



## AUDIT COMMITTEE

FRIDAY, 21 NOVEMBER 2025

10.00 AM COUNCIL CHAMBER, COUNTY HALL, LEWES

MEMBERSHIP - Councillor Colin Swansborough (Chair)  
Councillors Gerard Fox (Vice Chair), Sam Adeniji, Matthew Beaver,  
Stephen Holt, Philip Lunn and Georgia Taylor

## A G E N D A

1. Minutes of the previous meeting (*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. Auditor's Annual (VFM) Report on East Sussex County Council 2024/25 (*Pages 7 - 46*)  
Report by the Chief Finance Officer
6. Audit Committee Oracle Subgroup Update (*Pages 47 - 64*)  
Report by the Chief Operating Officer
7. Internal Audit Progress Report - Quarter 2 (01/07/25 - 30/09/25) (*Pages 65 - 80*)  
Report by the Chief Operating Officer
8. Response to Internal Audit Report and Actions - Home to School Transport (*Pages 81 - 94*)  
Report by the Director of Children's Services the Director of Communities, Economy and Transport
9. Response to Internal Audit Report and Actions - Home Care Contract Management (*Pages 95 - 98*)  
Report by the Director of Adult Social Care and Health
10. CIPFA Code of Practice for the Governance of Internal Audit in UK Local Government (*Pages 99 - 128*)  
Report by the Chief Operating Officer

11. Treasury Management - Stewardship Report 2024/25 and Mid-Year Review 2025/26  
(Pages 129 - 152)  
Report by the Chief Finance Officer
12. Work programme (Pages 153 - 158)
13. Any other items previously notified under agenda item 4

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

13 November 2025

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## AUDIT COMMITTEE

MINUTES of a meeting of the Audit Committee held at Council Chamber, County Hall, Lewes on 19 September 2025.

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PRESENT Councillors Gerard Fox (Vice Chair), Matthew Beaver, Stephen Holt, Philip Lunn and Georgia Taylor

LEAD MEMBERS Councillor Nick Bennett

ALSO PRESENT Ros Parker, Chief Operating Officer  
Ian Gutsell, Chief Finance Officer  
Russell Banks, Chief Internal Auditor  
Nigel Chilcott, Audit Manager  
Sophie Webb, Governance and Democracy Manager  
  
Ella Connick, Grant Thornton UK LLP  
Parris Williams, Grant Thornton UK LLP

### 13. MINUTES OF THE PREVIOUS MEETING

13.1 The Committee RESOLVED to agree the minutes of the meeting held on 4 July 2025 as a correct record.

### 14. APOLOGIES FOR ABSENCE

14.1 Apologies for absence were received from the Chair, Councillor Swansborough. Councillor Fox, the Vice Chair, took the Chair for the meeting.

### 15. DISCLOSURES OF INTERESTS

15.1 There were no disclosures of interest.

### 16. URGENT ITEMS

16.1 There were none.

### 17. REPORTS

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

### 18. EXTERNAL AUDITOR'S REPORT TO THOSE CHARGED WITH GOVERNANCE AND ANNUAL REPORT 2024/25

18.1 The Committee considered a report by the Chief Finance Officer which presented the draft External Auditor's report on the 2024/25 East Sussex Pension Fund Accounts.

18.2 Ella Connick from Grant Thornton UK LLP (GT) gave an update to the Committee highlighting that all outstanding work has been completed and there are no matters to be brought to the Committee's attention. The management approach to other findings – key judgements and estimates have been considered appropriate. There is an understatement of level 3 investments however the understatement is significantly below the materiality threshold and no underlying control issues were identified. One recommendation has been made regarding recording of a small sum (approximately £1k) held in an HSBC bank account in the general ledger. It is anticipated that an unqualified audit opinion will be issued.

18.3 The Committee discussed the ongoing challenges around misstatement of level 3 investments and noted that assurance around level 3 investments will likely change in relation to the change to pooling resulting from pension reforms.

18.4 The Committee noted that the Pension Committee will consider the accounts for the East Sussex Pension Fund ahead of the Governance Committee approving the accounts for both the County Council and Pension Fund together at its meeting in February.

18.5 The Committee RESOLVED to note the draft External Auditor's report to those charged with governance of the East Sussex Pension Fund Accounts 2024/25.

#### 19. INTERNAL AUDIT PROGRESS REPORT - QUARTER 1 (01/04/25 - 30/06/25)

19.1 The Committee considered a report by the Chief Operating Officer which set out the internal audit and counter fraud activity completed during quarter 1.

19.2 The Committee discussed the two audits which received a partial assurance opinion in relation to Home Care Contract Management and Home to School Transport and the potential for management in these areas to attend the next meeting of the Audit Committee to update on improvement action being taken.

19.3 The Committee discussed the amber performance rating against the 'audit days delivered' target and noted that maternity leave within the internal audit team has resulted in a slight decrease in days delivered. However, planned contingency time and utilisation of resources across the Orbis Internal Audit partnership should help to mitigate this shortfall during the remainder of the year.

19.4 The Committee RESOLVED to:

1) note the report;

2) request that a report into the Home Care Contract Management audit which received a partial assurance opinion is presented by the Director of Adult Social Care and Health for consideration in November 2025; and

3) request that a report into the Home to School Transport audit which received a partial assurance opinion is presented by the Director of Children's Services and Director of Communities, Economy and Transport for consideration in November 2025.

#### 20. GLOBAL INTERNAL AUDIT STANDARDS SELF-ASSESSMENT AND QUALITY ASSURANCE AND IMPROVEMENT PLAN

20.1 The Committee considered a report by the Chief Operating Officer which set out the results of the Internal Audit Service's self-assessment against the new Global Internal Audit

Standards along with details of any actions arising, as set out with the Service's ongoing Quality Assurance and Improvement Plan and an updated Internal Audit Charter.

20.2 The Chief Internal Auditor highlighted that since 1 April 2025, the previous Public Sector Internal Audit Standards (PSIAS) were replaced with new Global Internal Audit Standards (GIAS), supported by the Chartered Institute of Public Finance and Accountancy (CIPFA) 'Application Note – Global Internal Audit Standards in the UK Public Sector'. A comprehensive self-assessment has been completed and a Quality Assurance and Improvement Plan (QAIP) summarised all the actions arising from the self-assessment with all but 2 actions completed or in progress. Of the 2 actions listed as outstanding in Appendix B of the report, action 11 has now been completed. Internal audit consider that they are fully compliant with the GIAS and will be independently assessed for compliance in the next few years. The Internal Audit Charter has been updated in relation to the GIAS.

20.3 The Committee RESOLVED to:

1) note the results of the self-assessment against the new Global Internal Audit Standards and the resulting Quality Assurance and Improvement Plan; and

2) note the updated Internal Audit Charter.

## 21. CIPFA FINANCIAL MANAGEMENT CODE

21.1 The Committee considered a report by the Chief Finance Officer which provided annual overview of Financial Management Code compliance.

21.2 The Committee noted that despite the challenges in relation to the use of a new accounting system, the Council scored compliant for all 15 compliance statements within the self-assessment and that the Chartered Institute of Public Finance and Accountancy (CIPFA) are in the final stages of completing a resilience and governance review in light of the financial challenges of the Council and that this report will be considered by Cabinet in the autumn.

21.3 The Committee discussed the Transparency score which comprises compliance statements regarding developing a long-term financial strategy and medium term financial plan and annual budget and option appraisal methodology to demonstrate the value for money of its decisions and how compliance in these areas can be improved noting the complexity around long term financial modelling and demonstrating value for money having regard to external factors such as inflation.

21.4 The Committee RESOLVED to note the annual overview of Financial Management Code compliance.

## 22. STRATEGIC RISK MONITORING - QUARTER 1 2025/26

22.1 The Committee considered a report by the Chief Operating Officer which presented current strategic risks faced by the Council, their status and risk controls and responses together with the current Risk Management process.

22.2 The Committee noted that the risk around cyberattack remains as one of the most significant risks to the Council.

22.3 The Committee RESOLVED to:

1) note the process of strategic risk management; and

2) note the current strategic risks and the risk controls and responses being proposed and implemented by Chief Officers.

23. WORK PROGRAMME

23.1 The Committee considered its current work programme of forthcoming items.

23.2 The Committee RESOLVED to note the programme.

The meeting ended at 10.52 am.

Chair

**Report to:** Audit Committee

**Date of meeting:** 21 November 2025

**By:** Chief Finance Officer

**Title:** Auditor's Annual (VfM) Report on East Sussex County Council 2024/25

**Purpose:** To provide Audit Committee with Grant Thornton's Annual (Value for Money) Report for 2024/25

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## RECOMMENDATION:

**Audit Committee is recommended to consider and comment on the Auditor's Annual Report on East Sussex County Council 2024/25, prior to being reported to Cabinet.**

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### 1. Background

- 1.1 The Code of Audit Practice issued by the National Audit Office (NAO) requires the authority's external auditor (Grant Thornton (GT)) to provide a separate Value for Money (VfM) assessment from the main audit of the statement of accounts. In doing so, GT provide an assessment of the authority's arrangements for Financial Sustainability, Governance and Improving Economy, Efficiency and Effectiveness in the use of its resources. Whilst there is no qualified/unqualified VfM conclusion, the report provides more detail on the authority's arrangements, together with any key recommendations on any significant weaknesses in arrangements identified during the audit.

### 2. Annual Report 2024/25

- 2.1 The Annual Report 2024/25 (Appendix 1) sets out the work that GT has undertaken to assess the arrangements the Council has in place to secure economy, efficiency and effectiveness in the use of its resources; with particular focus on risks in respect of financial sustainability, governance arrangements and improving economy, efficiency and effectiveness.
- 2.2 Given the financial challenges this Council, and local government more broadly, faces, GT continue to report a significant "red" weakness with regard to Financial Sustainability. It is pleasing to be able to report that, given the financial challenges, GT have not identified any significant weaknesses in the Council's response to these challenges, with a green rating in terms of Governance arrangements and an amber rating for Improving Economy, Efficiency and Effectiveness.
- 2.3 In reporting this outcome, GT has made only 1 key recommendation relating to Financial Sustainability, as summarised below:

Financial Sustainability (Key Recommendation)	Management Response
1. The Council should continue to seek to be financially sustainable in the medium to longer term by continuing to raise the challenges faced in all appropriate forums, including MHCLG. Savings plans should continue to be developed, to identify savings, via efficiency, and/or changes in services, to ensure the cost profile of the Council is as	As part of the Reconciling Policy, Performance and Resources (RPPR) process, all efforts will be made to set a balanced budget and seek longer term financial stability. Engagement with MHCLG will continue, together with lobbying MPs and through CCN, the LGA and South East 7.

lean as it can be, whilst providing the statutory services required. Conversations should continue, on suitable funding for demand led services alongside national local government reform, as being discussed at a national level.	
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### 3. Conclusion and Recommendation

- 3.1 The Annual (Value for Money) Report for 2024/25 in recognising the significant Financial Sustainability challenge the authority faces, is also able to provide positive assurance around Governance and Improving Economy, Efficiency and Effectiveness. One key recommendation has been reported and responded to by management.
- 3.2 Audit Committee is recommended to review and comment on the Annual (Value for Money) Report 2024/25, prior to being reported to Cabinet.

#### IAN GUTSELL Chief Finance Officer

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Background Documents  
None



# East Sussex County Council

Auditor's Annual Report  
Year ending 31 March 2025

November 2025



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting, on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# 01 Introduction and context

# Introduction

This report brings together a summary of all the work we have undertaken for East Sussex County Council during 2024/25 as the appointed external auditor. The core element of the report is the commentary on the value for money (VfM) arrangements. The responsibilities of the Council are set out in Appendix A. The Value for Money Auditor responsibilities are set out in Appendix B.

## Opinion on the financial statements

Auditors provide an opinion on the financial statements which confirms whether they:

- give a true and fair view of the financial position of the Council as at 31 March 2025 and of its expenditure and income for the year then ended
- have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2024/25
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014

We also consider the Annual Governance Statement and undertake work relating to the Whole of Government Accounts consolidation exercise.

## Auditor's powers

Under Section 31 of the Local Audit and Accountability Act, the auditor of a local authority may make an application for judicial review of a decision of that authority, or of a failure by that authority to act, which it is reasonable to believe would have an effect on the accounts of that body. They may also issue

- Statutory Recommendations to the full Council which must be considered publicly
- A Public Interest Report (PIR)

## Value for money

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (referred to as Value for Money). The National Audit Office (NAO) Code of Audit Practice ('the Code'), requires us to assess arrangements under three areas:

- financial sustainability
- governance
- improving economy, efficiency and effectiveness.

Our report is based on those matters which come to our attention during the conduct of our normal audit procedures, which are designed for the purpose of completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. The NAO has consulted on and updated the Code to align it to accounts backstop legislation. The new Code requires auditors to share a draft Auditor's Annual Report (AAR) with those charged with governance by a nationally set deadline each year, and for the audited body to publish the AAR thereafter. This new deadline requirement is introduced from November 2025.

# Local government – context

Local government has remained under significant pressure in 2024/25

## National

### Past



#### Funding Not Meeting Need

The sector has seen prolonged funding reductions whilst demand and demographic pressures for key statutory services has increased; and has managed a period of high inflation and economic uncertainty.



#### Workforce and Governance Challenges

Recruitment and retention challenges in many service areas have placed pressure on governance. Recent years have seen a rise in the instance of auditors issuing statutory recommendations.

### Present



#### Financial Sustainability

Many councils continue to face significant financial challenges, including demand pressures in adult social care, children's social care, SEND and home to school transport. There are an increasing number of councils in receipt of Exceptional Financial Support from the government.



#### External Audit Backlog

Councils, their auditors and other key stakeholders continue to manage and reset the backlog of annual accounts, to provide the necessary assurance on local government finances.

### Future



#### Funding Reform

The UK government plans to reform the system of funding for local government and introduce multi-annual settlements. The state of national public finances means that overall funding pressures are likely to continue for many councils.



#### Reorganisation and Devolution

Many councils in England will be impacted by reorganisation and / or devolution, creating capacity and other challenges in meeting business as usual service delivery.

## Local

The Council is one of 21 county councils serving a population of 558,400 residents. The Council operates under an Executive decision-making model, which oversees the formation of all major policies, strategies and plans and as such the Council's formal decision making and governance structure constitutes the Full Council and an Executive (the Cabinet). Full Council and Cabinet are supported by three scrutiny committees, covering People, Place and Health. The Council has 50 councillors, and the Council is elected every four years. The most recent full election was in May 2021, with changes to the administration brought about by by-elections taking place in 2023 and the introduction of independent members. As a result, the current administration is a minority Conservative administration of 23 elected councillors. In December 2024, the English Devolution White Paper set out the government's vision for a simpler form of local government. This will see reconfiguration of county and district services into one or more new unitary councils. East Sussex, along with Lewes, Eastbourne, Rother, Hastings and Wealden district Councils have developed proposals for a one unitary model for East Sussex. Local elections were due to be held in May 2025 but have been deferred for a year due to local government reorganisation.

It is within this context that we set out our commentary on the Council's value for money arrangements in 2024/25.

# 02 Executive Summary

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# Executive Summary – our assessment of value for money arrangements

Our overall summary of our Value for Money assessment of the Council's arrangements is set out below. Further detail can be found on the following pages.

Criteria	2023/24 Assessment of arrangements	2024/25 Risk assessment	2024/25 Assessment of arrangements
Financial sustainability	<b>R</b> Significant weakness in arrangements identified in relation to the Council's ability to secure financial sustainability in the medium term.	One risk of significant weakness identified, to follow up prior year findings.	<b>R</b> A continued significant weakness in arrangements for securing financial sustainability was identified and a replacement key recommendation made. We also raise one improvement recommendation.
Governance	<b>A</b> No significant weaknesses identified. One improvement recommendation made to assist the Council in achieving best practice.	No risks of significant weakness identified.	<b>G</b> No significant weaknesses in arrangements identified, no new improvement recommendations raised and prior year improvement recommendation addressed and closed.
Improving economy, efficiency and effectiveness	<b>A</b> No significant weaknesses identified. One improvement recommendation made to assist the Council in achieving best practice.	No risks of significant weakness identified.	<b>A</b> No significant weaknesses in arrangements identified, no new improvement recommendations raised, however our improvement recommendation raised in the prior year remains in progress.

**G**

No significant weaknesses or improvement recommendations.

**A**

No significant weaknesses, improvement recommendations made or unaddressed from prior year.

**R**

Significant weaknesses in arrangements identified and key recommendation(s) made.



# Executive Summary

We set out below the key findings from our commentary on the Council's arrangements in respect of value for money.



## Financial sustainability

We continue to observe a weakness in arrangements to secure financial sustainability at the Council. Service budgets overspent against their 2024/25 budget by £21.9m, mainly due to ongoing pressures in Children's Services and Adult Social Care. Although a reduction on the prior year, forecasts updated for 2025/26 now expect this to increase again to an overspend of £25.8m, in service budgets, by year end, and £14.9m for the Council overall. The Council also continues to identify a medium-term financial gap of £56m by 2027/28. Reserves are not sufficient to support the gap and emerging overspend in total and due to the significance of this matter, we have raised a key recommendation (replacing our prior year key recommendation) which has been accepted by Management. Although the Council's delivery of its savings target has improved since prior year (from 37% to 59%), its savings target for 2025/26 is ambitious at £16.190m – including £13.5m of newly identified savings required to balance the budget. This is significantly higher than actual savings achieved in prior years (£1.063m in 2024/25) and so adds to existing financial pressures and the weakness identified.

In setting its 2025/26 budget and MTFP, the Council has also undertaken a review of discretionary services, back office functions and income generation opportunities to achieve a balanced position. All services were requested to identify savings, Adult Services were able to identify the majority of these, seeking to address a particular area of challenge.



## Governance

The Council has refreshed its Risk Management Framework in the year and reviewed the format of its Strategic Risk Register, effectively addressing our prior year improvement recommendation.

Orbis continues to effectively support the Council through its regular Internal Audit updates and reviews. 61 reviews were delivered in year, although some have been deferred to 2025/26 to provide necessary resource to support the implementation of the Oracle System. No significant gaps in assurance have occurred as a result.

Budget setting and monitoring continues to be comprehensive, well-scrutinised and collaborative process at all levels of the organisation, and is a particular strength. The Council has also collaborated, and communicated, well externally with other local district Councils and the public to develop its proposal for Local Government Reorganisation, supported by detailed financial modelling, option appraisal and clear implementation road map.



# Executive Summary (continued)



## Improving economy, efficiency and effectiveness

The Council continues to effectively monitor non-financial performance alongside financial performance, in a fully integrated manner. This is kept under review with 6 new KPIs added within 2024/25, in order to continue to reflect the dynamic environment the Council operates in. At year end 73% of KPIs are green-rated.

Ofsted and the Care Quality Commission (CQC) undertook an Area SEND inspection of the East Sussex Local Partnership in November 2024, and identified the need to improve across four key themes. The Council worked quickly to develop an Improvement Plan, set up governance arrangements to monitor the plan and immediately start to progress the actions within the Plan.

Contract management arrangements were identified as an area for improvement in the prior year, arrangements continue to be devolved to individual services and lack central oversight. The Council plans to work with Orbis Procurement's Contract & Commercial Assurance Team to develop a strategy to address this, but as this has not yet taken place our prior year recommendation remains open. As part of Local Government Reorganisation, the Council plans to identify all contracts and assign Contract Managers and Senior Responsible Owners. To date the Council have also produced a new Contract Management Framework and Playbook, aligned with the Procurement Act, which will launch in Q3 2025.

The Council successfully implemented Phase 2 of the Oracle Programme, specifically the finance, procurement and recruitment modules, in April 2025. A specific Oracle Subgroup was set up to closely monitor progress and report to the Audit Committee. Positive progress was noted at each update from November 2025, up to the 'go-live' date. The Council expects to take learning from phase 2, to inform phase 3 which sees the implementation of Payroll and Expenses modules, followed by Annual Leave modules at a later date.

# Executive summary – auditor’s other responsibilities

This page summarises our opinion on the Council’s financial statements and sets out whether we have used any of the other powers available to us as the Council’s auditors.

Auditor’s responsibility	2024/25 outcome	
Opinion on the Financial Statements	<p>Our audit of your financial statements is currently in progress. From our work to date there are no issues which are likely to prevent us issuing an unqualified audit opinion, but note that work is ongoing (we will verbally update the Audit Committee at the meeting on 21 November 2025).</p> <p>We expect to issue our signed Audit Opinion on completion of the work and after reporting our Audit Findings Report to the Audit Committee meeting on the 13 February 2026.</p>	
Use of auditor’s powers	<p>We did not make any written statutory recommendations under Schedule 7 of the Local Audit and Accountability Act 2014.</p> <p>We did not make an application to the Court or issue any Advisory Notices under Section 28 of the Local Audit and Accountability Act 2014.</p> <p>We did not make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.</p> <p>We did not identify any issues that required us to issue a Public Interest Report (PIR) under Schedule 7 of the Local Audit and Accountability Act 2014.</p>	



# **03 Value for Money commentary on arrangements**

# Value for Money – commentary on arrangements

This page explains how we undertake the value for money assessment of arrangements and provide a commentary under three specified areas.

All Councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Council's report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The National Audit Office (NAO) Code of Audit Practice ('the Code'), requires us to assess arrangements under three areas:



## Financial sustainability

Arrangements for ensuring the Council can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).



## Governance

Arrangements for ensuring that the Council makes appropriate decisions in the right way. This includes arrangements for budget setting and budget management, risk management, and making decisions based on appropriate information.



## Improving economy, efficiency and effectiveness

Arrangements for improving the way the Council delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

# Financial sustainability – commentary on arrangements

G	No significant weaknesses or improvement recommendations.
A	No significant weaknesses, improvement recommendations made or unaddressed from prior year.
R	Significant weaknesses in arrangements identified and key recommendation(s) made.

We considered how the Council:	Commentary on arrangements	Rating
identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them	<p><b>General Fund</b> – Service budgets overspent against their 2024/25 budget by £21.9m, predominantly attributed to ongoing pressures in Children’s Services and Adult Social Care. The Council has taken several steps to manage the position such as introducing strict spending and recruitment controls, reprioritising spend, maintaining preventative approaches where they reduce demand for services and reviewing and reducing the capital programme to minimise the need for borrowing. Although the overspend has reduced compared to that of the prior year the Council does continue to demonstrate a track record of overspending. This continues in 2025/26, where at Q1 the Council is forecasting an overspend of £25.8m by year end, on service budgets, and £14.9m overall. The Council plans to mitigate this with the one-off use of reserves. The Council also continues to identify a medium-term financial gap of £56m by 2027/28. The Council’s level of earmarked reserves, both allocated and unallocated, at the start of 2025/26 is £63m, and therefore is not sufficient to support the Council’s emerging overspend position and medium term gap. Therefore, unless further mitigations are identified the Council’s reserves would be fully depleted before the end of the current Medium Term Financial Plan (MTFP) in 2026/27. We recognised a weakness in arrangements in 2023/24, and that weakness to continue to exist. Further details and the associated Key Recommendation (KR1) are on page 17-19.</p> <p><b>Dedicated Schools Grant (DSG)</b> – The Council has previously effectively managed the DSG budget, however for the first time in 2024/25 achieved an in-year deficit of £13m against a final allocation of £277m. Due to effective management in prior years, and surpluses built up, on a cumulative basis a breakeven position was achieved. The Council has engaged with the Department for Education to develop a Deficit Management Plan to address further forecast deficits in the medium-term. Given the deterioration in the position, year on year, we believe that reporting and monitoring of DSG could be improved by including in quarterly monitoring to increase transparency and awareness of the pressures. This has now been introduced for 2025/26.</p> <p><b>Cash</b> - The Council has sound cash management practices, evidenced by relatively stable cash and cash equivalents in the balance sheet since prior year, increasing from £27.5m to £27.9m. Separately, liquid short term investments of £98.4m have reduced by 48%, using this cash to fund the capital programme. This avoids the use of external borrowing and the associated cost of interest payments. Overall, despite reducing short term investments, the Council has 1.45 times more current assets than liabilities, and so is sufficiently liquid at the same time as limiting the impact of borrowing.</p>	R

# Financial sustainability – commentary on arrangements (continued)

## We considered how the Council:

## Commentary on arrangements

## Rating

plans to bridge its funding gaps and identify achievable savings

The savings target for 2024/25 was £1.8m, including those carried forward from the prior year. £1.063m of this target was achieved (59%) and the remaining £745k is to be achieved by rolling the schemes forward into 2025/26. In prior years the Council has used temporary funding to replace underachieved savings on a one-year basis, however this mechanism has not been used in 2024/25. The achievement of savings, against target, has improved since prior year when £664k was achieved (37% of the target).

Savings plans are developed annually as part of the budget setting process. For 2025/26 the balanced budget position includes new savings proposals of £13.5m, as well as the full year impact of savings delivered in 2024/25 of £2.7m and undelivered savings of £745k from 2024/25. This is a significant increase on both the target and achieved savings in prior years which raises concerns over deliverability of the target, and a factor in the risk to financial sustainability, recognised in our Key Recommendation (KR1). New savings impact on all departments, whereas in 2023/24 and 2024/25 the savings programme was limited to specific areas, Communities, Economy and Transport (CET) and Business Services Department (BED), so as to protect and invest in struggling services such as Children's and Adults Social Care. In the medium-term 55% of the savings programme will come from Adults Services, which is ambitious in an area of demand pressures.

R

plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

The Council has updated its Council Plan for 2025/26 and introduced this alongside the budget, to evidence alignment between the two. The overarching aims of the Plan are supported by individual objectives and delivery outcomes, translated into Performance Indicators, which are then measured through the Council's integrated Performance Reports. The Council has increased the 2025/26 budget by £55m, compared to prior year. Although the majority of this is attributed to inflation, there is £17m investment in Adult and Children's Social Care. Operations within these services are cross cutting across several priorities and delivery outcomes within the Plan.

