the retained corporate asset portfolio to enable targeted investment	Identify the priority buildings that would benefit from Asset Lifecycle Condition Survey Ascertain costs and identify funding	To continue further prioritisation of lifecycle condition surveys		Corporate Property
B6	Review of property helpdesk process	To manage and maintain property effectively, efficiently and sustainably, optimising financial return and commercial opportunities	By 31 March 2022 to review helpdesk processes	Ensure revised processes agreed and implemented and used by internal and external contractor	Mandate new processes for all users of helpdesk		
B7	Service Leadership Teams engagement	To plan and manage property as a corporate resource for the benefit of the people ES	By 31 March 2020 to embed engagement process through quarterly meetings with corporate property	Move towards transfer of budgets for core property services e.g. statutory compliance testing	Complete transfer of all property budgets		Corporate property S151 Officer
B8	Budget review	To manage and maintain property effectively, efficiently and sustainably, optimising financial return and commercial opportunities	By 30^{th} June 2020 to have completed a review of budgets for property across the council	To produce a plan for the disaggregation of property budgets and reallocation to central property budget(s)	Complete transfer of all property budgets		Corporate property S151 Officer

SERVICE IMPROVEMENT					Key Milestones		
Action Reference Number	Action Description	Key Asset Management Strategy Objective	SMART Objective	2019-20	2020-21	2021-22	Accountability
C1	Corporate Office moves	To provide the right places and spaces for the council to deliver its services	By March 2020 to produce plan of proposed office moves with budget and resource allocations agreed through Capital and Strategic Asset Board	To implement agreed moves as part of a managed project	To have full plan agreed and communicated to stakeholders	To implement all office moves against the plan	Corporate Property Capital and Strategic Asset Board
C2	Corporate landlord advice to service departments	To plan and manage property as a corporate resource for the benefit of the people of ES	By March 2021 to implement monthly action report with recommendations for properties in service departments	Transfer of budgets for statutory compliance	Further budget transfer		Corporate Property S151 Officer
C2	Regeneration support	To use land and buildings to stimulate development growth, together with supporting local business needs and encouraging new business	My March 2020 to have completed joint engagement sessions with District, Borough and other public estate	To agree programme of potential projects for regeneration and joint working	To implement phase 1 projects around joint occupation of premises	To implement phase 2 projects around joint occupation of premises	Corporate Property Regeneration

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Audit Committee – Work Programme

List of Suggested Potential Future Work Topics		
Issue	**Detail**	**Meeting Date**
Counter Fraud Strategy	Consideration of the refreshed Counter Fraud Strategy	November 2019 or March 2020
Audit Committee Working Groups		
Working Group Title	**Subject area**	**Meeting Dates**
To be agreed.		
Training and Development		
Title of Training/Briefing	**Detail**	**Date**
Internal Audit Strategy and Plan	A briefing and consultation on the development and content of the Internal Audit Strategy and Plan for 2020/21, prior to the Committee endorsing the Strategy prior to agreement by Cabinet.	January 2020

Future Committee Agenda Items		Author
27 March 2020		
External Audit Plan 2019/20	This report sets out in detail the work to be carried out by the Council's External Auditors on the Council's accounts for the financial year 2019/20.	Ian Gutsell, Chief Finance Officer & External Auditors
External Audit Plan for East	To consider and comment upon the External Audit Plan for the East Sussex Pension Fund for the financial year 2019/20.	Ian Gutsell, Chief Finance Officer & External Auditors

Sussex Pension Fund 2019/20		
Internal Audit Strategy and Plan	Consideration of the Internal Audit Strategy and Plan for 2020/21	Russell Banks, Chief Internal Auditor/ Nigel Chilcott, Audit Manager
Internal Audit Progress Report	Internal Audit Progress report – Quarter 3, 2019/20 (01/10/19 – 31/12/19)	Nigel Chilcott, Audit Manager/Russell Banks, Chief Internal Auditor
Strategic Risk Monitoring	Strategic risk monitoring report – Quarter 3, 2019/20 (01/10/19 – 31/12/19)	Kevin Foster, Chief Operating Officer / Ian Gutsell, Chief Finance Officer
Committee Work Programme	Discussion of the future reports, agenda items and other work to be undertaken by the Committee.	Democratic Services Officer
10 July 2020		
Monitoring Officer's Annual Review of the Corporate Governance Framework	Sets out an assessment of the effectiveness of the Council's governance arrangements and includes an improvement plan for the coming year, and the annual governance statement (AGS) which will form part of the statement of accounts.	Philip Baker, Assistant Chief Executive
Internal Audit Services Annual Report and Opinion 2019/20	An overall opinion on the Council's framework of internal control, summarises the main audit findings and performance against key indicators (includes Internal Audit Progress report – Quarter 4, 2019/20, (01/01/20 – 31/03/20).	Nigel Chilcott, Audit Manager/Russell Banks, Chief Internal Auditor

Review of Annual Governance Report & 2019/20 Statement of Accounts	Report of the external auditors following their audit of the Council's statutory accounts. It allows the committee to review the issues raised and assess the management response.	External Auditors/ Ian Gutsell, Chief Finance Officer
Review of Annual Pension Fund Governance Report & 2019/20 Statement of Accounts	Report of the external auditors following their audit of the Pension Fund. It allows the committee to review the issues raised and assess the management response.	External Auditors/ Ian Gutsell, Chief Finance Officer
Strategic Risk Monitoring	Strategic risk monitoring report – Quarter 4, 2019/20 (01/01/20 – 31/03/20)	Kevin Foster, Chief Operating Officer / Ian Gutsell, Chief Finance Officer
Committee Work Programme	Discussion of the future reports, agenda items and other work to be undertaken by the Committee.	Democratic Services Officer
18 September 2020		
Internal Audit Progress Report	Internal Audit Progress report – Quarter 1, 2020/21 (01/04/20 – 30/06/21)	Nigel Chilcott, Audit Manager/Russell Banks, Chief Internal Auditor
Strategic Risk Management	Strategic risk monitoring report – Quarter 1, 2020/21 (01/04/20 – 30/06/20)	Kevin Foster, Chief Operating Officer / Ian Gutsell, Chief Finance Officer
Committee Work Programme	Discussion of the future reports, agenda items and other work to be undertaken by the Committee.	Democratic Services Officer
20 November 2020		
Internal Audit Progress Report	Internal Audit Progress report – Quarter 2, 2020/21 (01/07/20 – 30/09/20)	Nigel Chilcott, Audit Manager/Russell Banks, Chief Internal Auditor

Strategic Risk Management	Strategic risk monitoring report – Quarter 2, 2020/21 (01/07/20 – 30/09/20)	Kevin Foster, Chief Operating Officer / Ian Gutsell, Chief Finance Officer
Annual Audit Letter	To consider the Annual Audit letter and fee update from the External Auditor	Ian Gutsell, Chief Finance Officer
Treasury Management	To consider a report on the review of Treasury Management performance for 2019/20 and for outturn for the first six months of 2020/21, including the economic factors affecting performance, the Prudential Indicators and compliance with the limits set within the Treasury Management Strategy.	Ian Gutsell, Chief Finance Officer
Property Asset Disposal and Investment Strategy	Consideration of an annual report on the implementation of the Property Asset Disposal and Investment Strategy.	Tina Glen, Head of Property Operations / Graham Glenn, Acquisition & Disposals Manager
Committee Work Programme	Discussion of the future reports, agenda items and other work to be undertaken by the Committee.	Democratic Services Officer

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Agenda Item 13

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