In setting its 2025/26 budget and MTFP, the Council has also undertaken a review of discretionary services, back office functions and income generation opportunities to achieve a balanced position. All services were requested to identify savings, Adult Services were able to identify the majority of these. Therefore, seeking to address a particular area of financial challenge, for the Council, and nationally. We agree this area of focus is aligned to the Council's objectives as the service is performing below target in the Council's operational performance monitoring. This suggests that current resources are struggling to cope with demand at current levels, impacting service levels and quality. Reducing service provision in this area therefore aligns with the Council's objectives to ensure a quality service is provided.

G

Overall, there is a clear golden thread observed between the Council's strategic aims, non-financial performance targets and the budget.

# Financial sustainability – commentary on arrangements (continued)

We considered how the Council:	Commentary on arrangements	Rating
<p>ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning which may include working with other local public bodies as part of a wider system</p>	<p>The Council have undertaken a risk review of the Capital Programme during 2024, with the aim of minimising the level of borrowing required to fund the future programme, reducing pressure on the MTFP by an estimated £3.9m of borrowing costs over the period to 2027/28. Therefore, the interdependencies between capital and revenue are clearly understood. These savings have been achieved by removing several schemes from the Programme - 12 schemes totalling £50m over 3 years. No individual service, directorate or objective is impacted by the changes as the nature of the removed schemes is varied. Each scheme is moderate in value and not considered to be large scale. Projects related to key improvements or maintenance required to estate have not been removed in this process. The review was achieved via scrutiny from the Council’s Capital and Strategic Asset Board (CSAB), who undertook a RAG review of individual schemes within the Programme to establish the impact of removing or reducing schemes on the ability to meet statutory service requirements, basic need and Council objectives. Review of the Programme has taken place alongside review of the Capital Strategy, Council Plan and budget to ensure all continue to align. For 2024/25 the outturn position on the Capital Programme was net expenditure for the year of £87.0m, against a budget of £106.6m. This represents slippage of £19.6m (18%). Causal factors include challenges in resourcing, planning delays, supply chain issues and other unforeseen events.</p> <p>The Council continued to have in place a People Strategy 2024-27, a Climate Emergency Plan 2023-2025 and three complementary asset related strategies spanning 2020-25. Annual actions plans continue to be developed to support these and these plans are reflected in the budget and Capital Programme. As expected, a new Climate Emergency Plan has been developed which continues from where the last Plan ended in March 2025, to 2030. We would expect the asset related strategies to also be reviewed in 2025/26 and will review next year.</p>	<p>G</p>

# Financial sustainability – commentary on arrangements (continued)

We considered how the Council:	Commentary on arrangements	Rating
identifies and manages risk to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions in underlying plans	<p>The budget has a sound basis in data, trends, demographics and risk analysis. This is initially achieved via the State of the County report, which refreshes the MTFP in June 2024, and through additional budget planning updates introduced to Cabinet in September and November 2024. In reaching the annual and medium-term position the Council considers several scenarios to ensure that it is satisfied with the reliability of the budget and responds to the inherent uncertainty. These scenarios have been updated for emerging information, throughout the Cabinet reporting, before reaching a neutral scenario, approved in February 2025. Key factors explored in these scenarios were inflation, council tax, savings and social care funding. Ultimately through this process the Council has been able to produce a balanced budget for 2025/26. In reaching this position the Section 151 Officer has confirmed that consideration has been given to unforeseen issues that could arise during the year and ensuring that those risks can be managed. Key risks that have been considered are relevant to sector wide risks, as well as those specific to the Council’s circumstances, including social care pressures, Special Educational Needs and Disabilities (SEND), inflation, savings, uncertainties around government funding and environmental/climate factors.</p>	G



# Financial sustainability (continued)

## Significant weakness identified in relation to financial sustainability

**Key Finding:** Whilst the Council has taken and continues to take steps to manage its medium-term financial resilience, specifically focussing on making transformative changes within Children's Services, where the most significant pressures exist, there remain unidentified savings or actions to meet funding gaps in the MTFP. The Council's reserves balances are not sufficient to support the Council's current medium term gap and emerging 2025/26 overspend, as well as any further risks identified within the budget.

**Evidence:** See Table 1 where we have identified each factor causing us to identify a weakness in arrangements in the prior year, and assessed their relevance to 2024/25 and 2025/25 arrangements. Overall, we continue to recognise a weakness in arrangements and reiterate the need for action by the Council via a Key Recommendation. We acknowledge the Council's actions in relation to savings being made in Children's Services, an improvement in the overspend for 2024/25 (compared to prior year) and are aware that the Council have commissioned CIPFA to do a financial resilience review. As such the risk has not increased significantly since the prior year, although it continues to exist, and the Council is actively taking steps to manage the risk. Therefore although a weakness continues to be observed, it has not been escalated above a Key Recommendation. This will be kept under review as part of our 2025/26 work.

**Impact:** If the Council is not able to effectively manage demand to reduce costs, and deliver all planned savings, reserve levels will reduce to a level putting the medium-term financial sustainability of the Council at risk.

## Key recommendation 1

**KR1:** The Council should continue to seek to be financially sustainable in the medium to longer term by continuing to raise the challenges faced in all appropriate forums, including with MHCLG. Savings plans should continue to be developed, to identify savings, via efficiency, and/or changes in services, to ensure the cost profile of the Council is as lean as it can be, whilst providing the statutory services required. Conversations should continue, on suitable funding for demand led services alongside national local government reform, as being discussed at a national level.

# Financial sustainability (continued)

Table 1: Assessment of Financial Sustainability

Factor leading to weakness in 2023/24	Arrangements in 2024/25	Contributes to a weakness in 2024/25
Significant overspend against budget	Services achieved an overspend of £21.9m. We would consider overspends in excess of 5% of planned budget to be significant, this is 4.2%. It continues to be predominantly attributed to pressures in Children's Services and Adult Social Care. Although actions taken by the Council in 2024/25 are beginning to generate efficiencies. The newly opened Lansdowne Children's Home has produced a £650k underspend and the Council plans to expand this, an Early Intervention Strategy has been in place all year and is beginning to deliver outcomes (50-80%), the Valuing Care approach from IMPOWER consultancy work has been embedded across all children in the Council's care and has delivered £2.3m of savings to date and the Connected Families Intervention Programme has seen a reduction in Child Protection and Children in Need case numbers, resulting in £8.5m in cost avoidance.	Yes – although we acknowledge the work undertaken in Children's Services which has managed the overspend, compared to prior year
Track record of overspends over multiple years	Services overspend trend is 2022/23 £10.7m, 2023/24 £30.1m, 2024/25 £21.9m and Q1 2025/26 forecast £25.8m. Total Council overspend trend is 2022/23 £1.8m, 2023/24 £10.5m, 2024/25 £7.6m and Q1 2025/26 forecast £14.9m.	Yes - Although a reduction from prior year the Council is yet to demonstrate a consistent downward trend.
A significant increase in the overspend year on year	The services overspend has reduced compared to prior year by £8.2m, a reduction of 27%. Although, as noted above, the current 2025/26 forecast predicts an increase in the overspend for 2025/26.	As above
Unplanned use of reserves to mitigate overspend	The £21.9m services overspend in 2024/25 has been met from the Financial Management Reserve, £14.3m of this was planned within the budget, therefore unplanned usage is £7.6m. The 2025/26 budget requires the use of £11.4m of further reserves to balance the budget, as well as seeking to reduce service levels in some departments, including some non-statutory adult services.	Yes – continued unplanned use of reserves

# Financial sustainability (continued)

Table 1: Assessment of Financial Sustainability (continued)

Factor leading to weakness in 2023/24	Arrangements in 2024/25	Contributes to a weakness in 2024/25
Reliance on reserves to produce a balanced budget	Total Strategic, General Fund and Service Reserves at the start of 2025/26 are £63m. As noted, the Council requires the use of £11.4m to balance the 2025/26 budget, has estimated potential risks totalling £34.9m, as well as a medium term budget gap of £56m by 2027/28. The total exceeds the balance of available reserves, therefore if risks and the budget gap were unaddressed reserves would be eradicated before the end of 2026/27.	Yes – use of reserves to balance the budget is likely to divert service specific reserves away from the purpose they have been set aside for.
Budget risks emerging in next financial year	£34.9m of potential risks have been identified in the 2025/26 budget. At Q1 of 2025/26 the Council is forecasting a £25.8m overspend, suggesting risks are beginning to emerge, in addition to those provided for within the balanced budget,	Yes – emerging risks that if unmitigated at year end would be an additional call on reserves
Medium term deficit, limiting ability to replenish reserves	As noted above, the medium term gap, emerging risks and use of reserves in 2025/26 exceeds available reserves.	Yes – reserves not sufficient to support forecast medium term position
Insufficient savings identified to close medium-term gap	For 2025/26 the balanced budget position includes new savings proposals of £13.5m, as well as the full year impact of savings delivered in 2024/25 of £2.7m and £745k of undelivered savings from 2024/25. Therefore the total savings required in 2025/26 is 15 times more than that delivered in 2024/25, a substantial increase. Despite the ambitious savings target, this is not sufficient to close the 2025/26 budget gap and so £11.4m of reserves are still required to meet the balanced budget. Further savings are required to address the medium-term gap of £56m by 2027/28.	Yes – unidentified savings to support MTFP gap

# Governance – commentary on arrangements

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We considered how the Council:	Commentary on arrangements	Rating
monitors and assesses risk and how the Council gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud	<p>The Council has strong arrangements in place to monitor and assess risk and gain assurance over internal controls, including fraud prevention. It maintains a comprehensive Risk Management Framework, this was updated in October 2024 and therefore is suitably up to date. It clearly defines policy, strategy, roles, and processes with regards to risk. The Strategic Risk Register is maintained and reviewed quarterly by the Corporate Management Team (CMT), and reported publicly to Cabinet and Audit Committee, achieving transparency and accountability. The register effectively links risks to strategic objectives and proposes further actions where residual risks remain high. Of the 23 risks within the register, 13 are red-rated. These relate to common sector issues, as opposed to any specific control issues at the Council. Mitigating actions and controls for each of these risks are clearly documented and closely monitored. Our prior year recommendation, raised to encourage the Council to review the format of the Strategic Risk Register to achieve best practice has been effectively responded to and has been closed. See page 37 for further details.</p> <p>Internal Audit, delivered by Orbis, provides assurance across strategic and operational areas, with findings and follow-ups reported to the Audit Committee, quarterly. Internal Audit carried out 61 audits in 2024/25, although some audits were deferred due to the need to reallocate resources to support implementation of the new Oracle system. No critical reviews (based on risk) were deferred and appropriate coverage of risk and operations in the audits undertaken was observed. Deferred audit will be carried out on 2025/26 to ensure no gaps in assurance are experienced by the Council. Internal Audit uses action tracking and follow-up reviews to monitor progress of the Council against their recommendations. Eleven follow-up audits were completed in 2024/25, with all but one showing improved assurance. Internal Audit provided ‘substantial assurance’ that the Council has an adequate and effective framework of governance, risk management, and internal control for the 2024/25 year.</p> <p>Orbis also operates a proactive Counter Fraud Team, supported by a whistleblowing policy and staff training. Fraud investigations are reported quarterly. In 2024/25, the team investigated 27 allegations, with 7 cases taken forward for full investigation, and 3 still active at year-end. Investigations covered a range of issues including theft, false representation, multiple employment, conflict of interest, and unfair recruitment with timely responses including disciplinary action, prosecutions, and control improvements.</p>	G

# Governance – commentary on arrangements

## We considered how the Council:

## Commentary on arrangements

## Rating

approaches and carries out its annual budget setting process

The Council's budget setting process continues to be well established, embedded and understood, with few changes from the prior year. The process is known as the Reconciling Policy, Performance and Resources (RPPR) process, and is an integrated business and financial planning cycle. It begins with the State of the County report, which was presented to Cabinet in June 2024 for the 2025/26 planning round. This updates and extends the MTFP, based on the emerging financial position, trend, demographic and financial analysis.

In prior years Finance, Members and Departments have then worked collaboratively to build the annual budget, using the State of the County report and the prior year budget as its foundation, reporting a draft budget in January. However, as part of the 2025/26 budget setting process the Council made an active decision to increase the level of reporting to Cabinet, updating the position in both November and September 2024. In addition, more frequent reporting to Corporate Management Team (CMT) on emerging savings, reserves and MTFP position has taken place. These reports are outside of the usual RPPR cycle due to the Council acknowledging that, since the June 2024 State of The County Report and 2024/25 budget, the Council's financial position has deteriorated, therefore providing closer monitoring.

The process continues to be collaborative, Council-wide process. As well as well as Finance, Service and Cabinet Members, we continue to observe input from the Scrutiny Committees, partners, young people, Trades Unions, business ratepayers and wider public consultation. Stakeholder engagement is comprehensive.

G

ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information; supports its statutory financial reporting; and ensures corrective action is taken where needed, including in relation to significant partnerships

The Council continues to follow a well-established budget monitoring process, whereby a fully integrated report on financial, non-financial, treasury, capital and risk performance is reviewed monthly by Department Leadership Teams (DLTs) and quarterly by CMT and Cabinet. Narrative on the reasons for financial performance, at directorate level, is comprehensive and clearly articulates the impact of current performance on the year end forecast outturn. We have acknowledged in prior years that due to the integrated nature of the reporting and detailed level of narrative, that Members could become overwhelmed by the information. However, we continue to observe that Member discussion is focussed on the key issues, with time spent discussing key risks such as financial position, and therefore is appropriate engagement. From Quarter 3, the Council revised its reporting in light of these observations, and separate reports (although still integrated) are presented for each department. This revision has strengthened arrangements, making the information easier to digest whilst ensuring transparency is retained.

G

# Governance – commentary on arrangements (continued)

We considered how the Council:	Commentary on arrangements	Rating
<p>ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency, including from audit committee</p>	<p>The Council ensures informed decision-making through structured governance, clear documentation, and active oversight. Cabinet papers are detailed and transparent, with decision items clearly marked and supported by financial, risk, and policy considerations for each agenda item. Overview and Scrutiny Committees (People, Place, and Health) engage early in the decision-making process, using access to the Cabinet’s Forward Plan and officer support to challenge and shape decisions.</p> <p>The Audit Committee Annual Report found that the Committee was effective in its role during 2024/25, demonstrating good governance, strategic oversight, and consistent challenge. The Committee maintained stable membership, proactively scheduled meetings, and supported the Oracle Subgroup in overseeing a major system implementation. Members received targeted training, enabling informed scrutiny, and the Committee operated with a clear forward work programme.</p> <p>The Council has effectively collaborated with five local district Council’s to develop the proposed governance model for "One East Sussex", which proposes to implement the Government’s Local Government Reorganisation agenda via a single unitary Council model for East Sussex. There is a shared vision across all six councils, is rooted in the principles of financial sustainability, service integration, and community empowerment. The proposals are supported by public consultation, staff engagement, options appraisal, detailed financial modelling and a clear phased implementation plan. Current decision making at the Council continues to concentrate on the medium term and delivering its ‘Best Value Duty’ to residents. The business case explicitly seeks to minimise disruption during restructuring, under a Continuing Authority model, that transfers only district and borough staff while retaining the County Council’s larger workforce until a new organisation is in place. This approach is designed to streamline the transition and avoid the high costs and risks associated with disaggregating services. Due to the timing of the proposals our work has not focussed on the effectiveness of the model as this has yet to be agreed by Government.</p>	G
<p>monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and board member behaviour</p>	<p>The Council actively monitors and enforces compliance with legislative and regulatory standards, including ethical behaviour among staff and elected members. The Monitoring Officer and Chief Finance Officer oversee legal compliance, supported by updated policies and mandatory training. The Standards Committee manages member conduct and complaints, while registers of interests, gifts, and hospitality are maintained and audited by Internal Audit. Procurement and commissioning activities follow revised Contract Standing Orders aligned with the Procurement Act 2023, with oversight from statutory officers and the Audit Committee.</p>	G

# Improving economy, efficiency and effectiveness – commentary on arrangements

We considered how the Council:	Commentary on arrangements	Rating
uses financial and performance information to assess performance to identify areas for improvement	<p>As noted under Financial Sustainability, the Council continues to monitor performance through a fully integrated quarterly report to Cabinet which covers financial, non-financial, treasury, capital and risk performance. From Q3 onwards the reporting has been updated to provide a separate report for each Directorate, strengthening accessibility of the information. Overall, performance monitoring continues to be comprehensive, well integrated into wider performance measures, fit for purpose and well discussed.</p> <p>Reporting is kept under review and strengthened as required, in 2024/25 this has been evidenced by an increase in the number of Key Performance Indicators (KPIs) increasing from 54 at the start of the year, to 60 at year end. The additions made to ensure that reporting continues to reflect the operating environment of the Council. At year end 43 (73%) of KPIs are green-rated and have been achieved, therefore overall operational performance is positive.</p>	G
evaluates the services it provides to assess performance and identify areas for improvement	<p>Ofsted and the Care Quality Commission (CQC) undertook an Area SEND inspection of the East Sussex Local Partnership (ESCC and NHS Sussex Integrated Care Board) in November 2024. The report identified that the partnership’s arrangements lead to inconsistent experiences and outcomes for children and young people with special educational needs and/or disabilities (SEND) and made recommendations across four themes which the Local Area Partnership must work jointly to improve. The Council welcomed the findings and has taken immediate actions to respond by updating and extending the existing East Sussex SEND Strategy, including an Improvement Plan, to reflect the findings. This now runs until 2026, at which point the Partnership will develop a new Strategy.</p> <p>The Improvement Plan is being monitored through the SEND Strategy Implementation Group (SSIG) which reports directly to the SEND Governance Board. Each of the four areas for improvement are overseen by leads across the Children’s Services Department and the Integrated Care Board (ICB), who are responsible for providing an update on the actions to SIIG. The Improvement Plan was finalised in April 2025 and, to date, all actions have been, or are, on track to be completed within the agreed timescales. The Local Authority and ICB met with the DfE and NHS in October 2025 to formally review the progress made.</p>	G



# Improving economy, efficiency and effectiveness – commentary on arrangements (continued)

We considered how the Council:		Commentary on arrangements	Rating
Page 32	ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives	The Council works with a wide range of partners across public, private, and voluntary, community and social enterprise sectors. Key public sector partners include NHS organisations, Police, Fire Service, and local district and borough councils. A central partnership register is maintained as part of the corporate Reconciling Policy, Performance and Resources business planning process, while individual departments maintain their own registers for engagement purposes. Engagement is tailored to local needs through a place-based approach. While there is no single overarching protocol for this, formal agreements are in place for individual partners and a joint protocol exists between major partnership bodies. Strategy documents and formal work plans are in place which set out how partnerships will deliver joint objectives, specific examples include the Health and Wellbeing Board’s Shared Delivery Plan, which was last reviewed in March 2025, and the Children and Young People’s Plan. Performance monitoring of partnerships is embedded into the Council’s existing reporting structures, with Cabinet and Scrutiny Committees playing a key role. Key partnership activities are included in quarterly Council Monitoring Reports submitted to Cabinet, as well as regular informal briefings being received. Many Cabinet Members serve as chairs or representatives within partnership bodies providing the opportunity to feedback to the Council.	G
	commissions or procures services, assessing whether it is realising the expected benefits	While strategic contracts are recorded and classified in Oracle, contract management remains devolved to individual services, limiting corporate oversight. As part of Local Government Reorganisation, the Council is identifying all contracts and assigning Contract Managers and Senior Responsible Owners. A new Contract Management Framework and Playbook, aligned with the Procurement Act, will launch in Q3 2025. However, as a corporate view of contract performance is not yet in place, our prior year improvement recommendation remains open (see page 38 for further details). The Council has not entered into significant commercial ventures but has focused on improving the value of its two non-core office investments. Any major property transactions require formal Lead Member approval, supported by reports assessing risks and financial implications, ensuring appropriate governance and expert input. For large capital projects, the Council has established monthly departmental monitoring and quarterly corporate reporting, with oversight from the Capital and Strategic Asset Board and sub-boards for key projects. Reports track overspends, slippage, and grant compliance. The Council continues to use the Orbis Procurement Shared Service to flexibly deploy procurement staff, leverages external frameworks and enters into joint contracts, as required, to maximise value.	A



# Improving economy, efficiency and effectiveness – commentary on arrangements (continued)

We considered how the Council:	Commentary on arrangements	Rating
(continued)	<p>The Council achieved its planned ‘go-live’ date for completion of phase 2 of the Oracle Implementation Programme in April 2025. The Oracle Implementation Programme was established by the County Council in 2019 to replace the Council’s existing Enterprise Resource Planning (ERP) software, SAP, the vision for Oracle is ‘to implement a suite of back-office systems that best meet the current and future needs of the Council and which provides optimal return on investment’. Phase 2 represents a key milestone, implementing Finance, Procurement and Recruitment modules. The Council intensified its monitoring arrangements for the programme in 2024/25, to reflect the impending implementation date. The Audit Committee, at its meeting in September 2021, approved the establishment of a Subgroup to provide oversight of progress with the Oracle implementation programme, seeking assurance that the programme is performing adequately. The group met monthly from November 2024, and fed back to the Audit Committee at each meeting. In each of the meetings the delivery plan, progress and key risks of the Oracle Programme were discussed. Positive progress towards the ‘go-live’ date was observed at each meeting. Post implementation, users are being supported by a suite of training modules, in application guidance and day to day support from Oracle Business Partners. The Council plan to take forwards learning from the implementation phase, and processes embed, from phase 2 into phase 3 (which will see implementation of Payroll and Expenses modules, with the Annual Leave module at a later phase). The Council effectively planned for the implementation over an extended period, successfully achieving the target implementation date. The ‘amber’ rating of this section, is therefore not attributed to arrangements in relation to this project. We will keep a watching brief as the Programme embeds in 2025/26.</p>	

# Pension Fund

The Council is the administering authority for the East Sussex Pension Fund. As part of our VfM work we are required to consider the Council’s arrangements in respect of the Pension Fund.


We considered the Pension Fund’s:

Commentary on arrangements

Rating

Financial Sustainability: sufficiency of funds to meet liabilities	<p>The Pension Fund is revalued every three years by an independent actuary, to assess future liabilities and set employers’ contribution rates. The most recent formal valuation, as at 31 March 2022, assessed the whole Pension Fund as being 123% funded. This is a strong position whereby the Fund is estimated to be able to meet its pension liabilities with its available assets. As of 31 March 2025, a funding update was provided by the fund's actuaries which assessed the Pension Fund as being 123.9% funded. A full valuation will be conducted in 2025, and finalised by March 2026, but based on current early estimates the Fund would continue to be in a similarly strong position.</p>	G
Governance: appropriateness of governance arrangements	<p>The Fund’s governance arrangements consist of a Pension Committee and Pension Board. The Pension Committee has delegated responsibility to manage the pension fund and is the decision-making body and they support the Pension Board in their role to ensure compliance with LGPS regulations and legislation and to ensure the effective and efficient governance and administration of the Fund. The two have met sufficiently regularly, quarterly, in 2024/25. Standing agenda items and ad hoc reports cover a range of issues in relation to risk, performance and compliance.</p> <p>Although the Fund have ‘red-rated’ performance of the Administration Team against its KPI target, as the target is set at 100%, the team has achieved a high level of compliance, at between 77.8% to 91.2% achievement in the 2024/25 year. Risks are appropriately mitigated or managed, and this is clearly articulated through the Pension Fund risk register which is presented quarterly at the Pension Committee and Board. In addition, a detailed risk register workshop was undertaken in March 2025, where a full detailed review of the risk register was carried out.</p> <p>The Government published its ‘Fit for Future’ consultation response in May 2025. This confirmed that Funds should have all their assets under pool management by 31 March 2026. However, two existing pension pools, Brunel and Access, were not accepted by the Pensions Minister as the business cases was not deemed to meet the Government’s objectives set out in the consultation . East Sussex, at this stage was a member of the Access pool. The Fund has worked to undertake due diligence work, consider its options of an alternative pool, effectively update members throughout the decision making process and transparently report in the Pension Fund accounts. This has culminated in East Sussex Pension Fund agreeing to join the Border to Coast Pension Partnership Pool in August 2025, ahead of the September 2025 deadline for committing to a pool, and one which meets the Government requirements. The Fund will now work to transfer its assets within the 2025/26 year.</p>	

# Pension Fund (continued)

 Grant Thornton insight

**Strengthening Savings Delivery** - We recommended in the prior year that the Council should review the format of the Pension Fund risk register to include a target risk score for each risk, a responsible individual for each risk and information on the impact vs likelihood score for each risk. The register now includes a responsible individual. The risk register has other compensating information which means it is fit for purpose, this includes trend data/direction of travel and score before and after mitigating actions. But the opportunity remains to review the format of the register for further useful information to decision makers

We considered the Pension Fund's:		Commentary on arrangements	Rating
Improving Economy, Efficiency and Effectiveness: annual report findings		<p>We considered arrangements for implementing some key work streams and the impact on the Fund Administration teams. For 2024/25 these include:</p> <ul style="list-style-type: none"><li>• <b>implementing the McCloud remedy</b> - implementation requires lots of complex calculations so could potentially impact heavily on administration teams. The Pension Committee receive regular Administration Updates which include details of McCloud progress. At the start of 2025/26 data collection for all active employers was complete and uploaded to the test system, however final data validation has unearthed several new issues which were being investigated. Once resolved, the data will be moved into the live system. The Fund considers itself on track to implement the McCloud remedy with underpinning calculations, where the data is loaded into the live system, to be included in the 2025 Annual Benefit Statements.</li></ul>	G
		<ul style="list-style-type: none"><li>• <b>preparing for the Pension Dashboard</b> - The Department for Work and Pensions (DWP) have designed an online platform (Pension Dashboard), public sector schemes are required to be connected by October 2025 per the guidance provided, with a statutory deadline of 31 October 2026. a project plan has been created, with a 2-phase approach drafted and training scheduled. The deadline is made clear in the Administration Updates to members, with further updates planned. Reporting at this stage suggests the Fund is on track to meet the deadline.</li></ul>	
		<ul style="list-style-type: none"><li>• <b>preparing and maintaining a Funding Strategy Statement</b> - In January 2025 the SAB, CIPFA and MHCLG produced “Guidance for Preparing and maintaining a Funding Strategy Statement (FSS)”. The Fund has worked closely with the fund actuary, Barnett Waddingham, to produce a draft Funding Strategy Statement (FSS) which is compliant with this guidance. The draft FSS was presented to the Pension Committee at its meeting on 25th September 2025. Subsequently, the Fund began a consultation period over the autumn, with scheme employers, with a view to having a final version of the FSS approved in the new year at a meeting of the pension committee on 26th February 2026. Once approved the Fund will publish the document on the Fund website.</li></ul>	

# **04 Summary of Value for Money Recommendations raised in 2024/25**

# Key recommendations raised in 2024/25

Recommendation		Relates to	Management Actions
KR1	The Council should continue to seek to be financially sustainable in the medium to longer term by continuing to raise the challenges faced in all appropriate forums, including with MHCLG. Savings plans should continue to be developed, to identify savings, via efficiency, and/or changes in services, to ensure the cost profile of the Council is as a lean as it can be, whilst providing the statutory services required. Conversations should continue, on suitable funding for demand led services alongside national local government reform, as being discussed at a national level.	Financial sustainability	<p>Actions: As part of the Reconciling Policy, Performance and Resources (RPPR) process, all efforts will be made to set a balanced budget, and seek longer term financial stability. Engagement with MHCLG will continue, together with lobbying MPs and through CCN, the LGA and South East 7.</p> <p>Responsible Officer: Chief Finance Officer</p> <p>Due Date: Work underway and due to be completed when the budget is set 10 February 2026.</p>

# **05 Follow up of previous Key recommendations**

# Follow up of 2023/24 Key recommendations

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Prior Recommendation		Raised	Progress	Current status	Further action
KR1	The Council should continue to seek to be financially sustainable in the medium to longer term by continuing to raise the challenges faced in all appropriate forums, including with MHCLG. Savings plans should continue to be developed, to identify savings, via efficiency, and/or changes in services, to ensure the cost profile of the Council is as a lean as it can be, whilst providing the statutory services required. Conversations should continue, on suitable funding for demand led services alongside national local government reform, as being discussed at a national level.	2023/24	Pages 18-19 (Table 1) where we follow up each finding from 2023/24, which led to the recommendation being raised. Overall, this analysis shows that we continue to recognise a weakness in arrangements and reiterate the need for action by the Council via a new Key Recommendation. We acknowledge the Council’s actions in relation to savings being made in Children’s Services, an improvement in the overspend for 2024/25 (compared to prior year) and are aware that the Council have commissioned CIPFA to do a financial resilience review. As such the risk has not increased significantly since the prior year, although it continues to exist, and the Council is actively taking steps to manage the risk. Therefore, although a weakness continues to be observed, it has not been escalated above a Key Recommendation.	Some limited improvement noted.	Prior year Key Recommendation replaced and superseded by KR1 raised on page 17.

# 06 Appendices

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# Appendix A: Responsibilities of the Council

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.

The Council's Chief Finance Officer is responsible for preparing the financial statements and for being satisfied that they give a true and fair view, and for such internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Finance Officer is required to comply with CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom. In preparing the financial statements, the Chief Finance Officer is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.



# Appendix B: Value for Money Auditor responsibilities

Our work is risk-based and focused on providing a commentary assessment of the Council’s Value for Money arrangements

## Phase 1 – Planning and initial risk assessment


As part of our planning, we assess our knowledge of the Council’s arrangements and whether we consider there are any indications of risks of significant weakness. This is done against each of the reporting criteria and continues throughout the reporting period.

## Phase 2 – Additional risk-based procedures and evaluation

Where we identify risks of significant weakness in arrangements, we will undertake further work to understand whether there are significant weaknesses. We use auditor’s professional judgement in assessing whether there is a significant weakness in arrangements and ensure that we consider any further guidance issued by the NAO.

## Phase 3 – Reporting our commentary and recommendations

The Code requires us to provide a commentary on your arrangements which is detailed within this report. Where we identify weaknesses in arrangements we raise recommendations.

**A range of different recommendations can be raised by the Council’s auditors as follows:**

**Statutory recommendations** – recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.

**Key recommendations** – the actions which should be taken by the Council where significant weaknesses are identified within arrangements.

**Improvement recommendations** – actions which are not a result of us identifying significant weaknesses in the Council’s arrangements, but which if not addressed could increase the risk of a significant weakness in the future.

## Information that informs our ongoing risk assessment

Cumulative knowledge of arrangements from the prior year	Key performance and risk management information reported to the Executive or full Council
Interviews and discussions with key stakeholders	External review such as by the LGA, CIPFA, or Local Government Ombudsman
Progress with implementing recommendations	Regulatory inspections such as from Ofsted and CQC
Findings from our opinion audit	Annual Governance Statement including the Head of Internal Audit annual opinion

# Appendix C: Follow up of 2023/24 improvement recommendations

Prior Recommendation		Raised	Progress	Current position	Further action
IR1	The Council should review the format of both the Council, and Pension Fund, risk register to ensure that the best practice is achieved in the information it presents to decision makers, notably including a clear link to objectives within the Council Plan, target risk score for each risk, a responsible individual for each risk and information on the impact vs likelihood score for each risk, consistently in the two registers.	2023/24	The Council's updated Risk Management Framework (October 2024) outlines a structured approach that ensures risks are clearly linked to strategic objectives through the business planning cycle. Risks are assessed using a consistent scoring system based on impact and likelihood, with scores categorised into low, medium, or high levels. Each risk is assigned a risk owner, and mitigation strategies are applied and reviewed quarterly. The Council Strategic Risk Register includes all key elements recommended—objective alignment, target risk scores, responsible individuals, and consistent scoring—demonstrating that best practice has been achieved. The Pension Fund register has been updated to include a risk owner, with the opportunity to include additional information still present. We have included this as an 'insight' on page 28 ,as compensating information is included in the register, which ensures it is fit for purpose. This replaces the recommendation.	Recommendation implemented and closed	No
IR2	The Council should seek to strengthen contract management by ensuring arrangements are in place to monitor the performance of individual contracts centrally, to provide a Council-wide picture of performance and take action accordingly.	2023/24	Work to address the recommendation remains in progress. The Council aims to identify all contracts, along with the associated Contract Manager and the Senior Responsible Owner, as part of LGR preparations. The management of contracts is not centralised and remains the responsibility of the individual services to monitor and manage. As this responsibility is devolved to the service, there is currently no corporate view of contract performance. The Council plans to work with Orbis Procurement's Contract & Commercial Assurance team to develop a strategy to address this.	Actions to respond remain in progress	To follow up progress in 2025/26

# Appendix C: Follow up of 2023/24 improvement recommendations

Prior Recommendation		Raised	Progress	Current position	Further action
IR3	The Council should consider implementing a longer MTFP horizon (e.g., 5 years) to improve visibility to members and the public on how the impact of the large in year funding deficit currently projected for 2025/26 could be mitigated over multiple years. This could be used to highlight the Council’s expectations for the path of funding and cost pressures in key areas such as social care.	2022/23	<p>The MTFP covers 2025/26 to 2027/28 inclusive, this is a 3 year planning horizon, but includes 2025/26 which is the current budget base year. As such the medium term outlook continues to be a 2 year basis. Given the proposed reforms to local government (with 2028/29 – ‘year 4’ of an MTFP – expected to be the first year of the establishment of new unitary authorities), and the first multi-year finance settlement not due until November 2025, The Council do not feel there is merit in extending the planning horizon of the MTFP for 2025/26 budget setting. The Council will review this following the government’s spending review during 2025 and decisions relating to local reforms. Therefore this recommendation remains open and is unaddressed.</p> <p>We do note that reserves, are planned for on a longer basis, until the end of 2028/29, and therefore reflect the expected medium term horizon. This demonstrates that the Council have the underlying information for the time frame but present a more limited picture to Members due to the inherent uncertainty. As reserves are a key measure of financial sustainability this medium term analysis goes some way to provide the required assurances to Members and so does not present a weakness in arrangements.</p>	Actions to respond remain in progress	To follow up progress in 2025/26



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**Report to:** Audit Committee

**Date of meeting:** 21 November 2025

**By:** Chief Operating Officer

**Title:** Audit Committee Oracle Subgroup Update

**Purpose:** To provide an update to the Audit Committee of the Oracle Subgroup's most recent activity

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## **RECOMMENDATION:**

**The Audit Committee is recommended to note that the Committee's Oracle Subgroup has regularly reviewed the Council's Oracle Implementation programme.**

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### **1 Background**

- 1.1 The Committee at its meeting in September 2021 approved the establishment of a Subgroup to provide oversight of progress with the Oracle implementation programme, seeking assurance that the programme is performing adequately.
- 1.2 The Oracle Implementation Programme was established by the County Council in 2019. Prompted by the expected expiry of support for the Council's existing Enterprise Resource Planning (ERP) software, SAP, the vision for Oracle is 'to implement a suite of back-office systems that best meet the current and future needs of the Council and which provides optimal return on investment'.

### **2 Supporting information**

#### Work of the Subgroup

- 2.1 Since the last update to the Audit Committee on 7 July 2025, Phase 2 of the Oracle implementation (Finance, Procurement and Recruitment) has successfully exited its period of hypercare as planned and is now being used effectively as part of business as usual.
- 2.2 Since 7 July 2025, the Subgroup met on 11 September 2025 and a summary of the minutes is included in Appendix A. The information presented to the Subgroup is included in Appendix B.
- 2.3 At this meeting the Subgroup recognised the positive progress made, and that the programme had successfully undertaken a series of 'firsts' such as a direct debit run, a payment run, a month end, a quarter end and a quarterly Oracle update cycle. It also noted that Phase 2 related activity continues in order to now get the best use out of the system.
- 2.4 The Subgroup also discussed the scope, approach and key challenges to Phase 3 (payroll) and received a progress update on this phase, which has now moved into its testing period.

### **3. Conclusion and reasons for recommendations**

- 3.1 The Committee is recommended to note that the Committee's Oracle Subgroup has reviewed the Council's Oracle programme to its satisfaction and continues to receive regular updates.

**ROS PARKER**

**Chief Operating Officer**

Contact Officers: John Davidson, Oracle Delivery Lead, Tel: 07534 699102

Email: [john.davidson@eastsussex.gov.uk](mailto:john.davidson@eastsussex.gov.uk)

**BACKGROUND DOCUMENTS:**

None



**ATTENDEES:**

Councillor Colin Swansborough  
Councillor Gerard Fox  
Councillor Matthew Beaver  
Councillor Philip Lunn

**OFFICERS IN ATTENDANCE:**

Ros Parker, Chief Operating Officer  
Ian Gutsell, Chief Finance Officer  
Mark Winton, Audit Manager - Delivery  
Sophie Webb, Governance and Democracy Manager

**APOLOGIES:**

John Davidson, Oracle Programme Lead

**1. VERBAL UPDATE from Chief Operating Officer**

1.1 RP updated the subgroup that since the last meeting, Phase 1 has seen many modules now live, budgeting is currently being built and demoed to be in place in time for the 2026/27 budgeting cycle.

1.2 RP highlighted a series of 'firsts' within Phase 2 such as a direct debit run, payment run, month end, quarter end and quarterly system update from Oracle.

1.3 RP informed the subgroup that following the end of the period of Hypercare, training has continued to be rolled out to a variety of users and the information available through Oracle Guided Learning has been expanded.

1.4 RP informed the subgroup that date options for Phase 3 go-live are being explored having regard to timings for Local Government Reorganisation and school term times.

1.5 RP highlighted that in terms of organisational readiness, although Phase 3 will affect all staff, most staff will only interact via accessing their payslip and claiming expenses.

1.6 IG gave the subgroup assurance that Finance Teams have moved out of hypercare and are successfully using Oracle on a day-to-day basis.

1.7 MW noted that Internal Audit are in the process of planning Internal Audit work to be undertaken pre-Phase 3 go-live.

## **2. DISCUSSION**

2.1 The Subgroup discussed the following points:

- The challenges surrounding payroll migration and how to support staff through changes
- User confidence in Oracle

# Oracle Implementation Update

Audit Committee Sub-Group

11 September 2025

# Contents

- Phase 1 programme update
- Phase 2 programme update
  - Update since last meeting
  - Hypercare and current position
- Phase 3 route to go live

# Programme delivery principles

Oracle is currently being implemented based on a phased roll out of functionality as follows:

- Phase 1 EPM (Enterprise Performance Management) – further split into multiple small roll outs. c. 125 staff affected
- Phase 2 Finance (with dependant HR processes), Procurement, Recruitment and Helpdesk modules. c. 1,500 staff affected
- Phase 3 Payroll and all remaining HR processes. c. 10,000 staff affected

And to take an 'adopt not adapt' approach

# Phase 1 – EPM

- The EPM (Workforce Planning and Revenue Monitoring) phase only affects c. 125 users, contained largely within the Finance team. The first module successfully went live in September 2024.
- Since then, many modules for EPM are now live, and have been well received by the finance team such as revenue monitoring, capital monitoring and virements.
- Budgeting is currently being built and demoed and is on track to be in place in time for the 2026/27 budgeting cycle.
- Lessons learned from Phase 1 were fed into Phase 2.

# Phase 2

- Phase 2 (Finance, Procurement, Helpdesk and Recruitment) successfully went live as planned on 17 April 2025.
- Update since the May Sub-Group meeting is as follows:
  - The programme has successfully undertaken a series of 'firsts' such as a direct debit run, a payment run, a month end, a quarter end and a quarterly Oracle update cycle.
  - Whilst there have been inevitable issues, volumes have been significantly lower than other implementations and the support model has responded to them
  - In the Hypercare period there was an average of 17 incidents logged per day and this has fallen to fewer than 10 incidents per day since Hypercare, as the system stabilised
  - The programme has continued to roll out training to a variety of users and has expanded out the information available through Oracle Guided Learning (OGL). User take up has been positive.
  - Internal audit are reviewing work on the control environment relating to phase 2, this includes around permissions applied to users and the processes operating around integrations. Internal audit have found that progress is being made in these areas. The outcome of this work will be reported to Audit Committee in the usual way.
  - Grant Thornton have commenced a review of Phase 2 delivery and the IT General Controls within Oracle

# Phase 2 - Hypercare

- Hypercare is the period post go-live where enhanced support is in place for staff and is effectively a 'warranty period' for the technical build by our implementation partner, Infosys. On exiting Hypercare the Council takes over responsibility for the build.
- The programme successfully exited Hypercare, with CMT approval, on 9 July 2025, as the following criteria had been met:
  - Key documentation such as configuration workbooks, design documents and access management documents were in place
  - Handover sessions had been undertaken
  - Urgent changes and issues with the system had been resolved
  - All pre go live defects had been resolved



# Phase 2 – Current position

- As a result, the programme (for this phase) has now moved into business as usual (BAU) with ownership of the system residing within the support model team and the functional teams (finance, recruitment and procurement)
- Activity still continues, such as:
  - Review of support model team and necessary capacity
  - Managing quarterly update cycles
  - Review of Oracle licences
  - Keeping training materials, process documentation and OGL up to date
  - Moving from 'individual based' permissions to 'role based' permissions
  - Internal audit as part of BAU
  - External audit as part of BAU
  - Lessons learned exercise to feed into phase 3
  - Considering how to get the best use out of the system such as through the use of its inbuilt AI
  - Programme governance remains in place such as regular workstream board meetings, programme board meetings, sponsor meetings, internal audit and CMT updates as required

# Phase 3

- Scope of Phase 3 includes:
  - Payroll
  - Employee self-service
  - Manager self-service

# Phase 3 Principles

- Same principles will apply as the most cost-effective approach:
  - Adopt not Adapt where possible.
  - Targeting the earliest achievable date – dates are currently being considered for 2026 but will need to bear in mind the organisational context, including LGR, and school term times
  - Focusing on activity critical to go-live with non-critical activity being deferred until after go-live.
  - Delivery elements - Technical implementation; Organisational readiness; Support model; Governance/internal audit. Building out from complementary Phase 2 activity.
  - Feeding in lessons learned from Phases 1 and 2.

# Phase 3

- Phase 3 is harder than phase 2 from a technical build perspective, needs to be very accurate (to the nearest £1) and has a higher reputational impact if there are issues.
- More challenging, higher stakes, more people affected (i.e. all staff) in a more sensitive area (people's pay)
- Impact on users beyond the HR team is less complex – limited to claiming/approving expenses, claiming/approving overtime and keeping personal information and working hours etc up to date
- Whilst the four core delivery elements of i) technical delivery ii) organisational readiness iii) governance and iv) support model remain, the weighting of programme activity is therefore more on technical delivery
- iii) and iv) are already in place and are to be carried forward from phase 2 and built upon where required

# Key stages for Phase 3

- Complete the build design specification including completion of change controls
- Schools' scope and design specification – to align to ESCC as far as possible
- Data Migration (DM)
- User Acceptance Testing (UAT)
- Data Migration for Parallel Payroll Running (PPR)
- PPR – comparison of SAP vs Oracle payroll calculations (minimum 2 monthly payroll comparison)
- Cut over
- Go live
- Hypercare – 3 months

# Key stages for Phase 3

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- Schools' scope and design specification – to align to ESCC
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- PPR – comparison of SAP vs Oracle payroll calculations (minimum 2 monthly payroll comparison)
- Cut over
- Go live
- Hypercare – 3 months



# Phase 3 Progress Update

## Technical delivery

- Programme delivery principles have been agreed mainly to adopt and not adapt the solution and are being actively used to set an achievable target go live date
- Have just completed Data Migration 10 and due to enter UAT on 10 September
- The timing of the exit of UAT is key to being able to assess a feasible go live date. This is because there are several factors that impact on the length of UAT where there are choices around speed vs quality/risk such as:
  - Number of tests undertaken (i.e. breadth of coverage)
  - Who undertakes the test (greater assurance over quality if programme members do them vs quicker if external resource is brought in)
  - How many tests identify issues which then need to be resolved and re-tested
  - Level of resource available from our implementation partner, Infosys, to be able to resolve the issues quickly and back to testers

# Phase 3 Progress Update

## Organisational readiness

- Undertaking Change Impact Assessments and a matrix of which teams/cohorts of staff will need to understand which changes in process
- Building up a persona based approach to 'training' organisational users
- Unlikely to be traditional training but instead focused on specific processes tailored to each persona, and delivered in bitesize learnings e.g. a video showing how to claim expenses
- Comms and engagement plan to follow but will build from phase 2, feeding in lessons learned



**Report to:** Audit Committee

**Date:** 21 November 2025

**By:** Chief Operating Officer

**Title of report:** Internal Audit Progress Report – Quarter 2 (01/07/25 – 30/09/25)

**Purpose of report:** To provide the Audit Committee with an update on all internal audit and counter fraud activity completed during the quarter, including a summary of all key findings. To also provide an update on the performance of the internal audit service during the period.

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**RECOMMENDATIONS:** Audit Committee is recommended to note the report and consider any further action required in response to the issues raised.

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## 1. Background

1.1 This progress report covers work completed between 1 July 2025 and 30 September 2025.

## 2. Supporting Information

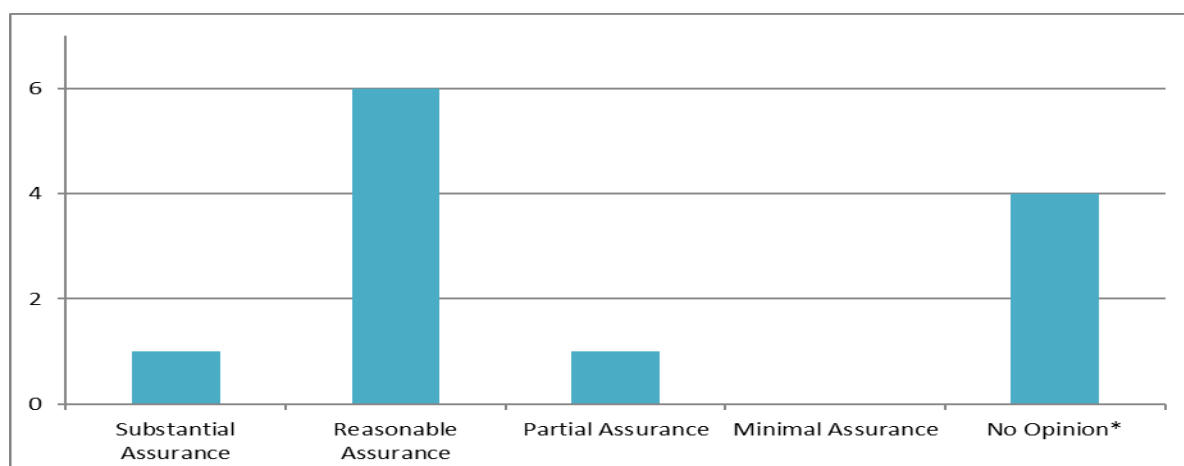
2.1 The current annual plan for internal audit is contained within the Internal Audit Strategy and Annual Plan 2025-26 which was approved by Audit Committee on 28 March 2025.

## 3. Conclusion and Recommendations

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

3.2 Overall, of the 8 audits finalised during the quarter in which a formal audit opinion was given, 1 received an audit opinion of 'substantial assurance', 6 received 'reasonable assurance' opinions, and there was 1 partial assurance opinion, relating to a school. There were no minimal assurance opinions.

Graph to show assurance levels of formal audits completed in Quarter 2



\*No opinion – typically, this tends to be proactive advice and support activity where, due to the advisory nature of the audit work, provision of formal assurance-based opinions is not appropriate. It also includes grant certification work.

3.3 Although the same range of internal audit opinions is 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 above has, therefore, been drawn based on all audit work completed in the year to date and considers the management response to audit findings and the level of progress in subsequent implementation. As at the end of quarter 2, it was confirmed that 8 of the 8 (100%) high-risk actions due to be implemented on a 12-month rolling basis had been actioned.

3.5 Progress against performance targets (focussing on a range of areas relating to the internal audit service) can also be found in Annex A (section 5). Whilst the majority are rated as on target (green), 1 target has not been achieved; this is in respect of audit days delivered where the team are slightly down on days. This is partly due to maternity leave, as reported previously. The team will continue to endeavour to address this slight shortfall during the remainder of the year through utilising resources from across Orbis Internal Audit.

**ROS PARKER**

Chief Operating Officer

Contact Officers: Russell Banks, Orbis Chief Internal Auditor, Tel: 07824 362739,  
Nigel Chilcott, Audit Manager, Tel: 07557 541803

**BACKGROUND DOCUMENTS:**

Internal Audit Strategy and Annual Plan 2025/26

# Internal Audit and Counter Fraud Quarter 2 Progress Report 2025/26

## 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

## 1. Summary of Completed Audits

### Payroll

1.1 Employees' salary payments account for a large proportion of the Council's expenditure. Gross salary payments for East Sussex County Council (ESCC) for the 2024/25 financial year averaged £24.3m per month, with average net monthly salary payments of £18.5m. The Council's Payroll Service is responsible for paying employees the right amounts at the right time and in accordance with their contracts and regulatory requirements. It is also responsible for ensuring that correct pay-over to other bodies (e.g., pension funds and HMRC) are made by the due dates.

1.2 The purpose of the audit was to provide assurance that controls are in place in relation to starters, leavers, permanent and temporary variations to pay, changes to standing data, payruns and BACS transmissions.

1.3 In providing an opinion of **reasonable assurance**, we found a number of areas of good practice, including that appropriate pre-employment checks are completed, pay is calculated correctly and controls over payruns and BACS transmissions were operating as expected, with appropriate segregation of duties and authorisation in place. We also found that payroll data is regularly reconciled to the general ledger and that changes to payroll standing data were subject to review, testing and authorisation, prior to changes being implemented.

1.4 We did, however, identify some areas where improvement was required, including the need to ensure that:

- Managers provide sufficiently timely information about leavers or changes of position to ensure that the payroll is updated promptly and leavers' access to the Council's systems is revoked;
- Casual workers' agreements are signed, returned and retained by the Council (or school) to evidence that employees understand their terms and conditions; and
- Travel and mileage claims are submitted on the correct claim forms, with the correct information and are supported by VAT receipts.

1.5 Actions to address these issues were agreed with management within a formal management action plan.

### Pension Fund Governance Arrangements

1.6 The East Sussex Pension Fund (ESPF) provides retirement benefits for employees of the County Council and 140 other employer organisations, including Brighton & Hove City Council, district and borough councils and academic institutions. ESCC is the designated administering authority of the East Sussex Pension Fund. The Council has statutory responsibility to administer and manage the fund in accordance with the Local Government Pension Scheme (LGPS) regulations.

1.7 This review focused on the controls to ensure that appropriate governance arrangements are in place, including that ESPF roles and responsibilities are sufficiently well-defined, documented and understood to enable timely decision-making, and that the accountability and resilience of the Fund are maintained in the face of loss of key personnel.

1.8 In completing this work, we found appropriate governance arrangements in place and were able to give an opinion of **substantial assurance** as a result. The roles and responsibilities of the Pension Board and Pension Committee are known, understood and documented, and the Board and Committee exercise effective oversight of the Fund. The Board and Committee are supported by regular reports, which include reports on risk, investment performance, the Fund's administration, employers joining or leaving the Fund and communications. Only one management action was agreed to address a single, low risk finding.

### Oracle Segregation of Company Accounts

1.9 Phase 2 of the Oracle Implementation programme, which included the implementation of the Accounts Payable and Accounts Receivable modules, went live in April 2025. During the 'hypercare' period, an issue was identified whereby a purchase order from East Sussex Fire and Rescue Service (ESFRS) was sent to an individual outside the authorised ESFRS approvals hierarchy for authorisation. This raised concerns about the integrity of the approval hierarchies established for workflows within ESFRS and potentially other organisations.

1.10 As part of our support to the Oracle programme, we therefore assessed the adequacy of controls to enable the segregation of ESCC, the ESCC Pension Fund, and ESFRS as distinct legal entities within Oracle, and to ensure the integrity of their financial accounts and other records. Our testing confirmed that sufficient controls are in place to maintain appropriate segregation and that even if the incorrect approver had approved the transaction, it would still have been posted in the correct company accounts.

1.11 In terms of the specific instance whereby an ESFRS purchase order was sent for approval to an individual outside of the organisation, we found that the transaction approval process requires users to select an approver from a list, which may include individuals outside of their respective organisations. Reliance is placed on users to select the correct approver. Detective controls were not in place to identify any instances where an approver outside of the organisation was selected in error. Reliance on user selection introduces the risk that transactions could be authorised by someone outside of the appropriate organisational hierarchy, potentially compromising the integrity of the approval process, increasing the risk of error and fraud.

1.12 Whilst we did not provide a formal opinion as this was considered an advisory piece of work, following our review, improvements to the control process were made, with responsibility assigned for producing and monitoring a report of all activity across different authorities. Escalation routines are now in place to rectify any concerns identified. As a result, the control weakness referenced above has now been mitigated.

### Oracle Support Model

1.13 The Oracle support model includes a network of Council champions and officers from the business support team, third-party support from Fusion Practices, and Oracle support. The purpose of this audit was to provide assurance that controls are in place to help ensure that:

- Roles and responsibilities for the support of the system are fully documented and communicated;
- Incident handling process and procedures are executed and monitored to ensure timely response to any issues; and

- System updates and changes are subject to sufficient testing and authorisation before implementation, with appropriate support arrangements in place with the supplier.

1.14 In completing this work, we were able to provide **reasonable assurance** for the following reasons:

- The support structure is adequately resourced with a combination of specialist officers who act as interfaces between specific areas and the Subject Matter Experts (SMEs), and four full-time IT and Digital (IT&D) resources allocated to the system. Oracle Advocates champion their business areas, and the Oracle Guided Learning (OGL) platform helps staff self-triage issues and reduce repeat tickets;
- The change process is clearly defined, with stages for business impact analysis and approvals from the Change Advisory Board (CAB); and
- Management of the system update and upgrade process is led by the IT and Digital Oracle Team, with the support of Fusion Practices.

1.15 Some areas for further improvement were, however, identified, including that:

- Whilst roles and responsibilities had been clearly defined for the hypercare period, it was acknowledged by programme management that there is a need to update these documents to reflect business as usual (BAU) activities;
- Although the incident handling process is defined, we were unable to evidence an incident's journey through the process because the handling system does not provide sufficient reporting on individual cases. Without this visibility, it may be difficult to identify patterns or underlying causes, reducing opportunities for lessons learned and corrective actions; and
- An absence of formal KPIs for both Oracle Support and Fusion Practices presents a risk that performance cannot be effectively measured or managed, potentially resulting in inconsistent service quality and missed opportunities to identify developing themes.

1.16 In all cases, actions for improvement were agreed with management.

## Direct Payments

1.17 Adult Social Care clients with eligible care needs have the option of receiving direct payments to pay for their support to meet the assessed level of care required. To be offered a direct payment, individuals are required to have a social care needs assessment to assess their needs and to determine how these can best be met.

1.18 Direct payments give individuals greater flexibility and control of their support package. Clients have the option to manage their own direct payment account or may choose to have the account managed by either the Council or an external service provider.

1.19 This audit aimed to provide assurance in relation to the administration, payment and monitoring of direct payments. In completing this review, we were able to provide an opinion of **reasonable assurance**. We found that:

- Control over the authorisation of care plans and set-up of direct payment accounts is robust;



- A reconciliation process is in place to monitor all direct payment accounts for both ESCC managed and client managed direct payment accounts, to ensure spend is in line with the care and support plan and that there is not a surplus or overspend on direct payment accounts; and
- Payments are made to verified pre-paid card accounts and are appropriately reviewed and authorised prior to being paid.

1.20 There were, however, a small number of areas where further improvements were required, including to ensure that:

- Adequate monitoring arrangements are in place to identify and investigate account balance surpluses in excess of permitted tolerances, in respect of accounts managed by external service providers;
- Client contributions are monitored and received;
- Reporting parameters for surplus balances on ESCC and client managed direct payment accounts are reviewed to ensure this includes all accounts with excess balance build-ups; and
- Guidance is produced and key performance indicators developed for annual direct payment review dates and account closures.

1.21 Improvement actions were agreed with management in response to the above areas.

### **Mental Health Cultural Compliance**

1.22 In 2023/24, an audit of compliance with corporate and local procedures within the Adult Mental Health Team was undertaken which resulted in an audit opinion of partial assurance. The review identified areas of non-compliance with Council policies and procedures within the team in relation to financial and staff management.

1.23 We therefore completed a follow-up audit to assess the extent to which the previously agreed actions had been implemented. In completing this review, we were able to provide an improved opinion of **reasonable assurance**. Based on our work, we found that the majority of agreed actions had been implemented. There were, however, some areas of improvement still required, including the need to ensure that:

- A sample of staff mileage claims and annual leave entitlement is periodically reviewed to ensure that these have been calculated accurately;
- Staff declarations of interest are completed in all cases; and
- Improved reporting is available in relation to staff sickness absence.

1.24 An action plan was agreed with management to address the areas of improvement identified.

### **Emergency Planning**

1.25 ESCC is classed as a Category 1 responder, as defined by the Civil Contingencies Act 2004 (CCA 2004). This means the Council has a duty to co-operate with other responders to assess risks, prepare plans to address risks, train officers and carry out emergency planning exercises. Emergency planning should aim, wherever possible, to prevent emergencies occurring, and reduce, control or mitigate the effects of an emergency, should one arise.

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

- Appropriately robust risk management protocols are in place to identify, assess, monitor, and respond to a wide range of emergency situations;
- Appropriate action is taken in response to an emergency, reducing the risk of harm to individuals or damage to property;
- Appropriate communication of plans and communication protocols takes place regularly, and to the appropriate audience, to support the efficiency of an emergency response; and
- Collaboration and working arrangements with other authorities and organisations are appropriately defined.

1.27 As a result of our work, we were able to give an opinion of **reasonable assurance**. We found that controls were in place to identify and review risks, including with multi-agency involvement. Regular exercises are carried out to test emergency plans, and live incidents are appropriately documented.

1.28 However, we did identify some areas where controls could be strengthened. These related to the need to ensure that:

- All relevant officers complete refresher training;
- Contact details for emergency responders are kept up-to-date; and
- All emergency response plans are up-to-date.

1.29 An action plan to address these issues was agreed with management.

### Transport for the South-East Governance Arrangements

1.30 Transport for the South-East (TfSE) is the sub-national transport body for the South-East of England. Its purpose is to determine what investment is needed to transform the region's transport system and drive economic growth. The partnership is made up of 16 local authorities (county and unitary authorities), representatives of district and borough authorities, protected landscapes (areas of outstanding natural beauty) and national delivery agencies. ESCC is the accountable body for the partnership and is responsible for the funding it holds.

1.31 The business plan for 2025/26 comprises a budget of £3.6m, of which £2.16m comes from the Department for Transport (DfT), and £0.5m from local contributions, with the bulk of the remainder having been brought forward from the previous year.

1.32 This audit covered the governance and financial management arrangements in place, and sought to provide assurance that:

- Governance and financial management arrangements meet Department for Transport requirements;
- Procurement activity delivers value for money; and
- Effective management of contracts delivers the required outcomes and value for money.

1.33 Through our work, we were able to give an opinion of **reasonable assurance**. We found that appropriate governance arrangements are in place and are captured in TfSE's constitution, and that



financial management follows the Council's standard methodology. The procurement of consultants to carry out research into future transport requirements, which constitutes the bulk of TfSE's expenditure, has been simplified through a contract with a single supplier, let with support from the ESCC Procurement Team. Procedures are in place to ensure that individual pieces of work are delivered in accordance with TfSE's expectations.

1.34 However, we did find scope for strengthening controls to ensure that:

- The approval of all consultancy engagements is formally documented; and
- The published register, containing declarations of interests, is brought up to date.

1.35 Actions were agreed with management to address these findings.

### School Audit Work

1.36 We have a standard audit programme in place for all school audits, with the scope of our work designed to provide assurance over key controls operating within schools. The primary objectives of our work include seeking assurance that:

- Governance structures are in place and operate effectively to ensure there is independent oversight and challenge by the Governing Body;
- Decision-making is transparent, well documented, and free from bias;
- Effective planning and monitoring arrangements are in place to enable the school to operate within its budget;
- Expenditure is controlled and funds are used only for educational and school business purposes;
- The school ensures value for money is sought on contracts and larger purchases;
- Voluntary funds are held securely and used in accordance with the agreed aims;
- Pupils and the school's systems, assets, and site are safeguarded from unauthorised or inappropriate access; and
- Employment processes are robust to ensure that only appropriate persons are engaged, and staff are paid in accordance with the school's pay policy.

1.37 The table below shows the results of the school audit completed in Q2.

Name of School	Audit Opinion	Areas Requiring Improvement
Denton Community Primary School	Partial Assurance	<p>Including to ensure that:</p> <ul style="list-style-type: none"> <li>• Declared conflicts of interest are managed appropriately;</li> <li>• Budget monitoring by governors occurs more frequently;</li> <li>• Purchase orders are raised and approved before orders are placed;</li> <li>• Segregation of duties in the expenditure process is strengthened;</li> <li>• The school's procurement card is used in line with the Council's policy;</li> <li>• Staff expenses are appropriately authorised;</li> <li>• The unofficial School Fund is audited in accordance with the Council's Scheme for Financing Schools; and</li> </ul>

		<ul style="list-style-type: none"> <li>• Checks take place to ensure the school complies with HMRC's IR35 requirements.</li> </ul>
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## Grant Related Audit Work

### Local Authority Bus Subsidy (Revenue) Grant

1.38 The Department of Transport (DfT) provides payments to local authorities to support the running of local and community bus services through the ringfenced Local Authority Bus Subsidy (Revenue) Grant. This grant aims to help local authorities maintain or enhance current service levels, as well as invest in alternative services or bus infrastructure provision.

1.39 Our role involved undertaking sample testing across various routes and payments made to operators annually. This testing sought to provide assurance that payments are accurately calculated and that all conditions attached to the grant are met. Based on our sample testing, we confirmed that the payments were accurate and the Council complied with the grant terms. A signed declaration was returned to the DfT within the required timescales.

### Childcare Expansion Capital Grant

1.40 The Childcare Expansion Capital Grant was provided by the Department for Education (DfE) to support the expansion of Early Years childcare provision for working parents of all children aged between 9 months and 3 years, as well as to increase the supply for wraparound care in primary schools.

1.41 A review of documentation took place to ensure that the schemes funded through this grant were in compliance with the grant terms and conditions, and that required processes were followed. We confirmed that the funding had been received intact, and that appropriate evidence of expenditure had been retained. Based on our testing, we were able to provide a return to the DfE to confirm that the conditions attached to the Childcare Expansion Capital Grant had been met.

### Local Transport Capital Block Funding (Integrated Transport and Highway Maintenance Blocks) Grant

1.42 Payments from the Department for Transport (DfT) are made to local authorities in relation to highway maintenance and infrastructure through this grant. It includes five elements:

- Integrated Transport Block;
- Highways Maintenance Block needs element;
- Highways Maintenance Block incentive element;
- Network North (reallocated from HS2); and
- Pothole Fund

1.43 We were required to confirm that the grant conditions had been complied with. A sample of transactions was tested which confirmed this, and a signed declaration was returned to the DfT within the required timescales.

## 2. Counter Fraud and Investigation Activities

### Counter Fraud Activities

2.1 The team continue to monitor intel alerts and share information with relevant services when appropriate.

2.2 In addition, we are continuing to review matches released as part of the National Fraud Initiative (NFI). High risk matches will be prioritised for investigation and support provided to services reviewing the reports.

#### Summary of Completed Investigations

##### Multiple Employment

2.3 A review of a high-risk payroll match from the NFI identified an individual employed by the Council who was working simultaneously with HM Land Registry. Our investigation found that the individual had failed to declare the secondary employment. The case progressed to a disciplinary hearing where the individual was dismissed for gross misconduct.

##### Conflict of Interest

2.4 An investigation was undertaken following receipt of an allegation that a Council employee had disclosed confidential pricing information to assist a supplier submitting a tender. The investigation found no evidence that contractual information had been disclosed but did identify that the employee had not declared external interests, which included acting on behalf of a Council supplier and family connections to a supplier. The case progressed to a disciplinary hearing where the individual was dismissed for gross misconduct.

##### Failure to Follow Procedures

2.5 We received a request from management for support in reconciling payments received within one of the Council's services. In providing this support, we identified that an administration officer had failed to follow local procedures which led to discrepancies in income receipting. Whilst there was no evidence of personal gain, it was found the officer had not followed guidance. The individual resigned with immediate effect during the disciplinary process.

## 3. Action Tracking

3.1 All high priority actions agreed with management as part of individual audit reviews are subject to action tracking, whereby we seek written confirmation from services that these have been implemented. As at the end of quarter 1, it was confirmed that 8 of the 8 (100%) high-risk actions due to be implemented on a 12-month rolling basis had been actioned.

## 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:

Review	Rationale for Addition
Exceat Bridge	Reported in Q1 progress report.
Cherwell Replacement Project – Governance Arrangements Healthcheck	Added to the plan in response to a request from the service for additional assurance over a large and complex project.
Core Growth Hub Grant	Reported in Q1 progress report.

4.2 To-date, the following audit has been removed from the audit plan.

Planned Audit	Rationale for Removal
Supporting Families programme	The Supporting Families programme ended on 31 March 2025. No further work is required from us at this time.

4.3 The following audit work is currently in progress at the time of writing this report (including those at draft report stage, as indicated):

- Surveillance Cameras (draft report)
- Neighbourhood Support Team Cultural Compliance (draft report)
- Digital Literacy and Skills Training (draft report)
- Oracle Integrations and Interfaces (draft report)
- Section 17 Payments
- Grievance Arrangements
- Whistleblowing Arrangements
- Oracle Transition from Hypercare into Business as Usual
- Oracle Permissions and Management Trails
- Cherwell Replacement Project
- Deprivation of Liberty Safeguards
- External Funding Follow-Up
- Online Safety Act 2023
- General Data Protection Compliance (GDPR) – Covert Recording

## 5. Internal Audit Performance

5.1 Public Sector Internal Audit Standards (PSIAS), replaced on 1 April 2025 by new Global Internal Audit Standards (GIAS), required the internal audit service to be reviewed annually against the Standards, supplemented with a full and independent external assessment at least every five years. The results of our most recent self-assessment are included in the table below.

5.2 Our last quality review exercise in November 2023, identified no major areas of non-conformance. The need to ensure consistency in the quality of the evidence contained within a small number of audit working papers was highlighted, and this has been addressed at service development days in 2024/25.

5.3 In addition to our periodic self-assessments of effectiveness, 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 (RAG)	Actual Performance
Quality	Annual Audit Plan agreed by Audit Committee	By end April	G	2025/26 Internal Audit Strategy and Annual Audit Plan endorsed by Audit Committee on 28 March 2025.
	Annual Audit Report and Opinion	By end July	G	2024/25 Internal Audit Annual Report and Audit Opinion noted by Audit Committee on 4 July 2024.
	Customer Satisfaction Levels	90% satisfied	G	100%
Productivity and Process Efficiency	Audit Plan – completion to draft report stage	90%	G	56.9% achieved by the end of Q2, against a Q2 target of 45%.
	Percentage of audit plan days delivered	90%	A	43.2% achieved by the end of Q2, against a Q2 target of 45%.
Compliance with Professional Standards	Global Internal Audit Standards	Conforms	G	April 2025 - Self Assessment against the recently introduced Global Internal Audit Standards (GIAS) completed. No major areas of non-conformance identified. Some areas to ensure full compliance have been identified, including the update of the Audit Charter.
	Relevant legislation such as the Police and Criminal Evidence Act, Criminal Procedures and Investigations Act	Conforms	G	No evidence of non-compliance identified.

Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score (RAG)	Actual Performance
Outcome and degree of influence	Implementation of management actions agreed in response to audit findings	97% for high priority agreed actions	<b>G</b>	100% - see section 3.1 above.
Our staff	Professionally Qualified/Accredited	80%	<b>G</b>	88%*

\*Includes part-qualified staff and those undertaking professional training.



## Audit Opinions and Definitions

Opinion	Definition
<b>Substantial Assurance</b>	Controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
<b>Reasonable Assurance</b>	Most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
<b>Partial Assurance</b>	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.
<b>Minimal Assurance</b>	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.

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<b>Report to:</b>	<b>Audit Committee</b>
<b>Date of meeting:</b>	<b>21 November 2025</b>
<b>By:</b>	<b>Director of Communities, Economy and Transport and Director of Children's Services</b>
<b>Title:</b>	<b>Response to Internal Audit Report and Actions – Home to School Transport</b>
<b>Purpose:</b>	<b>To update the Audit Committee on the Home to School Transport Audit Action Plan.</b>

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## **RECOMMENDATIONS:**

**The Audit Committee is recommended to:**

- (1) note the good practice identified in the audit report; and**
  - (2) note the significant progress made within the Audit Action Plan (Appendix 1), with all outstanding actions on track to be completed in Quarter 3 2025/26.**
- 

## **1 Background Information**

1.1. An internal audit of Home to School Transport (HTST) was undertaken in May 2025, at the request of the Corporate Management Team (CMT), following financial reporting during 2024/25 that predicted the HTST budget would be overspent by more than £4.7m, against the budget of £23.8m. This report provides an update in relation to the actions being undertaken by the HTST teams following the Quarter 1 Internal Audit progress report to the Committee on 19 September 2025.

1.2. The Department for Education provides statutory guidance to Local Authorities setting out requirements to provide HTST for eligible children in the authority's area to facilitate their attendance at school. Eligibility for HTST is determined by Children's Services Department (CSD), which holds the HTST budget, with service delivery administered by the Communities, Economy and Transport (CET) Department.

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

- Clear and effective governance arrangements to ensure that only eligible children and young people are provided with Home to School Transport, are provided with transport in accordance with their assessed needs and deliver the service within budget.
- Effective procurement results in contracts for the provision of home to school transport that deliver value for money; and
- Robust contract management arrangements to deliver the full value for money offered by contracts.

1.4. Internal Audit teams found that there were no fundamental weaknesses in control that have resulted in the overspend, and that the overspend was primarily driven by an increase in demand and costs, noting an increase in the complexity of children eligible for transport.

1.5. Partial Assurance was provided as the opinion for the audit, as examples of non-compliance with policies and weaknesses in processes to secure value for money were found. The report also identified areas of good practice which have also formed part of the services' operational review, to build on these strengths to support and deliver assurance for the areas of improvement.

## **2 Supporting Information**

### Areas of good practice

2.1. The areas of good practice which were identified included:

- Education, Health and Care Plans (EHCP), which include assessments of eligibility for HTST, are approved by the relevant panel.
- Needs assessments are carried out to identify individual transport requirements, e.g., the need for an escort or medical support which informs accurate tendering.
- Controls are in place to check suppliers' invoices and to challenge and correct inaccuracies before they are paid.
- Regular exception reports are run to monitor suppliers' performance.
- A project was initiated by CSD and CET to review and control Home to School Transport costs with the aim of mitigating increasing expenditure where possible.

2.2. These areas of good practice demonstrate a shared responsibility to delivering East Sussex County Council (ESCC)'s statutory duty, alongside a commitment to closely monitoring and reviewing expenditure. As part of regular quality assurance, quarterly finance updates to CMT via the HTST Board are provided, alongside updates regarding current route optimisation and future cost avoidance activities. The aim of these updates is to maintain transparency and awareness of continued pressures and actively reduce the rate of increase in expenditure where possible.

### Areas for improvement

2.3. There were 11 areas identified within the audit for improvement which highlighted the need to:

- Define more clearly the respective roles and responsibilities of the CSD and CET Departments, including by the provision of a Service Level Agreement (SLA) or similar, and updating the terms of reference of the HTST Board;
- Strengthen guidance available for officers to promote a consistent and robust approach to applying the Council's HTST Policy;
- Review the budget settling process to ensure that the budget is set on the most up-to-date and realistic basis, including an analysis of demand;
- Ensure that the procurement of new routes complies with the Council's Procurement and Contract Standing Orders; and
- Expedite the process to the recovering of costs incurred for transporting children placed in East Sussex schools by other authorities.

2.4. Since the action plan was agreed with CSD and CET officers, significant progress has been made against delivery. This progress has been made during the peak time of year for HTST, as the annual process commenced in June 2025 for teams to deliver all eligible children school transport ahead of the new academic year. Despite this seasonal peak in operational activity, teams have successfully completed 7 out of the 11 actions identified, with a further 2

actions on track for completion by the end of November 2025. All actions within the action plan will be completed by the end of Quarter 3 2025/26.

2.5. Appendix 1 details the progress update which has been used by the HTST Board during both Quarter 1 and Quarter 2 to monitor activity. As at 21 October 2025, 4 actions were presented to the Board as on track, but not yet complete. These were:

- The creation of all operational guidance for CET HTST team
- An update of the HTST Policy
- Budgeting for unrealised income
- The monitoring of Personal Transport Budgets (PTBs).

2.6. Whilst these actions are not yet complete, good progress has been made in all 4 areas to deliver these actions by the end of Quarter 3. Activity has been undertaken to document all CET procedures, an updated draft of the HTST Policy has been prepared, revised forecasts are being undertaken to inform 2026/27 budget setting as well as a shared action to strengthen PTB monitoring. Detailed progress updates have been provided in Appendix 1 for the Committee to note alongside revised deadlines for completion.

### **3 Conclusion and Reasons for Recommendations**

3.1. The actions identified within the internal audit report have been consistently progressed since May 2025, during the peak time for CSD and CET school transport services. Seven actions have been delivered, with 4 in progress, 2 of which will be completed by the end of November 2025, with the final 2 actions on track to be completed by the end of Quarter 3.

3.2. Areas of good practice identified within the audit demonstrate a strong shared responsibility to deliver ESCC's statutory duty, alongside a commitment to closely monitor and review expenditure. Quarterly finance updates to CMT via the HTST Board will continue to be provided, and the HTST Board will continue to monitor delivery of the Audit Action Plan in Appendix 1.

3.3. The Audit Committee is therefore recommended to note the good practice identified in the audit report and to note the significant progress made within the Audit Action Plan (Appendix 1), with all outstanding actions on track to be completed in Quarter 3 2025/26.

#### **RUPERT CLUBB**

Director of Communities, Economy and Transport

#### **CAROLYN FAIR**

Director of Children's Services

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#### LOCAL MEMBERS

None

#### BACKGROUND DOCUMENTS

None

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Ref	Finding	Potential Risk Implication	Risk	Agreed Action	Target date	Owner	Progress Update	Status
1	<p><b>Governance Arrangements (Corporate)</b></p> <p>Overarching roles and responsibilities in relation to HTST are not sufficiently clearly set out.</p> <p>No service level agreement (SLA), or similar agreement, is in place to define the respective roles and responsibilities for CET and CSD. There is evidence that there has been one, but it appears to have fallen into disuse. This should be seen in the context that HTST cost drivers (school placements, needs assessments and transport allocations, procurement and monitoring) sit across two divisions in CSD and one in CET. The budget holder sits in the Communication, Planning and Performance Division of CSD and has no control of the activities at the start of the process (school placements) or of the expenditure incurred following the assessment of need, i.e., the procurement and allocation of transport. The division of responsibilities across the Council means that no one individual is accountable for the end-to-end process and officers with no responsibility for the HTST budget make decisions that affect it.</p>	<p>With no agreement in place setting out the respective roles and responsibilities of each department, as well as the requirements each department has of the other (e.g. the nature and extent of management information necessary to deliver its part of the service), there is a reduced likelihood that service objectives are delivered or that the budget is controlled.</p>	Medium	A new SLA and Terms of Reference for the Board will be developed and presented to the Board for approval.	17/07/2025	GL and MJ	Updated ToR has been created and circulated ahead of 20 Oct Meeting	Complete

To provide a measure of oversight, a Home to School Transport Board is in place, comprising senior representatives of CSD and CET, to oversee HTST. Terms of Reference (ToR) are in place for the Board, though they do not state how the Board is made up, which would be expected to include the balance between representatives of each department.

The ToR took more than a week to locate, do not appear to be in regular use and are out of date. They reference Transport and Environment, rather than CET, and contain a requirement to *“monitor the effectiveness of any protocols with other stake-holders introduced following the disbanding of the Learning and Skills Council”*. The Learning and Skills Council closed in 2010.

Further indication that the ToR are not in regular use is that one of the functions they set out is the monitoring of the effectiveness of the SLA, which no longer exists.

Without up to date and comprehensive terms of reference, the remit and authority of the Board may be unclear, and its activities might not be constructively focussed, leading to inefficient or ineffective practices remaining unresolved.

Once approved, they will be implemented and monitored by the Board.

2	<p><b>Governance - CET</b></p> <p>Not all processes in CET are supported by guidance. This is due, in part, to recent changes that have been introduced, including the development of a practice to offer Personal Travel Budgets (PTB) to families as a first option, and only provide funded transport if this is declined.</p> <p>Whilst processes appear to be largely understood in practice, the lack of clear guidance does not provide a sound basis for good governance or ensure appropriate resilience in the event of the loss of key staff. There have been instances of control lapses that may have been facilitated by the lack of clear guidance. See refs 6, 8, 10 and 11.</p> <p>However, there is evidence that the teams in CET are looking to document their processes and controls and develop supporting guidance.</p>	<p>Without clear guidance and communicated roles and responsibilities, there is an increased risk of error, which may result in financial loss.</p>	Medium	<p>Guidance will be developed to accompany key cost control processes within CET.</p>	31/08/2025	GL	<p>This work has commenced and Principal Officers are now drafting all operational processes with the support and guidance of HoS and TM. This will be completed by 30/11/25 - slippage as a result of peak summer caseload coupled with staffing shortages within the team.</p>	On track
3	<p><b>Governance - CSD</b></p> <p>Whilst the SEND Assessment and Planning Team has guidance that reflects its current structure, guidance on the application of the HTST Policy, in use by the SEND Transport Team, is out of date, reflects a CSD structure that is no longer in place and is not always clear.</p>	<p>Without clear guidance on the application and approval of payments outside the scope of the Council's HTST Policy, there is an increased risk that unnecessary costs are incurred, leading to financial loss to the Council.</p>	Medium	<p>The Council's HTST Policy will be updated to reflect recent changes to children's entitlement.</p>	31/08/2025	MJ	<p>Policies updated. Sent back to Legal for review and approval.</p>	On track





	<p>To bridge the gap between this figure, and its expected level of spend (£24.75m), the budget in CET included income of £983k under contingency, to yield a net budget of £23,767m. No such income was expected, and this was described simply as a balancing figure, though it should be noted that, as CET recharges all HTST costs, it is CSD that shows the over-spend. One possible cause for the imbalance is that cost information, provided by modelling, is not received in time to inform the Council's budget.</p> <p>By artificially inflating its income budget, the Council effectively built in an over-spend of nearly £1m into its budget before the year began.</p>	missed, depriving the Council of the early intelligence it needed to balance its budget through savings in other services.		<p>In budget-setting for 26-27, we will seek either:</p> <p>a) to agree at Board that CET set their expenditure budget to reconcile with CSD's budget, so there is no need for a balancing figure, or</p> <p>b) to produce a forecast early enough for CSD to submit a pressure bid.</p>				
5	<p><b>Transport Needs Assessments</b></p> <p>Once entitlement to home to school transport is established, but before transport is arranged for pupils with Special Educational Needs and Disabilities (SEND), a detailed assessment of their transport needs is carried out.</p> <p>CSD has recently (2025) implemented a restructure because needs assessments were being carried out by a solitary officer, at a junior level (SS6), without further oversight of a process that drove the level of expenditure for each child's agreed placement. Moreover, the process by</p>	Without guidance, there is an increased risk that costs increase as a result of assessments being applied inconsistently, and there is reduced resilience in the event of the loss of staff.	Medium	The process for needs assessments will be documented.	30/06/2025	MJ	This has been completed and shared with CSD and CET HTST team for awareness.	Complete

	<p>which these assessments take place was not documented.</p> <p>The new structure includes three transport officers and provides increased resilience and formal oversight of the nature of transport arrangements being requested, though the process is not yet documented.</p>							
6	<p><b>The Procurement of New Routes</b></p> <p>A direct award was made for a HTST contract worth £57K per annum. Although the contractor was on a framework, a tendering process should still have been used for a contract of this size.</p> <p>This arose after the child had been placed with a contractor without the Council having been provided with sufficient information about their needs from their home authority. When the true needs became apparent and it was found that the contractor was unable to meet them, the family was provided with a Personal Transport Budget whilst a new contract was sourced.</p> <p>The failure to employ a tendering process was a breach of the Council's Procurement and Contract Standing Orders.</p>	<p>Failure to comply with the requirements of the Council's Procurement and Contract Standing Orders, reduces the value for money that the Council obtains from its contracts and increases the risk that procurements breach statutory requirements, which may then be subject to legal challenge.</p>	Medium	<p>All contract notices will be published by CET.</p> <p>CET will develop formal guidance for managing tenders, that do not receive any bids, in compliance with Procurement and Contract Standing Orders.</p>	30/06/2025	GL	<p>All routes are tendered. New route numbers are created on a spreadsheet and the RQ reference (tender reference) recorded next to the route number. Link to spreadsheet. End of November for completion of the process document</p>	Complete

7	<p><b>The Approval of New Routes</b></p> <p>Upon receipt of an authorised instruction, a new travel placement is arranged. Whilst there is evidence that, when allocating transport, the use of existing routes is explored before new routes are procured, this is not always fully evidenced.</p>	<p>Without the presence of a robust evidence trail, it is not always possible to confirm that existing routes have been explored before allocating transport.</p>	Low	<p>When approving new routes, the approval email will include details of the checks undertaken by the Principal Transport Officer or Transport Manager (the approvers).</p>	30/06/2025	GL	<p>Completed process note. Template email created to prompt all parties to complete and provide necessary information. Training to be delivered by the end of November as part of service review of processes.</p>	Complete
8	<p><b>Service Agreements</b></p> <p>For each route, whether solo or multiple, a service agreement with the provider is put in place to set out the details of the service to be provided and its cost.</p> <p>Of 12 cases reviewed, service agreements could not be found in three cases.</p>	<p>Without an available service agreement, there is an increased risk that agreed service terms cannot be enforced.</p>	Medium	<p>Processes are in place in CET to record the SA reference number for each route. These processes will be re-enforced with the team, along with a filing process, to ensure that all service agreements are retained and are readily accessible.</p>	30/06/2025	GL	<p>On the all route spreadsheet the SA reference is noted. There is no requirement or benefit for the wider team to have access to the SA document. End of November for completion of the process document.</p>	Complete
9	<p><b>Personal Travel Budgets for Non-EHCP Cases</b></p> <p>Where no EHCP is in place, families are not offered a Personal Travel Budget (PTB). Whilst the presence of an approved EHCP is usually a prerequisite for the provision of HTST, as previously highlighted (see ref 3)</p>	<p>Providing bespoke HTST without first offering the cheaper option of a PTB may result in increased costs to the Council.</p>	Low	<p>a) Work will be undertaken to develop guidance on the use of PTBs or mileage rates for</p>	<p>31/12/2025 MJ 30/06/2025 GL</p>	GL and MJ	<p>Children without an EHCP are not eligible for SEND HTST, therefore are not eligible for a PTB. A Guidance note has been</p>	Complete

	<p>there are occasions when transport is provided without one.</p> <p>It is not clear what drove the lack of a PTB offer in cases where the Council is providing transport, though it may be that the lack of suitable guidance to cover exceptional circumstances led to a missed opportunity to save costs. The usual practice is to offer a mileage allowance to mainstream families; however, in a case seen where a taxi was booked at a cost of £140 per day, the offer of a PTB would have been a more cost-effective option. A new strategy for PTB has been implemented, with a view to increasing its uptake and reducing costs, though it does not contain guidance on non-EHCP.</p>			children who do not have an EHCP.			created to support the offer of a PTB.	
10	<p><b>The monitoring of PTB</b></p> <p>Testing has confirmed that arrangements are in place to monitor service provision from transport providers, and this includes ensuring that payments are not made for periods when transport is not needed, e.g., non-attendance at school.</p>	<p>If the attendance of children whose parents or carers are in receipt of PBTs is not monitored, there is a risk that payments are made that are not due, resulting in financial loss to the Council.</p>	Medium	<p>The process for monitoring attendance is being reviewed by CET. The numbers of PTBs has increased and are predicted to increase further with the enhanced offer.</p>	31/08/2025	GL	<p>CET and CSD drafting an updated process for PTB monitoring, to be completed by 31/12/2025.</p>	On track

	<p>However, this is not always the case for Personal Transport Budgets and an example was seen in which nearly £2,000 of overpayment was made to one parent for journeys that had not been undertaken. It should be noted that this took place shortly after responsibility for monitoring was transferred from CSD to CET and may reflect uncertainty immediately following the change.</p> <p>The Council is now working with the recipient to recoup the overpayment, whilst CET is looking to document and strengthen its controls in this area.</p>			<p>An officer within CET has access to attendance data and will monitor attendance and recoup for non-attendance by deducting the amount from the next PTB payment.</p> <p>CET will lead on the process, to be agreed with CSD ahead of the start of the new academic year.</p>				
11	<p><b>The Timeliness of Recoupment</b></p> <p>Recent changes to legislation have resulted in the responsibility for HTST falling on the host authority in cases where looked-after children are placed outside their authority of origin, though DfE guidance has not always been clear.</p> <p>In the southeast, a local agreement remained in place whereby authorities continued to fund transport for children who had been born in their areas. However, in the face of continuing financial pressure, councils have pulled back from these agreements and have been refusing to fund recoupment cases because they no longer had a statutory duty to do so.</p>	<p>Reducing the frequency of invoicing other councils for recoupment of travel costs to an annual basis, in the face of authorities rescinding agreements to honour recoupment agreements, increases the risk that funding cannot be recouped, resulting in financial loss to the Council.</p>	Medium	<p>CSD will always obtain a formal agreement for invoicing another LA, before authorising transport. CET has agreed the invoicing frequency with CSD to ensure payments are received promptly, and before LAs change their approach. CET will invoice other LAs in accordance with the following timetable:</p>	31/08/2025	IA/CL/MJ	<p>CSD has created a new process and tracking sheet to monitor. This has been shared with CET. Formal agreements will be obtained for new routes/ children however historical agreements will be undertaken via invoicing. Invoicing has been agreed for each 2 terms as below:</p>	Complete

	<p>This has been applied retrospectively in the case of Surrey County Council, which, having approved the funding of a number of cases, announced that it would not do so once the transport had been provided. Moreover, it was still 'approving' expenditure after its decision to refuse to fund it had been made.</p> <p>This has impacted East Sussex because the Council had failed to invoice Surrey for a year, rather than submitting two-termly[1] invoices, which had hitherto been its practice. As a result, opportunities for recoupment have been lost.</p> <p>Delays to the formalisation of agreement and the recoupment of funding for a Birmingham-based child has led to a debt of £63.5k accruing. The Council has been in dialogue with Birmingham and, following the issuing of our draft report, it was confirmed that this funding can no longer be recovered.</p>			<p>Q1 - August Q2 - Nov Q3 - Feb Q4 - May If an agreement is not complete, and invoices not issued, transport is to be terminated or funded by ESCC, as appropriate.</p>			<p>Invoices should be issued approximately every 2 terms, following this schedule: <b>Terms Transport Periods Invoice Issued</b> 1&amp;2 Sept-Dec January* 3&amp;4** Jan-Mar April* 5&amp;6** Apr-July August*</p> <p>*Team must ensure that contracts to be paid before raising an invoice so invoicing dates may fluctuate if there are queries holding up payment. **Note that due to Easter there will often be a few term 4 journeys in term 5&amp;6 invoicing.</p>	
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<b>Report to:</b>	<b>Audit Committee</b>
<b>Date of meeting:</b>	<b>21 November 2025</b>
<b>By:</b>	<b>Director of Adult Social Care and Health</b>
<b>Title:</b>	<b>Response to Internal Audit Report and Actions - Home Care Contract Management</b>
<b>Purpose:</b>	<b>Audit Committee is asked to note the proposals and actions to respond to the Home Care Contract Management Audit</b>

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**RECOMMENDATION:** Audit Committee is recommended to note the actions within the report.

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## **1. Background**

1.1 The Home Care Contract Management Internal Audit Report was completed in March 2025. The audit opinion provided was partial assurance, with the report detailing one high-risk finding and 2 medium-risk findings.

1.2 The Audit report rates Provider Data Integrity as a Red Risk, concluding that where reliance cannot be placed on the accuracy of the data required in order to make accurate and timely payments to providers, and bill clients for their contributions, there is an increased risk of overpayments occurring resulting in financial loss to the Council and/or clients not receiving the care commissioned, resulting in reputational damage.

1.3 Payments are made to Home Care providers for the activity they undertake or commit (roster) to undertake, under contract with East Sussex County Council (ESCC), based on data they submit via the Visits Module. The data relates to the visits that Home Care providers have undertaken to support individuals in their own homes and equates to approximately 150,000 lines of data for every 4-week period.

1.4 The Home Care Contract Management audit found that the Visits module data *‘exhibits data integrity issues’ and that the ‘Visits Module does not currently have the functionality to support payment to providers on a rostered basis, and that due to development restrictions communicated by the software provider, it has been necessary for the service to develop a number of manual workarounds. However, due to the significance of the associated risks stemming from the functionality and manual workarounds, data integrity, overpayment, and oversight have been raised as findings in the report and have been considered when forming our opinion.’*

1.5 The data that feeds the Visits Module is provided from the Electronic Call Monitoring System, or eCMS, and rostering systems that the provider uses. Providers record their home care visits data for their private and local authority customers on their eCMS system.

1.6 The Adult Social Care and Health (ASCH) Department was aware of the data integrity issues prior to the audit and had been working to address these. For example, options appraisals had been undertaken, including identifying whether any other suitable alternative systems are available on the market and the option of building an in-house system. There are currently no suitable alternative systems on the market and building an in-house system is cost prohibitive, not least because it would require external ICT consultants to build such a system.

## **2. Supporting Information**

2.1 The ASCH Departmental Management Team has considered the findings and recommendations of the audit. A number of actions are in-train to address the risks identified in the 2 medium risk areas, including development of a contract management plan for home care.

2.2 A clear set of actions were agreed by the Department team in relation to the high-risk data integrity audit findings.

2.3 An audit of eCMS suppliers has been completed to establish their compliance across the 4 data fields identified in the Homecare Audit, these being:

- Edited data – to evidence where data has been changed from that recorded by the eCMS
- Visit type – to code the visit type e.g. delivered, cancelled
- Time stamp – to provide the precise start and end time of a call to the second as a 6-digit time stamp
- Multiple contracts – to highlight where there are multiple service levels associated with one person

2.4 The development of a robust and comprehensive reporting structure set out at Appendix 1, supported by a dashboard, to enable responsive mitigating action with regard to data issues identified.

2.5 Longer term, the payment methodology for Home Care will be reviewed as part of the recommissioning of the contract. This work will commence in 2026.

## **3 Conclusion and recommendations**

3.1 Clear actions have been identified to mitigate the risks identified in the audit. The ASCH Department will monitor and ensure delivery of these actions and Internal Audit will review their effectiveness.

3.2 It is therefore recommended that Audit Committee note the action within this report and commitment by the department to undertake all possible actions to manage the risks identified within the report.

**MARK STANTON**

**Director of Adult Social Care and Health**

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## **BACKGROUND DOCUMENTS**

None



## Appendix 1

### Homecare Reporting

Report Title	Report Status	Report Detail	Report Purpose
40 Day / No Actuals Report	Existing Report	<ul style="list-style-type: none"> <li>Measures care packages with no financial activity over a rolling 40 day period.</li> </ul>	<ul style="list-style-type: none"> <li>Enable closure of Care Package Line Items (CPLIs) where care not required and to mitigate erroneous payment risk.</li> </ul>
Care Package Utilisation Report	New Report (currently testing)	<ul style="list-style-type: none"> <li>Measures care package with less than 60% utilisation (by financial value) over a 4 week period</li> </ul>	<ul style="list-style-type: none"> <li>Enable review of care package to elicit savings / mitigate erroneous payment risk.</li> </ul>
Short Calls Report	Existing Report	<ul style="list-style-type: none"> <li>Measures all calls (irrelevant of rostered duration) delivered 20 minutes (or more) less than rostered duration</li> </ul>	<ul style="list-style-type: none"> <li>Enable review of care package to elicit savings / mitigate erroneous payment risk.</li> </ul>
Overlapping Calls Report	Existing Report	<ul style="list-style-type: none"> <li>Measures all calls overlapping with another call</li> </ul>	<ul style="list-style-type: none"> <li>Test legitimacy / veracity of data submitted</li> </ul>
Over-rostered Report	Existing Report	<ul style="list-style-type: none"> <li>Measures instances where provider rostered level is above ESCC contract - but payment didn't suspend.</li> </ul>	<ul style="list-style-type: none"> <li>Mitigate erroneous payment risk.</li> </ul>
Excessive Call Overrun Report	Existing Report	<ul style="list-style-type: none"> <li>Measures all calls over-running by 30 mins or more; follow-up with provider to check legitimacy of overrun.</li> </ul>	<ul style="list-style-type: none"> <li>Mitigate erroneous payment risk.</li> </ul>
Travel Time Report	Existing Report	<ul style="list-style-type: none"> <li>Measures all calls with zero travel time between them (end time of one call matches with start time of next call)</li> </ul>	<ul style="list-style-type: none"> <li>Mitigate call-cramming / quality of delivery issues</li> </ul>

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**Report to:** Audit Committee

**Date:** 21 November 2025

**By:** Chief Finance Officer

**Title of report:** CIPFA Code of Practice for the Governance of Internal Audit in UK Local Government

**Purpose of report:** To update Audit Committee on the new Code of Practice for the Governance of Internal Audit in UK Local Government (the Code) and to report on the results of East Sussex County Council's self-assessment against it, along with any actions arising.

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**RECOMMENDATIONS:** Audit Committee is recommended to consider the contents of the report and appendices, and note:

- 1) the results of the self-assessment against the new Code; and
  - 2) the action plan formulated in response.
- 

## 1. Background

- 1.1 The statutory basis for Internal Audit in local government is provided in the Accounts and Audit Regulations 2015, which require a local authority to “*undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes*”, taking into account relevant professional standards.
- 1.2 With effect from 1 April 2025, these Standards are Global Internal Audit Standards (GIAS) (and the Application Note: GIAS in UK Public Sector), which include essential conditions for the governance of internal audit. The Code of Practice has therefore been developed to provide a framework for how these conditions can be met within the specific context of UK local government, including roles and responsibilities of the Audit Committee, senior management and those charged with governance towards internal audit.
- 1.3 CIPFA (Chartered Institute of Public Finance and Accountancy) has developed the Code in order to support authorities in establishing and maintaining their internal audit arrangements and providing oversight and support for internal audit. The Code is designed to work alongside the new GIAS, which were reported to Audit Committee in September 2025. It also forms part of the broader governance framework, informing the Annual Governance Statement (AGS) and supporting the principles set out in the Financial Management Code and the suite of annual reports presented at this Audit Committee meeting.
- 1.4 CIPFA highlights that effective arrangements for the governance of internal audit, as well as effective internal audit, are vital parts of an authority's governance arrangements and therefore require local authorities to explain how they comply with the Code within their annual governance statement.

## 2. Supporting Information

- 2.1 A full copy of the self-assessment against the new Code is attached to this report as Appendix A and includes details of any potential actions arising from it. As can be seen,

the organisation is generally conforming with the majority of the Code with the exception of a small number of areas, none of which are considered significant and all of which can be addressed relatively quickly and easily. The full Code is attached at Appendix B.

2.2 These actions relate to the following areas:

- The need for the Council to explain how it complies with the new Code within its AGS. Given the April 2025 implementation date, this will be addressed with the 2025/26 AGS;
- The requirement for the Chair of the Audit Committee to provide feedback on the Chief Internal Auditor's job description and performance evaluation;
- The need for the Audit Committee to include its conclusions as to the effectiveness of Internal Audit as part of its own annual report to those charged with governance.

2.3 In all 3 cases, management will be working with the Audit Committee to implement the necessary actions by the end of 2025/26.

### **3. Conclusion and Recommendations**

3.1 Audit Committee is recommended to consider the contents of this report and appendices and to note the results of the assessment against the Code and the action plan in response to this.

**IAN GUTSELL**  
Chief Finance Officer

BACKGROUND DOCUMENTS  
None

# Code of Practice for the Governance of Internal Audit in UK Local Government – Self Assessment



## Appendix A

Requirement	Description	Responsibility	Response	Action
Authority Compliance (Section 4)	The authority should explain how it complies with the Code in its annual governance statement. CIPFA is currently updating its guidance on annual governance statements for publication in 2025. Conformance with both the Code and Global Internal Audit Standards (GIAS) in the UK public sector will be featured in the new Addendum as part of the core arrangements authorities should have in place. Effective arrangements for the governance of internal audit, as well as effective internal audit, are vital parts of an authority's governance arrangements.	Authority	This is a new requirement and will therefore be included in the 2025/26 Annual Governance Statement (AGS).	Management to ensure that the 2025/26 AGS includes specific reference to organisational compliance with the Code of Practice for the Governance of Internal Audit in UK Local Government.
Internal Audit's Mandate (Section 1.1)	In local government in the UK, internal audit's authority comes from the statutory requirement within the Accounts & Audit Regulations [England] 2015.	Internal Audit	Included within the Internal Audit (IA) Charter, which is approved annually by senior management and the Audit Committee.	None.

# Code of Practice for the Governance of Internal Audit in UK Local Government – Self Assessment



Requirement	Description	Responsibility	Response	Action
	In addition to internal audit's mandate from regulations, each body may agree a wider statement of internal audit's authority.	Authority	Internal Audit's mandate is further set out within local financial regulations and procedures.	None.
Internal Audit Charter (Section 1.2)	The chief audit executive has a responsibility to prepare a charter that conforms with GIAS (UK public sector). When reviewing the charter, the audit committee should be satisfied that it covers the governance arrangements for internal audit. It must include the mandate derived from the regulations, plus any additional agreed mandate, and include internal audit's reporting line to the audit committee. The charter should include the administrative reporting arrangements for internal audit and the chief audit executive.	Internal Audit	The Charter has been updated to reflect new GIAS, including governance arrangements for Internal Audit. Specific reference to mandate from regulations already covered.	None.
Support for Internal Audit (Section 1.3)	Internal audit's activities require access to and support from senior management, the audit committee and those charged with governance. Support allows internal audit to apply their mandate and charter in practice and meet expectations.	Authority	Internal Audit has regular access to senior management, the Audit Committee and those charged with governance.	None.

# Code of Practice for the Governance of Internal Audit in UK Local Government – Self Assessment



Requirement	Description	Responsibility	Response	Action
	<p>Support including putting in place the following conditions:</p> <ul style="list-style-type: none"> <li>• The direct reporting line of the Chief Internal Auditor is not lower than a member of the senior management team and has access to all members of the team;</li> <li>• The Chief Internal Auditor should be a senior manager, providing them with the necessary profile to fulfil the function's mandate;</li> <li>• Where internal audit is delivered through a partnership arrangement, there is a nominated Chief Internal Auditor and client responsibility lies with a member of senior management;</li> <li>• The organisational position of the Chief Internal Auditor should be supported by direct reporting to the audit committee.</li> </ul>	Authority	<p>The Chief Internal Auditor (CIA) is a senior manager and reports directly to a member of the senior management team and has access to all others where needed.</p> <p>Client management rests with a member of senior management.</p> <p>The CIA has a direct reporting line to the Audit Committee. The CIA attends each Audit Committee.</p>	None.

# Code of Practice for the Governance of Internal Audit in UK Local Government – Self Assessment



Requirement	Description	Responsibility	Response	Action
	<p>The audit committee can also demonstrate its support for internal audit by:</p> <ul style="list-style-type: none"> <li>Enquiring of senior management and the Chief Internal Auditor about any restrictions on the internal audit's scope, access, authority or resources that limit its ability to carry out its responsibilities effectively.</li> <li>Considering the audit plan or planning scope and formally approving or recommending approval.</li> <li>Meeting at least annually with the Chief Internal Auditor in sessions without senior management present.</li> </ul>	Authority	<p>In all cases, Audit Committee has the ability to, and does, enquire as to any restrictions on Internal Audit activities.</p> <p>Audit strategies and plans are approved by the Audit Committee on an annual basis.</p> <p>Whilst it does not routinely happen, arrangements exist to enable the CIA to meet with the Audit Committee without senior management present.</p>	None.
Organisational Independence (Section 2.1)	<p>On behalf of those charged with governance, senior management needs to establish and safeguard internal audit's independence. These arrangements must include:</p> <ul style="list-style-type: none"> <li>Ensuring internal audit's access to staff and records, as set out in regulations and the</li> </ul>	Authority	<p>Internal Audit access to staff and records is covered within</p>	None.



# Code of Practice for the Governance of Internal Audit in UK Local Government – Self Assessment



Requirement	Description	Responsibility	Response	Action
	<p>charter, operates freely and without any interference to its scope, performance of engagements or communication of results.</p> <ul style="list-style-type: none"> <li>Ensuring that the chief audit executive reports in their own right to the audit committee on the work of internal audit.</li> <li>Providing opportunities for the chief audit executive to meet with the audit committee without senior management present. At least one such meeting must be held each year.</li> <li>Where there are actual or potential impairments to the independence of internal audit, senior management should work with the chief audit executive to</li> </ul>		<p>the Charter, Accounts and Audit Regulations and local financial procedures/regulations.</p> <p>Whilst the CIA effectively reports in their own right to the Audit Committee on the work of Internal Audit, technically, in some cases, the reports are presented in the name of senior management in accordance with organisational requirements.</p> <p>Both the CIA and the Audit Committee has the ability to meet in private at any time without senior management present. This is an option available when needed.</p> <p>No actual or potential impairments to the independence of Internal Audit</p>	

# Code of Practice for the Governance of Internal Audit in UK Local Government – Self Assessment



Requirement	Description	Responsibility	Response	Action
	<p>remove or minimise them or ensure safeguards are operating effectively.</p> <ul style="list-style-type: none"> <li>Recognise that if the chief audit executive has additional roles and responsibilities beyond internal auditing, or if new roles are proposed, it could impact on the independence and performance of internal audit. The impact must be discussed with the chief audit executive and the views of the audit committee sought. Where needed, appropriate safeguards must be put in place by senior management to protect the independence of internal audit and support conformance with professional standards.</li> </ul>		<p>exist or have been experienced.</p> <p>The CIA currently has no additional roles or responsibilities that impact on the independence and performance of Internal Audit.</p>	
	<p>In local government, matters around the appointment, removal, remuneration and performance evaluation of the chief audit executive will be undertaken by senior management, but these arrangements must not be used to undermine the independence of internal audit. The audit committee should provide feedback on the proposed job description and the performance evaluation of</p>	Authority	<p>Whilst the Audit Committee Chair has previously been involved in the appointment of the CIA, this has not formally included feedback on their performance evaluation.</p> <p>Through ongoing interaction between CIA and Audit</p>	<p>Consider whether the Audit Committee Chair should provide direct input to the CIA's performance evaluation.</p>

# Code of Practice for the Governance of Internal Audit in UK Local Government – Self Assessment



Requirement	Description	Responsibility	Response	Action
	the chief audit executive should include feedback from the chair of the audit committee. In shared or outsourced arrangements, the audit committee should provide feedback on the operation of the contract.		Committee, along with performance information provided with regular progress reports, the Audit Committee is able to provide ongoing feedback on the operation of the shared services arrangements.	
	The audit committee must support internal audit's independence by reviewing the effectiveness of safeguards at least annually, including any issues or concerns about independence from the chief audit executive. The chief audit executive must have the right of access to the chair of the audit committee at any time. The audit committee can escalate its concerns about internal audit independence to those charged with governance.	Authority	No issues or concerns over Internal Audit independence have arisen and the CIA has the right of access to the Chair of the Audit Committee where required. Should any issues or concerns arise, arrangements are in place for these to be escalated through regular formal and informal interactions between the CIA, the Chair of Audit Committee and the Audit Committee itself, including within formal Internal Audit progress reporting.	None.

# Code of Practice for the Governance of Internal Audit in UK Local Government – Self Assessment



Requirement	Description	Responsibility	Response	Action
Qualifications of the Chief Audit Executive (Section 2.2)	Ensuring effective leadership of the internal audit team requires a suitably qualified and experienced Chief Audit Executive. The Application Note: GIAS in the UK public sector sets out the qualifications and competencies expected of the chief audit executive. These must be taken into account by senior management when recruiting to the post.	Authority	The CIA role profile clearly requires the postholder to be suitably qualified and experienced, and these are taken into account by senior management when recruiting to the role.	None.
	Where internal audit is fully outsourced, senior management should ensure that an appropriate individual from the provider is nominated as the chief audit executive and meets the qualification requirements.	Authority	No fully outsourced arrangements in place.	None.
Audit Committee Interaction (Section 3.1)	All audit committees should follow the CIPFA audit committee guidance for the oversight of internal audit.	Authority	In 2024, ESCC Audit Committee completed a self-assessment in accordance with CIPFA best practice. The assessment generally identified full compliance with good practice, with a few areas for improvement which are being taken forward.	None.
	To ensure there is good interaction between the audit committee and internal audit, audit committees must agree its work plan with the	Authority / Internal Audit	A forward plan is in place for the Audit Committee and is produced in conjunction with	None.

# Code of Practice for the Governance of Internal Audit in UK Local Government – Self Assessment



Requirement	Description	Responsibility	Response	Action
	chief audit executive to ensure there is appropriate coverage of internal audit matters within audit committee agendas.		the CIA. It includes appropriate coverage of Internal Audit matters.	
	The audit committee workplan should provide for the internal audit mandate and charter, strategy, plans, engagement reporting and the annual conclusion, and quality reports. The committee should also oversee the tracking and implementation of the actions agreed following audits.	Authority / Internal Audit	As above, a forward plan for Audit Committee includes the Internal Audit mandate and charter, strategy, plans, engagement reporting, annual conclusion, quality reports and action tracking.	None.
	The audit committee must familiarise itself with the authority's assurance framework, governance, risk management and internal control arrangements to facilitate its interactions with internal audit.	Authority	The Audit Committee remit includes assurance framework (incl. AGS), governance, risk management and internal control.	None.
	Senior management should update the audit committee on significant changes to governance, risk and control arrangements and any concerns they have on assurance. The audit committee should have oversight of the annual governance statement before final approval.	Authority	See above. The Audit Committee has oversight of the annual governance statement before final approval.	None.

# Code of Practice for the Governance of Internal Audit in UK Local Government – Self Assessment



Requirement	Description	Responsibility	Response	Action
	Where internal audit consider the management of risk or proposed actions in response to audit engagements represent an unacceptable level of risk to the authority, the audit committee must review the matter. The committee should make their recommendation to either management or those charged with governance as necessary.	Authority / Internal Audit	Where Internal Audit consider management's response to risk issues identified through internal audit activity is unacceptable, this will be reported to the Audit Committee for review. No such circumstances have, however, been identified.	None.
Resources (Section 3.2)	The audit committee and senior management must engage with the chief audit executive to review whether internal audit's financial, human and technological resources are sufficient to meet internal audit's mandate as set out in the regulations and achieve conformance with GIAS (UK public sector).	Authority	Through regular reporting to the Audit Committee throughout the year, the CIA will report any issues associated with financial, human or technological resources that may impact on service delivery. Regardless, the Audit Committee regularly enquires of the CIA on these issues to obtain the necessary assurance.	None.
	Where there are concerns about internal audit's ability to fulfil its mandate or deliver an annual conclusion, the concerns should be	Authority	See above. This has not occurred, but should it happen, concerns would be escalated through the Audit	None

# Code of Practice for the Governance of Internal Audit in UK Local Government – Self Assessment



Requirement	Description	Responsibility	Response	Action
	formally recorded and reported to those charged with governance.		Committee to those charged with governance.	
	If resource issues result in a limitation of scope on the annual conclusion, this should also be reported and disclosed in the annual governance statement.	Authority	See above. Should the CIA report on any limitation of scope, this will be included with the annual governance statement.	None.
	Decisions on internal audit resourcing by senior management and those charged with governance must take account of the longer-term risks to the governance and financial sustainability of the authority and internal audit's role in supporting those objectives. The long-term viability of the internal audit function must be considered.	Authority	Long term resourcing of the IA function is based on organisational priorities, risks and financial strategies.	None.
	Where there are temporary resource constraints, senior management must work with the chief audit executive to establish longer-term plans for sustainable internal audit resources.	Authority	Resourcing challenges are managed by the CIA in co-ordination with senior management and the Audit Committee. Long term strategy is currently focussed on 'growing our own' with appropriate investment in training and development.	None.

# Code of Practice for the Governance of Internal Audit in UK Local Government – Self Assessment



Requirement	Description	Responsibility	Response	Action
Quality (Section 3.3)	Annually, the audit committee must review the results of the chief audit executive's assessment of conformance against GIAS (UK public sector), including any action plan.	Authority	An annual self-assessment against professional standards (GIAS) is undertaken by the CIA and reported to the Audit Committee, along with a summary of any actions arising.	None.
	The audit committee must review the chief audit executive's annual report, including the annual conclusion on governance, risk management and control, and internal audit's performance against its objectives. The committee should review in-year updates and make appropriate enquiries if there are concerns about internal audit performance.	Authority	The Audit Committee review all outputs from the CIA, including annual report and opinion, quarterly progress reports and the strategy and annual audit plan. Appropriate discussions and enquiries take place on all occasions.	None.
	To meet the requirements of the regulations (the mandate) for internal audit, the audit committee must satisfy itself on the effectiveness of internal audit. They should take into account conformance with the standards, interactions with the committee, performance and feedback from senior management. Their conclusions should be reported to those charged with governance,	Authority	See above. The Audit Committee regularly receives reports covering Internal Audit performance and effectiveness and makes enquiries of these throughout the year. Currently unclear, however, as to the extent to which conclusions are reported to those charged with governance.	Review arrangements for Audit Committee reporting on its conclusions as to the effectiveness of Internal Audit, possibly as part of the Committee's annual report.



# Code of Practice for the Governance of Internal Audit in UK Local Government – Self Assessment



Requirement	Description	Responsibility	Response	Action
	for example, as part of the audit committee's annual report.			
External Quality Assessment (Section 3.4)	On behalf of those charged with governance and the audit committee, senior management must ensure that internal audit has an external quality assessment at least once every five years of its conformance against GIAS (UK public sector), including this Code. Senior management and the chief audit executive should discuss the timing of the review and report the options and their recommendation to the audit committee.	Authority	Internal Audit is subject to an independent external quality assessment at least once every 5 years, with the last review conducted by the Chartered Institute of Internal Auditors, which reported in 2022. The next review is therefore due in 2027, the timing and options for which will be agreed with the Audit Committee.	None.
	Where the authority is the client of an internal audit provider, (shared, partnership or outsourced functions), then agreement on the approach to the EQA will need to take account of the broader arrangements.	Authority	See above – agreement to the approach obtained from Audit Committee and takes account of broader partnerships arrangements.	None.
	Where the authority commissions the EQA, the proposals for the scope, method of assessment and assessor should be brought to the audit committee for agreement. For all EQAs covering local government clients, the assessor	Authority	See above – for the next review, scope, method and assessor will continue to be brought to Audit Committee for	None.

# Code of Practice for the Governance of Internal Audit in UK Local Government – Self Assessment



Requirement	Description	Responsibility	Response	Action
	must use this Code alongside the standards and be familiar with the sector.		agreement and will include use of the Code.	
	The audit committee must receive the complete results of the assessment and consider the chief audit executive's action plan to address any recommendations. Progress should be monitored.	Authority / Internal Audit	The complete results of external assessments are reported to Audit Committee along with details of any action plans arising.	None.
	Where the audit committee does not have delegated authority, the committee should report the overall results of the external quality assessment to those charged with governance.	Authority	See above.	None.

## Key:

GIAS: Global Internal Audit Standards

AGS: Annual Governance Statement

IA: Internal Audit

CIPFA: Chartered Institute of Public Finance and Accountancy

CIA: Chief Internal Auditor

# Code of Practice for the Governance of Internal Audit in UK Local Government

The Code comes into force from 1 April 2025.

## 1. Summary

CIPFA has developed the Code of Practice for the Governance of Internal Audit in UK Local Government (the Code) to support authorities in establishing their internal audit arrangements and providing oversight and support for internal audit.

The Code is designed to work alongside new internal audit standards and replaces the organisational responsibilities set out in the [Statement on the role of the head of internal audit](#) (CIPFA, 2019). It is aimed at those responsible for ensuring effective governance arrangements for internal audit:

- The body or individual charged with governance – this includes the police and crime commissioner and chief constable (corporations sole) in policing or full body of the authority.
- The audit committee, the primary committee that may hold some delegated responsibilities towards internal audit.
- Senior management of the authority, including the statutory officers, head of paid service, monitoring officer and section 151/section 95 officer that hold responsibilities for governance.

It applies to all authorities applying Global Internal Audit Standards in the UK Public Sector and that are within the scope of the statutory regulations on internal audit, as set out in Appendix A of the Code. Typically smaller authorities would not fall within the scope of the Code.

The Code applies regardless of the method of internal audit delivery.

## 2. Background to the Code

Local government bodies have a requirement for internal audit as set out in national regulations. As the relevant internal audit standard setter (RIASS) for UK local government, CIPFA works with other RIASS through the Internal Audit Standards Advisory Board (IASAB) to mandate the appropriate internal audit standards. Since 2013, the RIASS have jointly mandated the Public Sector Internal Audit Standards (PSIAS) based on the International Professional Practices Framework of the Institute of Internal Auditors (IIA). New standards, Global Internal Audit Standards (UK public sector), are mandated from 1 April 2025 consisting of the [Global Internal Audit Standards](#) (GIAS) of the IIA and the [Application Note: Global Internal Audit Standards in the UK public sector](#).

The new standards include 'essential conditions' for the governance of internal audit. These conditions are needed to allow effective internal audit practice and for internal auditors to conform with GIAS in the UK public sector. Previously, CIPFA has issued guidance to authorities on the governance of internal audit in the [Statement on the role of the head of internal audit](#) and in its [Position Statement: audit committees in local authorities and police](#), and the [accompanying publication](#) (CIPFA, 2022).

When the IIA published GIAS, it recognised that in the public sector, governance structures or other laws or regulations may impact on how the essential conditions can be applied. This is the case in UK local government, where there isn't a straightforward replacement for the 'board' as described in GIAS. Elected representatives are ultimately those charged with governance, whether that is the full council of an authority or an elected police and crime commissioner. Local government audit committees are non-executive advisory bodies with limited decision-making powers and police audit committees cannot be delegated any decision-making powers. Internal audit's primary mandate comes from statutory regulations rather than the decision of the audit committee.

The GIAS also provides for the chief audit executive to reach agreement with those in governance roles and senior management on alternative conditions that still allow for conformance with the standards. The Code provides the route to satisfying the essential conditions in GIAS in the UK public sector, tailored for UK local government. The Application Note GIAS in the UK public sector directs the local government sector bodies to apply this Code.

This Code meets the objectives of the essential conditions, by providing for the necessary governance of internal audit, but in a way that is appropriate for UK local government bodies. It includes roles and responsibilities of the audit committee, senior management and those charged with governance towards internal audit.

### 3. Implementing the Code

By following the Code, both the authority and the chief audit executive can be confident that governance in their authority is working in the way that is expected in the Principles and Standards in Domain III of GIAS in the UK public sector. The chief audit executive must, of course, conform with the full standards to achieve overall conformance. But by using the Code alongside GIAS in the UK public sector, local government bodies are better placed to achieve that conformance.

The Code builds on existing CIPFA guidance, including:

- [Position Statement: audit committees in local authorities and police](#) (2022)
- [The role of the head of internal audit](#) (2019) (the Code replaces the organisational responsibilities)
- The [Financial Management Code](#) (2019).

Much of the Code is already recognised good practice as per existing CIPFA guidance, and many authorities will have these arrangements, or close to them, in place. Bringing them together into a code will strengthen the position of internal audit in local government and support its professionalism. Strengthening governance arrangements will ensure authorities are better able to meet their challenging service priorities and make best use of their resources.

### 4. Demonstrating compliance

The authority should explain how it complies with the Code in its annual governance statement. CIPFA is currently updating its guidance on annual governance statements for publication in 2025. Conformance with both the Code and GIAS in the UK public sector will be featured in the new Addendum as part of the core arrangements authorities should have in place. Effective arrangements for the governance of internal audit, as well as effective internal audit, are vital parts of an authority's governance arrangements.

The Code must also be included in the chief audit executive's annual internal quality assessment for report to the audit committee.

The external quality assessment (EQA), that authorities need at least once every five years, must also apply the Code when evaluating those aspects of the standards.

It is anticipated that further guidance on the EQA of multi-client providers and in-house teams with multiple external clients for internal audit services will be developed in 2025. For those internal audit functions, the EQA will need to take the Code into account when considering local government clients.

## Provisions of the Code

When applying the Code, authorities should take into account what delegated authority, if any, the audit committee may have. Some committees may be delegated to approve certain matters related to internal audit such as the audit charter or an internal audit strategy. Other committees may review and recommend to the appropriate body charged with governance.

The term chief audit executive is used to ensure consistency with the GIAS, although the term is rarely used in local government. Each authority should be clear which individual fulfils these responsibilities, regardless of actual job title. In practice the chief audit executive may delegate appropriate responsibilities to other qualified professionals in the internal audit function but retains ultimate accountability.

### 1. Providing authority for internal audit

#### 1.1 Internal audit's mandate

To be effective and to meet the requirements of professional standards, internal audit's authority needs to be established.

In local government in the UK, internal audit's authority has statutory backing through the regulations issued by national UK governments. Authorities should familiarise themselves with the appropriate regulations that apply to them (see Appendix A). Regulations also include internal audit's rights of access.

In GIAS in the UK public sector this is referred to as internal audit's mandate, so the primary mandate comes from the regulations.

In addition to internal audit's mandate from regulations, each body may agree a wider statement of internal audit's authority. In developing the mandate with the chief audit executive, senior management should consider their wider assurance framework.<sup>1</sup> The framework ensures that those responsible for governance and the audit committee receive the assurances they need, including assurance from first and second lines,<sup>2</sup> and clarifies how internal audit contributes.

Development of the mandate will involve the chief audit executive, senior management and the audit committee. The audit committee must approve, or recommend for approval, the mandate.

If there are changes to the regulations, the mandate must be updated to reflect them.

#### 1.2 Internal audit's charter

The chief audit executive has a responsibility to prepare a charter that conforms with GIAS in the UK public sector. When reviewing the charter, the audit committee should be satisfied that it covers the

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<sup>1</sup> The means by which leaders, managers and decision makers can have confidence that the governance arrangements that they have approved are being implemented, operating as intended, and remain fit for purpose. See [Developing an effective assurance framework in a local authority](#) (CIPFA, 2023).

<sup>2</sup> Management assurance from line management and internal review or oversight functions.

governance arrangements for internal audit. It must include the mandate derived from the regulations, plus any additional agreed mandate, and include internal audit's reporting line to the audit committee. The charter should include the administrative reporting arrangements for internal audit and the chief audit executive.

Senior management must work with the chief audit executive to ensure that the charter sets out the arrangements the function needs to achieve internal audit's purpose. In local government, internal audit's role would normally include:

- supporting the delivery of the authority's strategic objectives by providing risk-based and objective assurance on the adequacy and effectiveness of governance, risk management and internal controls
- championing good practice in governance through assurance, advice and contributing to the authority's annual governance review
- advising on governance, risk management and internal control arrangements for major projects, programmes and system changes
- access to the authority's interests in collaborative and arm's-length arrangements.

The audit committee must approve the charter or recommend its approval.

Where there are significant changes to the governance of the authority, its risks or the internal audit function, the charter must be reviewed to ensure it is still fit for purpose and new formal approval given. A regular review is recommended to confirm the charter or update as required.

## 1.3 Support for internal audit

Internal audit's activities require access to and support from senior management, the audit committee and those charged with governance. Support allows internal audit to apply their mandate and charter in practice and meet expectations.

Support means:

- championing the role and work of internal audit to the staff within the authority and to partner organisations with whom internal audit will work
- facilitating access to senior management, the audit committee and the authority's external auditor
- assisting, where possible, with access to external providers of assurance such as regulators, inspectors and consultants
- engaging constructively with internal audit's findings, opinions and advice
- building awareness and understanding of the importance of good governance, risk management and internal control for the success of the authority, and of internal audit's contributions.

Support also means putting in place conditions to enable internal audit's work:

- When senior management and those charged with governance agree organisational structures, they must ensure that the direct reporting line of the chief audit executive is not lower than a member of the senior management team and has access to all members of the team. The chief audit executive should be a senior manager, providing them with the necessary profile to fulfil the function's mandate.

- Where internal audit is outsourced or delivered through a partnership arrangement, senior management and those charged with governance should ensure there is a nominated chief audit executive, and client responsibility lies with a member of senior management.
- The organisational position of the chief audit executive should be supported by direct reporting to the audit committee.

The audit committee can demonstrate its support for internal audit by:

- enquiring of senior management and the chief audit executive about any restrictions on the internal audit's scope, access, authority or resources that limit its ability to carry out its responsibilities effectively
- considering the audit plan or planning scope and formally approving or recommending approval as appropriate
- meeting at least annually with the chief audit executive in sessions without senior management present.

## 2. Positioning internal audit independently

On behalf of those charged with governance and the audit committee, senior management establishes and protects the internal audit function's independence and qualifications.

### 2.1 Organisational independence

On behalf of those charged with governance, senior management needs to establish and safeguard internal audit's independence. These arrangements must include:

- Ensuring internal audit's access to staff and records, as set out in regulations and the charter, operates freely and without any interference to its scope, performance of engagements or communication of results.
- Ensuring that the chief audit executive reports in their own right to the audit committee on the work of internal audit.
- Providing opportunities for the chief audit executive to meet with the audit committee without senior management present. At least one such meeting must be held each year.
- Where there are actual or potential impairments to the independence of internal audit, senior management should work with the chief audit executive to remove or minimise them or ensure safeguards are operating effectively.
- Recognise that if the chief audit executive has additional roles and responsibilities beyond internal auditing, or if new roles are proposed, it could impact on the independence and performance of internal audit. The impact must be discussed with the chief audit executive and the views of the audit committee sought. Where needed, appropriate safeguards must be put in place by senior management to protect the independence of internal audit and support conformance with professional standards.

In local government, matters around the appointment, removal, remuneration and performance evaluation of an in-house chief audit executive will be undertaken by senior management, but these



arrangements must not be used to undermine the independence of internal audit. The audit committee should provide feedback on the proposed job description and the performance evaluation of the chief audit executive should include feedback from the chair of the audit committee. In shared or outsourced arrangements, the audit committee should provide feedback on the operation of the contract.

The audit committee must support internal audit's independence by reviewing the effectiveness of safeguards at least annually, including any issues or concerns about independence raised by the chief audit executive. The chief audit executive must have the right of access to the chair of the audit committee at any time. The audit committee can escalate its concerns about internal audit independence to those charged with governance.

## 2.2 Qualifications of the chief audit executive

Ensuring effective leadership of the internal audit team requires a suitably qualified and experienced chief audit executive. The Application Note: GIAS in the UK public sector sets out the qualifications and competencies expected of the chief audit executive. These must be taken into account by senior management when recruiting to the post.

Where internal audit is fully outsourced or is shared, senior management should ensure that an equivalent individual from the provider is nominated as the chief audit executive and meets the qualification requirements set out in the Application Note.

## 3. Oversight of internal audit

To ensure the effectiveness of internal audit, it should be overseen by the audit committee on behalf of those charged with governance.

Some local authorities in the UK have legislation or statutory guidance on the responsibilities of their audit committees. Details are in Appendix B.

CIPFA has established recommended practice for audit committees in local government and police: the [Position Statement: audit committees in local authorities and police 2022](#) and its supporting guidance publication, [Audit committees: practical guidance for local authorities and police \(2022\)](#).<sup>3</sup> The following principles are consistent with their recommended practices for the oversight of internal audit.

### 3.1 Audit committee interaction

All audit committees should follow the CIPFA audit committee guidance for the oversight of internal audit.

To ensure there is good interaction between the audit committee and internal audit, audit committees must agree its work plan with the chief audit executive to ensure there is appropriate coverage of

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<sup>3</sup> CIPFA's guidance on audit committees has been endorsed by the Ministry of Housing, Communities and Local Government as recommended practice for English authorities and by the Home Office for police audit committees in England and Wales. The Statutory and Non-Statutory Guidance for Principal Councils in Wales – supporting provisions within the Local Government Act 2000, the Local Government (Wales) Measure 2011 and the Local Government and Elections (Wales) Act 2021 also recommend CIPFA's guidance.

internal audit matters within audit committee agendas. The audit committee workplan should provide for the internal audit mandate and charter, strategy, plans, engagement reporting and the annual conclusion, and quality reports. The committee should also oversee the tracking and implementation of the actions agreed following audits.

The audit committee must familiarise itself with the authority's assurance framework and approach to governance, risk management and internal control arrangements to fulfil the wider terms of reference of the committee. This understanding will facilitate its interactions with internal audit.

Senior management should update the audit committee on significant changes to governance, risk and control arrangements and any concerns they may have on assurance. The audit committee should have oversight of the annual governance statement before final approval. Audit committee familiarity with these will support their effective interaction with internal audit.

Where internal audit consider the management of risk or proposed actions in response to audit engagements represent an unacceptable level of risk to the authority, the audit committee must review the matter. The committee should make their recommendation to either management or those charged with governance as necessary.

## 3.2 Resources

The audit committee and senior management must engage with the chief audit executive to review whether internal audit's financial, human and technological resources are sufficient to meet internal audit's mandate as set out in the regulations and achieve conformance with GIAS in the UK public sector. Where the function is outsourced or shared, the focus should be on the budgeted contract.

Where there are concerns about internal audit's ability to fulfil its mandate or deliver an annual conclusion, the concerns should be formally recorded and reported to those charged with governance. If resource issues result in a limitation of scope on the annual conclusion, this should also be reported and disclosed in the annual governance statement.

Decisions on internal audit resourcing by senior management and those charged with governance must take account of the longer-term risks to the governance and financial sustainability of the authority and internal audit's role in supporting those objectives. The long-term viability of the internal audit function must be considered.

Where there are temporary resource constraints, senior management must work with the chief audit executive to establish longer-term plans for sustainable internal audit resources.

## 3.3 Quality

Annually, the audit committee must review the results of the chief audit executive's assessment of conformance against GIAS in the UK public sector, including any action plan.

The audit committee must review the chief audit executive's annual report, including the annual conclusion on governance, risk management and control, and internal audit's performance against its objectives. The committee should review in-year updates and make appropriate enquiries if there are concerns about internal audit performance.

To meet the requirements of the regulations (the mandate) for internal audit, the audit committee must satisfy itself on the effectiveness of internal audit. They should take into account conformance with the standards, interactions with the committee, performance and feedback from senior management. Their conclusions should be reported to those charged with governance, for example as part of the audit committee's annual report.

### 3.4 External quality assessment

On behalf of those charged with governance and the audit committee, senior management must ensure that internal audit has an external quality assessment at least once every five years of its conformance against GIAS in the UK public sector, including this Code. Senior management should discuss the chief audit executive's plan for the review and report the options, suggested timing and their recommendation to the audit committee.

Where the authority is the client of an internal audit provider, (shared, partnership or outsourced functions), then agreement on the approach to the EQA will need to take account of the broader arrangements.

Where the authority commissions the EQA, the proposals for the scope, method of assessment and assessor should be brought to the audit committee for agreement. For all EQAs covering local government clients, the assessor must use this Code alongside the standards and be familiar with the sector.

The audit committee must receive the complete results of the assessment and consider the chief audit executive's action plan to address any recommendations. Progress should be monitored.

Where the audit committee does not have delegated authority, the committee should report the overall results of the external quality assessment to those charged with governance.

## Appendix A – Current regulations for internal audit in local government (extracts)

The regulations are the basis for internal audit's authority or mandate. Authorities should use the regulations applicable to them. Subsequent amendment regulations have not changed the paragraphs on internal audit, but they may be updated or replaced in the future.

### England

#### The Accounts and Audit Regulations 2015

##### Internal Audit

5.(1) A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.

(2) Any officer or member of a relevant authority must, if required to do so for the purposes of the internal audit—

- (a) make available such documents and records; and
- (b) supply such information and explanations;

as are considered necessary by those conducting the internal audit.

(3) In this regulation “documents and records” includes information recorded in an electronic form.

### Northern Ireland

#### The Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015

##### Internal audit

6. (1) A local government body must undertake an adequate and effective internal audit of its accounting records and of its system of risk management, internal control and governance processes using internal auditing standards in force from time to time.

(2) Any officer or member of a local government body must, if internal audit requires—

- (a) make available such documents and records as appear to internal audit to be necessary for the purposes of the audit; and
- (b) supply internal audit with such information and explanation as internal audit considers necessary for that purpose.

(3) In this regulation “records” includes records and documents in an electronic form.

## Scotland

### The Local Authority Accounts (Scotland) Regulations 2014

#### Internal auditing

7. (1) A local authority must operate a professional and objective internal auditing service in accordance with recognised standards and practices in relation to internal auditing.

(2) Any officer or member of a local authority must, as required by those undertaking internal auditing—

(a) make available such documents of that authority which relate to its accounting and other records for the purpose of internal auditing; and

(b) supply such information and explanation as those undertaking internal auditing consider necessary for that purpose.

(3) A local authority must from time to time assess the efficiency and effectiveness of its internal auditing, in accordance with the standards and practices referred to in paragraph (1).

(4) The findings of the assessments referred to in paragraph (3) must be considered, as part of the consideration of the system of internal control referred to in regulation 5(2), at the meeting referred to in regulation 5(3).

## Wales

### The Accounts and Audit (Wales) Regulations 2014

#### Internal audit

7. (1) A relevant body must maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control.

(2) Any officer or member of that body must, if the body requires—

(a) make available such documents of the body which relate to its accounting and other records as appear to that body to be necessary for the purpose of the audit; and

(b) supply the body with such information and explanation as that body considers necessary for that purpose.

(3) A larger relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit.

(4) The findings of the review referred to in paragraph (3) must be considered, as part of the consideration of the system of internal control referred to in regulation 5(3), by the committee or body referred to in that paragraph.

## Appendix B – Current legislation or statutory guidance on the responsibilities of audit committees in UK local government

### Local Government Measure 2011 as amended by the Local Government and Elections (Wales) Act 2021 (extract)

81. Local authorities to appoint governance and audit committees

- (1) A local authority must appoint a committee (a “governance and audit committee”) to—
- ...
- (e) oversee the authority’s internal and external audit arrangements

### Cities and Local Government Devolution Act 2016

### Levelling Up and Regeneration Act 2023


For audit committees in combined authorities and combined county authorities.

### Audit committee requirements for police

The Financial Management Code of Practice (Home Office, 2018), includes:

- The police and crime commissioner (PCC) and the chief constable should establish an independent audit committee. It is recommended that this be a combined body which will consider the internal and external audit reports of both the PCC and the chief constable.





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**Report to:** Audit Committee

**Date:** 21 November 2025

**By:** Chief Finance Officer

**Title of report:** Treasury Management – Stewardship Report 2024/25 and Mid-Year Review 2025/26

**Purpose of report:** To present a review of the Council's performance on Treasury Management for the year 2024/25 and Mid-Year Review for 2025/26.

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**RECOMMENDATION:** Audit Committee is recommended to note the Treasury Management performance in 2024/25, incorporating the Mid-Year Review for the first half of 2025/26.

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## 1. Background

- 1.1 The annual stewardship report presents the Council's treasury management performance for 2024/25 and Mid-Year performance for 2025/26, as required by the Chartered Institute of Public Finance and Accountancy (CIPFA) 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 (the 'Code') 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 that treasury management practices are in accordance with the Council's risk appetite. The Code requires the regular reporting of treasury management activities to:
- Forecast the likely activity for the forthcoming year (in the annual Treasury Management 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 2024/25 and the economic factors affecting this strategy (Appendix A).
  - The treasury management activity during the year 2024/25 (Appendix B);
  - The treasury management mid-year activity for 2025/26 (Appendix C); and
  - The Prudential Indicators, which relate to the Treasury Management function and compliance with limits (Appendix D).

### Summary of original Strategy agreed for 2024/25 and the economic factors affecting this Strategy

- 2.3 The Strategy for 2024/25, agreed in February 2024, continued the ongoing prudent approach and ensured that all investments were only to the highest quality rated institutions with regard to security, liquidity and yield. The Strategy and the economic conditions prevailing in 2024/25 are set out in Appendix A with an updated economic summary set out in Appendix C.
- 2.4 The economic situation since the original Strategy formulation saw heightened uncertainties in the UK economy, particularly from inflationary, geopolitical and domestic political factors. As a result, The Bank of England (BoE) Base Rate was cut on 3 occasions during 2024/25, from 5.25% in April 2024 to a closing rate of 4.50% at 31 March 2025.

## Treasury Management activity during 2024/25

- 2.5 The total amount received in short term interest from investments during 2024/25 was £9.8m at an average rate of 5.26%. The implemented benchmark of SONIA (Standard Overnight Index Average; a rate administered by the BoE based on actual transactions of overnight borrowing by financial institutions) over the period was 4.94%.
- 2.6 The average Bank of England Base Rate during the same period was 4.95%. The Council's average return was above the average returns achieved with peer authorities from treasury advisors (MUFG formerly named Link Asset Services) investment benchmarking. The return for 2024/25 was against a backdrop of ensuring, as far as possible in the financial climate, the security of principal and the minimisation of risk about liquidity to support the Council's cashflow.
- 2.7 The Council's investment balances during the period were in steady decline to March 2025. Investment balances at 31 March 2025 totaled £115.3m (compared to £202.5m at 31 March 2024).
- 2.8 The planned use of reserves, creditor spend and debt maturities have all contributed to the falling investment balances during 2024/25. The cashflow forecast is monitored on a rolling 18-month basis and a steady investment maturity profile ensures liquidity is available when required.
- 2.9 Details of long term borrowing are included in Appendix B of the report. The important points to note are:
- No new borrowing was undertaken in 2024/25.
  - Public Works Loan Board (PWLB) debt maturing during 2024/25 totalled £5.0m and was at an average rate of 7.67%.
  - The average interest rate of all debt at 31 March 2025 (£211.6m) was 4.44%.

## Treasury Management 2025/26 Mid-Year Review

- 2.10 The Treasury Management and Annual Investment Strategy for 2025/26 was approved by Full Council on 11 February 2025 and was prepared within the context of the financial challenge being faced by the County Council.
- 2.11 The Bank of England Base Rate as of 30 September 2025 was 4.00%. During the first 6 months of the year, it decreased on the 8 May and 7 August 2025. The economic commentary provided by MUFG as at the mid-year point is set out as part of Appendix C.
- 2.12 Opportunities to place fixed term deposits during the period have been limited due to the reduction in available investment balances. At 30 September 2025 £71.8m was placed on deposit (September 2024, £166.9m) a reduction of £95.1m over the year.
- 2.13 Fixed term deposits have been placed over the period with regard to the cashflow forecast and will secure a fixed rate of return for a duration of up to 12 months. This approach locks in returns into a future decreasing interest rate environment. During the period fixed term deposits totaling £69m were placed at rates between 4.09% and 4.90%.
- 2.14 The rolling cashflow forecast and steady maturity investment portfolio ensures liquidity is available as and when required. The current forecast suggests there may be a short-term borrowing requirement during the second half of the year to cover temporary month end cash flow for payroll and creditor payment settlements. The treasury team will seek to limit the term of any borrowing to minimise the financial impact.
- 2.15 The total amount received in short term interest for 6 months to 30 September 2025 was £3.1m at an average rate of 4.63%. This was above the benchmark of SONIA in the same period of 4.19%.
- 2.16 During Q1 an opportunity was taken to repay a Barclays Market Loan with the assistance of the Council's Treasury Advisors MUFG. The last remaining non-PWLB loan of £6.45m (maturity date October 2058), was repaid early from available balances at an appreciable discount to loan value. Savings from the discounted repayment of approximately £0.1m per

year will be spread over the next 10 years in line with accounting standards. Further restructuring opportunities are constantly monitored.

- 2.17 No PWLB borrowing was undertaken in the period, with the Council's long-term debt at 30 September 2025 being £200.1m held at an average rate of 4.38%.

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

- 2.18 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 as are set out in Appendix D, demonstrating that the Council is fully compliant with these indicators.

**3. Conclusion and reason for recommendation**

- 3.1 This report updates on treasury management performance and fulfils the requirement to submit an annual/half yearly report in the form prescribed in the Treasury Management Code of Practice. The key principles of security, liquidity and yield are still relevant. Officers are currently investigating opportunities within the strategy to secure investment income whilst minimising costs and maintaining security.

**IAN GUTSELL**  
**Chief Finance Officer**

Contact Officer: Ian Gutsell Tel No. 01273 481399

BACKGROUND DOCUMENTS

Ministry of Housing, Communities and Local Government– Finance and Capital Assets  
[Capital finance: guidance on minimum revenue provision \(5th edition\) - GOV.UK](#)

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**A summary of the strategy agreed for 2024/25 and the economic factors affecting this strategy.**

**1. Background information**

1.1 Full Council approved the annual Treasury Management Strategy report in February 2024, which set out the proposed strategy for the 2024/25 financial year. This strategy included the limits and criteria for organisations to be used for the investment of cash surpluses and has to be approved by Full 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 2024/25 was prepared within the context of the financial challenge being faced by the County Council over the Medium Term Financial Plan:

- maximising investment income by seeking ways to increase cash balances.
- A review of the Capital Programme profile to assist with reducing borrowing and to delay expenditure.
- utilising cash balances to fund the Council's borrowing need in order to minimise borrowing costs as far as possible.
- ensuring the investment portfolio is working hard to maximise income by seeking appropriate investment opportunities that meet the Council's security requirements during 2024/25.
- ensuring effective management of the borrowing portfolio by exploring rescheduling opportunities and identifying and exploiting the most cost effective ways of funding the Council's borrowing requirement.

1.4 At the same time, the Treasury Management Policy Statement was agreed as unchanged for 2024/25.

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 February 2024, it emphasised the continued importance of taking account of the current and predicted future state of the financial sector. The Treasury Management Advisors (MUFG) 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.

2.2 The Strategy was set in the context of the Council's deficit revenue budget forecast for 2024/25 and medium-term financial plan for 2025/26 to 2027/28. The Investment Strategy appropriately contributes to mitigating the Council's deficit revenue position. Cash balances and therefore investment balances were expected to reduce to support the authority's borrowing need. However, in this context, the Council's risk appetite for investments is not be modified to increase income. The strategy continued to prioritise security of the Council's funds. New investment options could be explored within the risk appetite and strategy parameters.

2.3 The Council continued to explore Investment options that meet Environmental, Social and Governance (ESG) aims. The parameter acts as an added 4<sup>th</sup> consideration to investment decisions behind Security, Liquidity and Yield. The preservation of capital is the Council's principal and overriding priority.

2.4 The Council, in addition to other tools, uses the creditworthiness service provided by MUFG. 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.

### **3. Borrowing**

3.1 The capital expenditure plans of the Council were set out in the Capital Strategy Report sent to Council in February 2024. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes so that sufficient cash is available to meet the capital expenditure plans.

3.2 The Borrowing Strategy and the Capital Programme identified a borrowing need of £94m over the next 3 years (between 2024/25 and 2026/27). This level of borrowing was identified following a review and reprofiling of the Capital Programme. The objective of the review was to minimise borrowing costs within the Treasury Management revenue budget. This review reduced the borrowing requirement by £48m from £142m originally planned for the period between 2024/25 and 2026/27.

3.3 Officers utilised cash from the Council's own reserves to initially fund borrowing. This decreased the Council's cash balances, reduced counterparty risk, and reduced borrowing costs. Modelling of the Council's capital plans and cashflows identified an appropriate level of internal borrowing of around £50m in the longer term. This was increased to £75m to 2024/25 on the basis that it is preferable to maximise internal borrowing as far as possible at a time where interest rates were higher. The strategy was kept under review as there are risks that are required to be managed and balanced during the year. The Capital Programme needs to be funded in the most cost-effective way. Maximising internal borrowing will reduce investment balances and therefore investment income.

3.4 The budget within the Medium Term Financial Plan (MTFP) is calculated using the Treasury Management Tool that reflects the costs of borrowing in support of the targeted basic need programme offset by returns on investment of the Council's balances. It is therefore reflective of a point in time. The treasury management tool, developed as part of the Capital Strategy, is reviewed regularly for reasonableness.

3.5 The liability benchmark demonstrated that if the Council were to internally borrow to utilise its cash-backed reserves and balances whilst maintaining a buffer for cash requirements, external borrowing could be avoided until 2027/28. This indicator will be used to assist with future borrowing decisions, in conjunction with the Treasury management Tool.

#### 4. The economy in 2024/25 MUFG (Treasury Management Advisors) in April 2025

4.1 UK inflation has proved somewhat stubborn throughout 2024/25. Having started the financial year at 2.3% y/y (April), the CPI measure of inflation briefly dipped to 1.7% y/y in September before picking up pace again in the latter months. The latest data shows CPI rising by 2.8% y/y (February), but there is a strong likelihood that figure will increase to at least 3.5% by the Autumn of 2025.

4.2 Against that backdrop, and the continued lack of progress in ending the Russian invasion of Ukraine, as well as the potentially negative implications for global growth as a consequence of the implementation of US tariff policies by US President Trump in April 2025, Bank Rate reductions have been limited. Bank Rate currently stands at 4.5%, despite the Office for Budget Responsibility reducing its 2025 GDP forecast for the UK economy to only 1% (previously 2% in October).

4.3 UK, Moreover, borrowing has becoming increasingly expensive in 2024/25. Gilt yields rose significantly in the wake of the Chancellor's Autumn Statement, and the loosening of fiscal policy, and have remained elevated ever since, as dampened growth expectations and the minimal budget contingency (<£10bn) have stoked market fears that increased levels of borrowing will need to be funded during 2025.

4.4 The table below provides a snapshot of the conundrum facing central banks: inflation pressures remain, labour markets are still relatively tight by historical comparisons, and central banks are also having to react to a fundamental re-ordering of economic and defence policies by the US administration.

	UK	Eurozone	US
<b>Bank Rate</b>	4.50%	2.5%	4.25%-4.5%
<b>GDP</b>	0.1%q/q Q4 (1.1%y/y)	+0.1%q/q Q4 (0.7%y/y)	2.4% Q4 Annualised
<b>Inflation</b>	2.8%y/y (Feb)	2.3%y/y (Feb)	2.8%y/y (Feb)
<b>Unemployment Rate</b>	4.4% (Jan)	6.2% (Jan)	4.1% (Feb)

4.5 The Bank of England sprung no surprises in their March meeting, leaving Bank Rate unchanged at 4.5% by a vote of 8-1, but suggesting further reductions would be gradual. The Bank of England was always going to continue its cut-hold-cut-hold pattern by leaving interest rates at 4.50% but, in the opposite of what happened at the February meeting, the vote was more hawkish than expected. This suggested that as inflation rises later in the year, the Bank

cuts rates even slower, but the initial impact of President Trump's tariff policies in April 2025 on the financial markets underpin our view that the Bank will eventually reduce rates to 3.50%.

4.6 Having said that, the Bank still thinks inflation will rise from 2.8% in February to 3¼% in Q3. And while in February it said "inflation is expected to fall back thereafter to around the 2% target", this time it just said it would "fall back thereafter". That may be a sign that the Bank is getting a bit more worried about the "persistence in domestic wages and prices, including from second-round effects". Accordingly, although we expect a series of rate cuts over the next year or so, that does not contradict the Bank taking "a gradual and careful" approach to cutting rates, but a tepid economy will probably reduce inflation further ahead and prompt the Bank to cut at regular intervals.

4.7 From a fiscal perspective, the increase in businesses' national insurance and national minimum wage costs from April 2025 is likely to prove a headwind, although in the near-term the Government's efforts to provide 300,000 new homes in each year of the current Parliament is likely to ensure building industry employees are well remunerated, as will the clamp-down on immigration and the generally high levels of sickness amongst the British workforce. Currently wages continue to increase at a rate close to 6 y/y. The MPC would prefer a more sustainable level of c3.5%.

4.8 As for equity markets, the FTSE 100 has recently fallen back to 7,700 having hit an all-time intra-day high 8,908 as recently as 3rd March. The £ has also endured a topsy-turvy time, hitting a peak of \$1.34 before dropping to \$1.22 in January and then reaching \$1.27 in early April 2025.



## The Treasury Management activity during the year 2024/25

### 1. Investment activity and interest rates

1.1 Investments were placed with reference to the core balance and cash flow requirements and the outlook for interest rates. The Bank of England (BoE) Base Rates averaged during the period were 4.95%.

1.2 During 2024/25 the Bank of England increased bank rate on three consecutive opportunities, the movements summarised below.

	New Rate	Movement
1 August 2024	5.00%	-0.25%
7 November 2024	4.75%	-0.25%
6 February 2025	4.50%	-0.25%

1.3 The total amount received in short term interest for 2024/25 was £9.8m at an average rate of 5.26%. The Councils benchmark rate for the same period was 4.94%. The Standard Overnight Index Average (SONIA). Performance was above the benchmark as a result of the investment portfolio being locked into higher rate investments during a falling base rate environment.

1.4 Throughout the year bank notice accounts, fixed term deposits with banks and Local Authorities were used to invest core balances up to duration of 12 months. Instant access cash money market funds were used to hold liquidity balances to meet day to day creditor requirements.

1.5 The rolling 18 month cashflow forecast was reviewed before new deposits placed during the year to ensure the lower points of the Council's cashflow cycle were covered for liquidity purposes. The steady maturity profile of investments ensures that liabilities can be funded without the need for temporary borrowing.

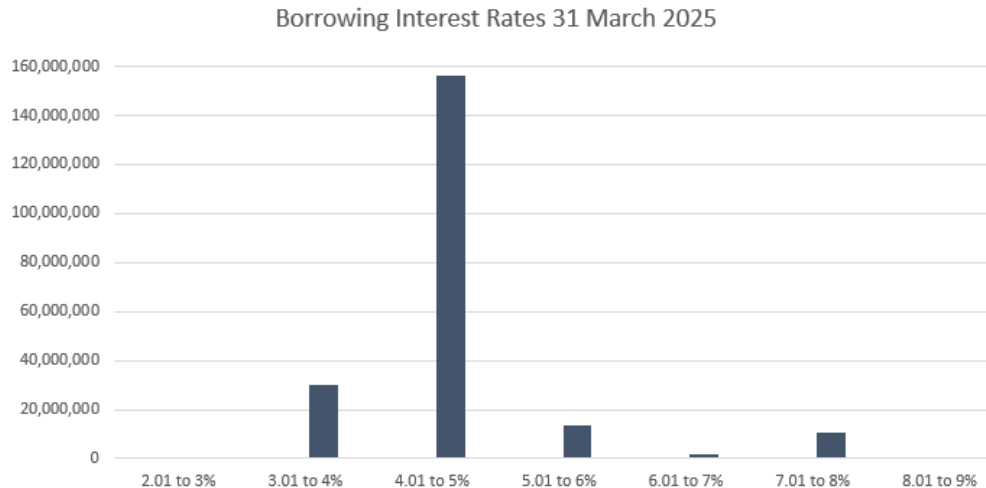
### 2. Long term borrowing

2.1 Officers constantly reviewed the need to borrow taking into consideration the potential movements in borrowing 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 2024/25 £5.0m of PWLB debt matured at an average rate of 7.67%. This historic maturing debt was not replaced with additional in year new borrowing to maintain the strategy to maximise use of reserves to initially fund borrowing. The average interest rate of all debt at 31 March 2025 of £211.6m was 4.44%. The average interest rate of debt will reduce marginally year on year as historic debt falls out of the debt portfolio.

2.3 No PWLB rescheduling was undertaken during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates has made rescheduling unviable.

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



### **3. Short term borrowing**

3.1 No borrowing was undertaken during 2024/25 to cover temporary overdraft situations.

### **4. Treasury Management Advisers**

4.1 The Strategy for 2024/25 explained that the Council uses MUFG 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:

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

## The Treasury Management Activity Mid-Year Report – 2025/26

### 1. Background

1.1 The Treasury Management and Annual Investment Strategy for 2025/26 was approved by Full Council on 11 February 2025.

1.2 The Strategy was prepared within the context the financial challenge being faced by the County Council over the Medium Term Financial Plan and seeks to compliment the Council Plan by:

- ensuring the investment portfolio is working hard to maximise income by seeking appropriate investment opportunities that meet the Council's security requirements during 2025/26.
- reviewing the Capital Programme to reduce the level of investment of core council funded programmes that would otherwise increase the Council's borrowing requirement.
- utilising cash balances to fund the Council's borrowing need in order to minimise borrowing costs as far as possible.
- ensuring effective management of the borrowing portfolio by exploring rescheduling opportunities and identifying and exploiting the most cost effective ways of funding the Council's borrowing requirement.

1.3 There were no changes in the Annual Investment Strategy recommended for 2025/26.

### 2. Investment Activity to 30 September 2025

2.1 The Bank of England cut bank rate twice, the movement summarised below.

	New Rate	Movement
8 May 2025	4.25%	-0.25%
7 August 2025	4.00%	-0.25%

2.2 During the first half year investments have been held in Money Market Funds, high quality Banking names, 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.

2.3 Measures have been undertaken to ensure that levels of liquidity are available during the last 6 months but also opportunities explored to lock in returns in a falling interest rate environment to secure investment returns. However, balances available in the first 6 months of the year have averaged at the lowest level for over a decade.

2.4 Deposits held for liquidity purposes in Money Market Funds have provided a return inline to the prevailing base rate.

2.5 Where possible, fixed term bank deposits have been reinvested up to a period of 12 months securing a fixed rate of return between 4.09% - 4.90% within a low credit risk parameter. Local Authority deposits have been placed in the period at rates ranging between 4.10% - 4.90%, for durations between 3 to 12 months. Their inclusion forms part of a balanced portfolio.

2.6 The average investment balance to September 2025 was £135m and generated investment income of £3.3m. The forecast for 2025/26 is £4.9m and dependent on cashflow and the future interest rate environment.

### Investment Risk

2.7 During the half year monitoring of the security of the Council's investment has taken place, to assess the risk of investments losing their value. These risks were assessed using the financial standing of the groups invested in, the length of each investment, and the historic default rates. The investment strategy sets an allowable risk level of 0.050% (i.e. that there is a 99.95% probability that the Council will get its investments back). The actual indicator ranged between 0.007% and 0.008%, reflecting the high proportion of investments held in highly secure and/or very liquid investments.

Investment Risk benchmark	0.050%
Maximum investment risk experienced Q1-Q2	0.008%

### Investment Benchmarking

2.8 The average investment return during the period was 4.63% over-performing the benchmark rate by 44 basis points (or 0.44 percentage points). The over performance can be attributed to the falling interest rate environment and a number of investments yet to mature in the portfolio previously placed at higher rates.

<b>Average Investment Balance Q1-Q2 £m</b>	<b>Average Investment return Q1 &amp; Q2</b>	<b>Average Benchmark Rate*</b>	<b>Difference</b>
134.974	4.63%	4.19%	0.44%

*\*the Benchmark rate used is the Standard Overnight Index Average; a rate administered by the Bank of England based on actual transactions of overnight borrowing by financial institutions.*

## **3. Borrowing Activity to 30 September 2025**

3.1 No short term loan borrowing was arranged during the period. Future short-term borrowing in the current year is not forecasted but remains an option to cover temporary cashflow requirements.

3.1 During Q1 an opportunity to reduce the cost of borrowing was undertaken. The last remaining non PWLB loan (with Barclays) was repaid early at a discount to the initial loan value. The principal of £6.45m with a maturity date of October 2058 was repaid at a final settlement figure of £5.39m and funded from existing cash resources. Savings from the discounted repayment of approximately £0.1m per year will be spread over the next 10 years in line with accounting standards. Further restructuring opportunities are constantly monitored.

3.2 The level of Council long-term debt at 30 September 2025 was £200.1m, two loans matured with the PWLB during the period on the 30 June (£2m & £3m) held at 7.625% and 7.125%. The next PWLB maturities are on the 30 June 2026, totalling £5.5m at a rate of 7.125%. This maturing debt was not replaced to maintain the strategy to maximise use of reserves to initially fund borrowing

3.3 The forecast for interest paid on long-term debt in 2025/26 is approximately £8.9m and is within the budgeted provision.

#### Borrowing Benchmarking

3.5 The table below shows the Council's total external borrowing and average rate as at 30 September 2025:

	<b>Balance as at 30 September 2025 £m</b>	<b>Average Rate</b>
PWLB	200.142	4.38%
Market Loan	-	-
<b>Total borrowing</b>	<b>200.142</b>	<b>4.38%</b>

3.6 The table below shows the forecast of the Capital Financing Requirement (CFR) compared to the estimate within the 2025/26 strategy approved in February 2025. The CFR is expected to give rise to new borrowing required of £105.737m by the end of the year, compared to the original estimate of £70.000m following an increased capital programme borrowing need in 2024/25 carried forward. The strategy currently forecasts that the level of reserves and balances in the medium term allows for internal borrowing (using internal resources such as useable reserves or temporary working capital) of at least £75.000m in 2025/26. It is therefore expected that new borrowing of £30.737 may be required to support the capital programme during 2025/26, although the timing of borrowing will be considered in the context of the wider treasury management position and economic environment.

<b>Capital Financing Requirement (CFR) (Underlying Borrowing Need)</b>	<b>Original Estimate 2025/26 £m</b>	<b>Revised forecast as at 30 September 2025 £m</b>
Opening CFR	268.971	292.380
Borrowing Need	15.812	21.835
Minimum Revenue Provision	(8.111)	(8.336)
<b>Closing CFR</b>	<b>276.672</b>	<b>305.879</b>
<b>External Borrowing as at 30 September 2025</b>		<b>200.142</b>
<b>Forecast Under borrowing (if no action taken)</b>		<b>105.737</b>

3.7 The table below shows that the Council is operating within the Operational Boundary and Authorised Borrowing Limits set within the Treasury Management strategy and has sufficient headroom to cover the borrowing need arising from the year's capital programme.

<b>Borrowing Limits</b>	<b>Operational Boundary £m</b>	<b>Authorised Borrowing Limit £m</b>
Limit set for 2024/25	362.000	382.000
Less: PFI & Leases	(76.000)	(76.000)
Limit for Underlying Borrowing	286.000	306.000
Actual External Borrowing at 30 September	200.142	200.142
Headroom*	85.858	105.858

*\*Authorised Borrowing headroom cannot be less than zero*

3.8 The maturity profile of the Authority's borrowing is within the limits set within the strategy.

<b>Maturity Structure of borrowing</b>	<b>Lower Limit set</b>	<b>Upper Limit set</b>	<b>Actual as at 30 September 2025</b>
Under 12 Months	0%	25%	1%
12 months to 2 years	0%	40%	4%
2 years to 5 years	0%	60%	5%
5 years to 10 years	0%	70%	23%
Over 10 years	0%	90%	67%

#### **4 Economic update (commentary supplied by MUFG) - September 2025.**

4.1 The first half of 2025/26 saw:

- A 0.3% pick up in GDP for the period April to June 2025. More recently, the economy flatlined in July, with higher taxes for businesses restraining growth.
- The 3m/yy rate of average earnings growth excluding bonuses has fallen from 5.5% to 4.8% in July.
- CPI inflation has ebbed and flowed but finished September at 3.8%, whilst core inflation eased to 3.6%.
- The Bank of England cut interest rates from 4.50% to 4.25% in May, and then to 4% in August.
- The 10-year gilt yield fluctuated between 4.4% and 4.8%, ending the half year at 4.70%.

4.2 From a GDP perspective, the financial year got off to a bumpy start with the 0.3% m/m fall in real GDP in April as front-running of US tariffs in Q1 (when GDP grew 0.7% on the quarter) weighed on activity. Despite the underlying reasons for the drop, it was still the first fall since October 2024 and the largest fall since October 2023. However, the economy surprised to the upside in May and June so that quarterly growth ended up 0.3% q/q. Nonetheless, the 0.0% m/m change in real GDP in July will have caused some concern, with the hikes in taxes for businesses that took place in April this year undoubtedly playing a part in restraining growth. The weak overseas environment is also likely to have contributed to the 1.3% m/m fall in manufacturing output in July. That was the second large fall in three months and left the 3m/3m rate at a 20-month low of -1.1%. The 0.1% m/m rise in services output kept its 3m/3m rate at 0.4%, supported by stronger output in the health and arts/entertainment sectors. Looking ahead, ongoing speculation about further tax rises in the Autumn Budget on 26 November will remain a drag on GDP growth for a while yet. GDP growth for 2025 is forecast by Capital Economics to be 1.3%.

4.3 Sticking with future economic sentiment, the composite Purchasing Manager Index for the UK fell from 53.5 in August to 51.0 in September. The decline was mostly driven by a fall in the services PMI, which declined from 54.2 to 51.9. The manufacturing PMI output balance also fell, from 49.3 to 45.4. That was due to both weak overseas demand (the new exports orders balance fell for the fourth month in a row) and the cyber-attack-induced shutdown at Jaguar Land Rover since 1 September reducing car production across the automotive supply chain. The PMIs suggest tepid growth is the best that can be expected when the Q3 GDP numbers are released.

4.4 Turning to retail sales, and the 0.5% m/m rise in volumes in August was the third such rise in a row and was driven by gains in all the major categories except fuel sales, which fell by 2.0% m/m. Sales may have been supported by the warmer-than-usual weather. If sales were just flat in September, then in Q3 sales volumes would be up 0.7% q/q compared to the 0.2% q/q gain in Q2.

4.5 With the November Budget edging nearer, the public finances position looks weak. Public net sector borrowing of £18.0bn in August means that after five months of the financial year, borrowing is already £11.4bn higher than the OBR forecast at the Spring Statement in March. The overshoot in the Chancellor's chosen fiscal mandate of the current budget is even greater with a cumulative deficit of £15.3bn. All this was due to both current receipts in August being lower than the OBR forecast (by £1.8bn) and current expenditure being higher (by £1.0bn). Over the first five months of the financial year, current receipts have fallen short by a total of £6.1bn (partly due to lower-than-expected self-assessment income tax) and current expenditure has overshot by a total of £3.7bn (partly due to social benefits and departmental spending). Furthermore, what very much matters now is the OBR forecasts and their impact on the current budget in 2029/30, which is when the Chancellor's fiscal mandate bites. As a general guide, Capital Economics forecasts a deficit of about £18bn, meaning the Chancellor will have to raise £28bn, mostly through higher taxes, if she wants to keep her buffer against her rule of £10bn.

4.6 The weakening in the jobs market looked clear in the spring. May's 109,000 m/m fall in the PAYE measure of employment was the largest decline (barring the pandemic) since the data began and the seventh in as many months. The monthly change was revised lower in five of the previous seven months too, with April's 33,000 fall revised down to a 55,000 drop. More recently, however, the monthly change was revised higher in seven of the previous nine months by a total of 22,000. So instead of falling by 165,000 in total since October, payroll employment is now thought to have declined by a smaller 153,000. Even so, payroll employment has still fallen in nine of the ten months since the Chancellor announced the rises in National Insurance Contributions (NICs) for employers and the minimum wage in the October Budget. The number of job vacancies in the three months to August stood at 728,000. Vacancies have now fallen by approximately 47% since its peak in April 2022. All this suggests the labour market continues to loosen, albeit at a declining pace.

4.7 A looser labour market is driving softer wage pressures. The 3m/yy rate of average earnings growth excluding bonuses has fallen from 5.5% in April to 4.8% in July. The rate for the private sector slipped from 5.5% to 4.7%, putting it on track to be in line with the Bank of England's Q3 forecast (4.6% for September).

4.8 CPI inflation fell slightly from 3.5% in April to 3.4% in May, and services inflation dropped from 5.4% to 4.7%, whilst core inflation also softened from 3.8% to 3.5%. More recently, though, inflation pressures have resurfaced, although the recent upward march in CPI inflation did pause for breath in August, with CPI inflation staying at 3.8%. Core inflation eased once more too, from 3.8% to 3.6%, and services inflation dipped from 5.0% to 4.7%. So, we finish the half year in a similar position to where we started, although with food inflation rising to an 18-month high of 5.1% and households' expectations for inflation standing at a six year high, a further loosening in the labour market and weaker wage growth may be a requisite to UK inflation coming in below 2.0% by 2027.

4.9 An ever-present issue throughout the past six months has been the pressure being exerted on medium and longer dated gilt yields. The yield on the 10-year gilt moved sideways in the second quarter of 2025, rising from 4.4% in early April to 4.8% in mid-April following wider global bond market volatility stemming from the “Liberation Day” tariff announcement, and then easing back as trade tensions began to de-escalate. By the end of April, the 10-year gilt yield had returned to 4.4%. In May, concerns about stickier inflation and shifting expectations about the path for interest rates led to another rise, with the 10-year gilt yield fluctuating between 4.6% and 4.75% for most of May. Thereafter, as trade tensions continued to ease and markets increasingly began to price in looser monetary policy, the 10-year yield edged lower, and ended Q2 at 4.50%.

4.10 More recently, the yield on the 10-year gilt rose from 4.46% to 4.60% in early July as rolled-back spending cuts and uncertainty over Chancellor Reeves’ future raised fiscal concerns. Although the spike proved short lived, it highlighted the UK’s fragile fiscal position. In an era of high debt, high interest rates and low GDP growth, the markets are now more sensitive to fiscal risks than before the pandemic. During August, long-dated gilts underwent a particularly pronounced sell-off, climbing 22 basis points and reaching a 27-year high of 5.6% by the end of the month. While yields have since eased back, the market sell-off was driven by investor concerns over growing supply-demand imbalances, stemming from unease over the lack of fiscal consolidation and reduced demand from traditional long-dated bond purchasers like pension funds. For 10-year gilts, by late September, sticky inflation, resilient activity data and a hawkish Bank of England have kept yields elevated over 4.70%.

4.11 The FTSE 100 fell sharply following the “Liberation Day” tariff announcement, dropping by more than 10% in the first week of April - from 8,634 on 1 April to 7,702 on 7 April. However, the de-escalation of the trade war coupled with strong corporate earnings led to a rapid rebound starting in late April. As a result, the FTSE 100 closed Q2 at 8,761, around 2% higher than its value at the end of Q1 and more than 7% above its level at the start of 2025. Since then, the FTSE 100 has enjoyed a further 4% rise in July, its strongest monthly gain since January and outperforming the S&P 500. Strong corporate earnings and progress in trade talks (US-EU, UK-India) lifted share prices and the index hit a record 9,321 in mid-August, driven by hopes of peace in Ukraine and dovish signals from Fed Chair Powell. September proved more volatile and the FTSE 100 closed Q3 at 9,350, 7% higher than at the end of Q1 and 14% higher since the start of 2025. Future performance will likely be impacted by the extent to which investors’ global risk appetite remains intact, Fed rate cuts, resilience in the US economy, and AI optimism. A weaker pound will also boost the index as it inflates overseas earnings.

#### **MPC meetings: 8 May, 19 June, 7 August, 18 September 2025**

4.12 There were four Monetary Policy Committee (MPC) meetings in the first half of the financial year. In May, the Committee cut Bank Rate from 4.50% to 4.25%, while in June policy was left unchanged. In June’s vote, three MPC members (Dhingra, Ramsden and Taylor) voted for an immediate cut to 4.00%, citing loosening labour market conditions. The other six members were more cautious, as they highlighted the need to monitor for “signs of weak demand”, “supply-side constraints” and higher “inflation expectations”, mainly from rising food prices. By repeating the well-used phrase “gradual and careful”, the MPC continued to suggest that rates would be reduced further.

4.13 In August, a further rate cut was implemented. However, a 5-4 split vote for a rate cut to 4% laid bare the different views within the Monetary Policy Committee, with the accompanying commentary noting the decision was “finely balanced” and reiterating that future rate cuts would be undertaken “gradually and carefully”. Ultimately, Governor Bailey



was the casting vote for a rate cut but with the CPI measure of inflation expected to reach at least 4% later this year, the MPC will be wary of making any further rate cuts until inflation begins its slow downwards trajectory back towards 2%.

4.14 The Bank of England does not anticipate CPI getting to 2% until early 2027, and with wages still rising by just below 5%, it was no surprise that the September meeting saw the MPC vote 7-2 for keeping rates at 4% (Dhingra and Taylor voted for a further 25bps reduction).

4.15 The Bank also took the opportunity to announce that they would only shrink its balance sheet by £70bn over the next 12 months, rather than £100bn. The repetition of the phrase that “a gradual and careful” approach to rate cuts is appropriate suggests the Bank still thinks interest rates will fall further but possibly not until February, which aligns with both our own view and that of the prevailing market sentiment.

## 5.0 Interest rate forecast to September 2028

5.1 MUFG, has provided the following forecast as at 30 September 2025.

MUFG Corporate Markets Interest Rate View 11.08.25													
	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28	Sep-28
BANK RATE	4.00	4.00	3.75	3.75	3.50	3.50	3.50	3.50	3.25	3.25	3.25	3.25	3.25
3 month ave earnings	4.00	4.00	3.80	3.80	3.50	3.50	3.50	3.50	3.30	3.30	3.30	3.30	3.30
6 month ave earnings	4.00	3.90	3.70	3.70	3.50	3.50	3.50	3.50	3.30	3.30	3.40	3.40	3.40
12 month ave earnings	4.00	3.90	3.70	3.70	3.50	3.50	3.50	3.50	3.30	3.40	3.50	3.60	3.60
5 yr PWLB	4.80	4.70	4.50	4.40	4.30	4.30	4.30	4.20	4.20	4.20	4.20	4.10	4.10
10 yr PWLB	5.30	5.20	5.00	4.90	4.80	4.80	4.80	4.70	4.70	4.70	4.70	4.60	4.60
25 yr PWLB	6.10	5.90	5.70	5.70	5.50	5.50	5.50	5.40	5.40	5.30	5.30	5.30	5.20
50 yr PWLB	5.80	5.60	5.40	5.40	5.30	5.30	5.30	5.20	5.20	5.10	5.10	5.00	5.00

5.2 MUFG Corporate Markets’ latest forecast sets out a view that short, medium and long-dated interest rates will fall back over the next year or two, although there are upside risks in respect of the stickiness of inflation and a continuing tight labour market, as well as the size of gilt issuance.

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## 1. Prudential Indicators which relate to the Treasury function and compliance with limits for 2024/25

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

- Operational and authorised borrowing limits which includes short term borrowing (section 2 below)
- Capital Financing Requirement (section 3 below)
- Interest rate exposure (section 4 below)
- Interest rate on long term borrowing (section 5 below)
- Maturity structure of investments (section 6 below)
- Compliance with the Treasury Management Code of Practice (section 7 below)
- Interest on investments (section 8 below)

## 2. Operational and authorised borrowing limits.

2.1 The tables below sets out the estimate and projected underlying Capital financing requirement and long-term borrowing in 2024/25.

<b>Capital Financing Requirement (CFR) (Underlying Borrowing Need)</b>	<b>Original Estimate 2024/25 £m</b>	<b>Outturn Position 2024/25 £m</b>
Opening Capital Financing Requirement	280.571	275.676
In year borrowing requirement	32.143	24.279
Minimum Revenue Provision	(7.406)	(7.743)
Long Term Capital Debtors Movement	-	0.168
<b>Closing CFR</b>	<b>304.684</b>	<b>292.380</b>
<b>External Borrowing as at 31 March 2025</b>	<b>229.684</b>	<b>211.592</b>
<b>Under Borrowing Position</b>	<b>75.000</b>	<b>80.788</b>

2.2 The table below shows that the Council has complied with the Operational Boundary and Authorised Borrowing Limits set within the Treasury Management strategy.

<b>Borrowing Limits</b>	<b>Operational Boundary £m</b>	<b>Authorised Borrowing Limit £m</b>
Limit set for 2024/25	393.000	413.000
Less: PFI & Leases	58.000	58.000
Limit for Underlying Borrowing	335.000	355.000
<b>External Borrowing at 31 March 2025</b>	<b>211.592</b>	<b>211.592</b>
<b>Headroom*</b>	<b>123.408</b>	<b>143.408</b>

*\*Authorised Borrowing headroom cannot be less than zero*

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 31 March 2025 of £211.6m is under the Operational boundary and Authorised limit set for 2024/25. The Operational boundary and Authorised limit have not been exceeded during the year.

### 3. Capital Financing Requirement

3.1 The 2024/25 actual Capital Financing Requirement of £393m included PFI Schemes and Finance Leases totalling £101m, excluding these balances the underlying need to borrow was £292m.

3.2 The Council’s actual and forecast CFR is shown below. 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.

	<b>2024/25 Actual</b>	<b>2025/26 Estimate</b>	<b>2026/27 Estimate</b>	<b>2027/28 Estimate</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Total CFR*	393	352	347	336
Movement in CFR*	-	(41)	(5)	(11)

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

### 4. Interest rate exposure and maturity structure of debt

4.1 The Council continued the practice of seeking to secure competitive fixed interest rate exposure 2024/25. 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.

	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>
<b>Interest rate exposure</b>	<b>Upper</b>	<b>Upper</b>	<b>Upper</b>
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates based on net debt	15%	15%	15%
<b>Maturity structure of fixed interest rate borrowing 2024/25</b>			

	<b>Lower</b>	<b>Upper</b>	<b>Actual 2024/25</b>
Under 12 months	0%	25%	2%
12 months and within 24 months	0%	40%	3%
24 months and within 5 years	0%	60%	7%
5 years and within 10 years	0%	80%	21%
10 years and within 20 years	0%	80%	14%
20 years and within 30 years	0%	80%	44%
30 years and within 40 years	0%	80%	8%
40 years and above	0%	80%	0%

4.2 The Council has not exceeded the limits set in 2024/25. 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.

## **5. Interest rate on long term borrowing**

5.1 The rate of interest taken on any new long term borrowing will be defined with the assistance of MUFG.

## **6. Maturity structure of investments**

6.1 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.

## **7. Compliance with the Treasury Management Code of Practice**

7.1 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 2018, 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 now forms part of the annual budget papers.

## **8. Interest on investments 2024/25**

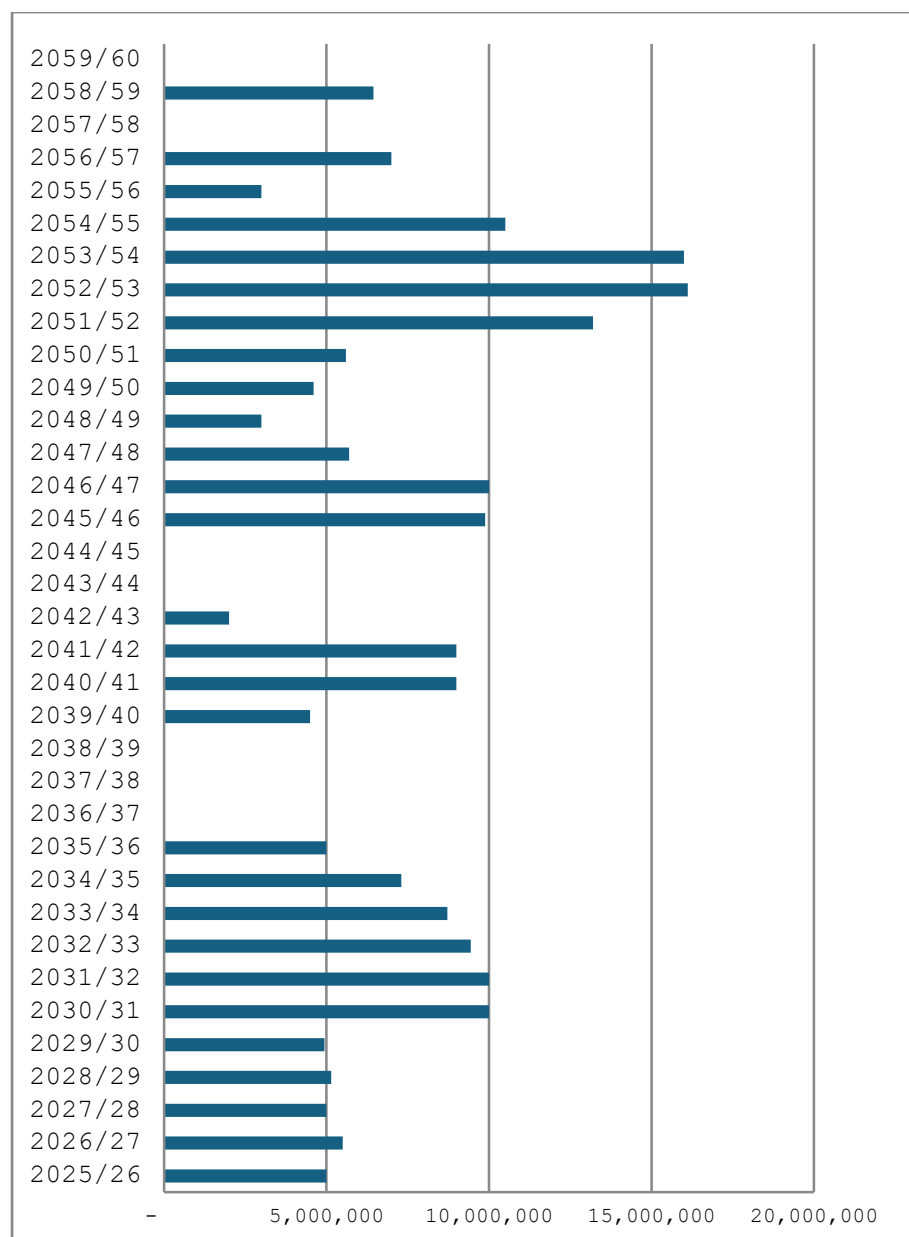
8.1 The table below sets out the average monthly rate received on investments placed and compares it to the benchmark of the Standard Overnight Index Average (SONIA); a rate administered by the Bank of England based on actual transactions of overnight borrowing by financial institutions. This performance is monitored quarterly.

Month	Amount £'000	Monthly rate	Average SONIA Rate	Margin against Benchmark Rate
April	1,006	5.50%	5.20%	+0.30%
May	1,027	5.48%	5.20%	+0.28%
June	941	5.47%	5.20%	+0.27%

July	1,005	5.43%	5.20%	+0.23%
August	945	5.32%	4.95%	+0.37%
September	807	5.27%	4.95%	+0.32%
October	827	5.19%	4.95%	+0.24%
November	761	5.07%	4.75%	+0.32%
December	699	5.03%	4.70%	+0.33%
January	665	5.01%	4.70%	+0.31%
February	548	4.93%	4.50%	+0.43%
March	530	4.94%	4.46%	+0.48%
<b>Total for 2024/25</b>	<b>9,761</b>	<b>5.26%</b>	<b>4.94%</b>	<b>+0.32%</b>

8.2 The total amount received in short term interest for the year was £9.761m at an average rate of 5.26%. This was above the average of SONIA in the same period (4.94%) but ensuring, as 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.

# East Sussex County Council Debt Maturity Profile 31 March 2025



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## Audit Committee – Work Programme

List of Suggested Potential Future Work Topics		
Issue	Detail	Meeting Date
Devolution and Local Government Reorganisation.	As the agenda develops.	TBC
Audit Committee Working Groups		
Working Group Title	Subject area	Meeting Dates
Oracle Implementation (MBOS) Sub-Group	Oversight of the Oracle Implementation programme.	9 January 2025
Training and Development		
Title of Training/Briefing	Detail	Date
Audit Planning Session for 2026/27	A planning session to include Internal Audit training, suggestions for the 2026/27 Internal Audit Plan	13 February 2025

Future Committee Agenda Items		Author
13 February 2026		
Review of Annual Governance Report & 2024/25 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 & 2024/25 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
External Audit Plan 2025/26	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 2025/26.	Ian Gutsell, Chief Finance Officer & External Auditors
External Audit Plan for East Sussex Pension Fund 2025/26	To consider and comment upon the External Audit Plan for the East Sussex Pension Fund for the financial year 2025/26.	Ian Gutsell, Chief Finance Officer & External Auditors
Internal Audit Progress Report	Internal Audit Progress report – Quarter 3, 2025/26 (01/10/25 – 31/12/25)	Nigel Chilcott, Audit Manager/Russell Banks, Chief Internal Auditor
Counter Fraud Strategy	Consideration of the Counter Fraud Strategy for 2026/27.	Simon White, Audit Manager – Counter Fraud / Russell Banks, Chief Internal Auditor
Strategic Risk Monitoring	Strategic risk monitoring report – Quarters 2 and 3, 2025/26 (01/07/25 – 31/12/25)	Ros Parker Chief Operating Officer / Ian Gutsell, Chief Finance Officer
Property Services and Assets Update	Consideration of an annual report on the implementation of the Property Asset Disposal and Investment Strategy.	Ros Parker, Chief Operating Officer

Committee Work Programme	Discussion of the future reports, agenda items and other work to be undertaken by the Committee.	Sophie Webb, Governance and Democracy Manager
<b>3 July 2026</b>		
Assessment of the Corporate Governance Framework and Annual Governance Statement for 2025/26	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, Deputy Chief Executive
Internal Audit Strategy and Plan	Consideration of the Internal Audit Strategy and Plan for 2026/27.	Russell Banks, Chief Internal Auditor/ Nigel Chilcott, Audit Manager
Internal Audit Services Annual Report and Opinion 2025/26	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 reports – Quarter 4, 2025/26, (01/01/26 – 31/03/26).	Nigel Chilcott, Audit Manager / Russell Banks, Chief Internal Auditor
Counter Fraud Annual Report	Annual report on Counter Fraud work	Simon White, Audit Manager – Counter Fraud / Russell Banks, Chief Internal Auditor
Strategic Risk Monitoring	Strategic risk monitoring report – Quarter 4, 2025/26 (01/01/26 – 31/03/26)	Ros Parker, Chief Operating Officer / Ian Gutsell, Chief Finance Officer

Audit Committee Annual Report	Annual Report 2025/26 of the Audit Committee: meeting a requirement of the CIPFA Position Statement for Audit Committee	Ian Gutsell, Chief Finance Officer, Sophie Webb, Governance and Democracy Manager
Committee Work Programme	Discussion of the future reports, agenda items and other work to be undertaken by the Committee.	Sophie Webb, Governance and Democracy Manager
<b>25 September 2026</b>		
Internal Audit Progress Report	Internal Audit Progress report – Quarter 1, 2026/27 (01/04/26 – 30/06/26)	Nigel Chilcott, Audit Manager/Russell Banks, Chief Internal Auditor
Financial Management Code	Report of the Financial Management Code	Thomas Alty, Deputy Chief Finance Officer / Ian Gutsell, Chief Finance Officer
Strategic Risk Management	Strategic risk monitoring report – Quarter 1, 2026/27 (01/04/26 – 30/06/26)	Ros Parker, 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.	Sophie Webb, Governance and Democracy Manager
<b>27 November 2026</b>		
Auditor's Annual (VFM) Report on East Sussex County Council 2025/26	To provide the Committee with Grant Thornton's Annual (Value for Money) Report for 2025/26	Ian Gutsell, Chief Finance Officer & External Auditors

Treasury Management Annual Report & Mid-Year Report 2026	To consider a report on the review of Treasury Management performance for 2025/26 and for outturn for the first six months of 2026/27, including the economic factors affecting performance, the Prudential Indicators and compliance with the limits set within the Treasury Management Strategy before it is presented to Cabinet.	Ian Gutsell, Chief Finance Officer
Internal Audit Progress Report	Internal Audit Progress report – Quarter 2, 2026/27 (01/07/26 – 30/09/26)	Nigel Chilcott, Audit Manager/Russell Banks, Chief Internal Auditor
Committee Work Programme	Discussion of the future reports, agenda items and other work to be undertaken by the Committee.	Sophie Webb, Governance and Democracy Manager

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