

Audit and Standards Committee

Date and Time - **Monday 20 March 2023 – 6:30pm**

Venue - **Council Chamber, Town Hall, Bexhill-on-Sea**

Councillors appointed to the Committee:

B.J. Drayson (Chair), R.B. Thomas (Vice-Chair), J. Barnes, Mrs M.L. Barnes, P.C. Courtel, K.M. Harmer (ex-officio), Mrs E.M. Kirby-Green, L.M. Langlands and C.A. Madeley.

Audit Independent Person: Mr Patrick Farmer

AGENDA

1. **MINUTES**

To authorise the Chair to sign the Minutes of the meeting of the Audit and Standards Committee held on 5 December 2022 as a correct record of the proceedings.

2. **APOLOGIES FOR ABSENCE**

3. **ADDITIONAL AGENDA ITEMS**

To consider such other items as the Chair decides are urgent and due notice of which has been given to the Head of Paid Service by 12 Noon on the day of the meeting.

4. **DISCLOSURE OF INTERESTS**

To receive any disclosure by Members of personal and disclosable pecuniary interests in matters on the agenda, the nature of any interest and whether the Member regards the personal interest as prejudicial under the terms of the Code of Conduct. Members are reminded of the need to repeat their declaration immediately prior to the commencement of the item in question.

PART A - STANDARDS REPORTS

5. **PROPOSED CODE OF CONDUCT** (Pages 5 - 20)

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PART B - AUDIT REPORTS

6. **REPORT OF THE EXTERNAL AUDITORS, GRANT THORNTON - AUDIT FINDINGS REPORT 2021/22** (Pages 21 - 58)
7. **REPORT OF THE EXTERNAL AUDITORS, GRANT THORNTON - ANNUAL AUDIT REPORT 2021/22** (Pages 59 - 98)
8. **REPORT OF THE EXTERNAL AUDITORS, GRANT THORNTON - AUDIT PROGRESS REPORT AND SECTOR UPDATE** (Pages 99 - 114)
9. **AMENDMENT TO THE CONSTITUTION - DELEGATIONS TO OFFICERS** (Pages 115 - 116)
10. **HOMES ENGLAND 2022/23 COMPLIANCE AUDIT PROGRAMME** (Pages 117 - 122)
11. **INTERNAL AUDIT REPORT TO 31 DECEMBER 2022** (Pages 123 - 138)
12. **REVIEW OF INTERNAL AUDIT 2022/23** (Pages 139 - 146)
13. **INTERNAL AUDIT PLAN 2023/24** (Pages 147 - 160)
14. **RISK MANAGEMENT UPDATE** (Pages 161 - 164)
15. **PROPERTY INVESTMENT STRATEGY UPDATE** (Pages 165 - 174)
16. **PROCUREMENT AND CAPITAL PROGRAMME AUDITS UPDATE AND MANAGEMENT RESPONSES - VERBAL UPDATE**
17. **TREASURY MANAGEMENT UPDATE** (Pages 175 - 182)
18. **WORK PROGRAMME** (Pages 183 - 184)
19. **EXCLUSION OF PRESS AND PUBLIC (EXEMPT INFORMATION)**

The following item includes material which is exempt from publication by virtue of Part 1 of Schedule 12A of the Local Government Act 1972, as amended, and it is recommended that the press and public be excluded. The relevant paragraph of Schedule 12A indicating the nature of the exempt information is stated after each item and is reproduced in full at the end of the agenda. In all the circumstances of each case, it is considered that the public interest in maintaining the exemption outweighs the public interest in disclosing the information.
20. **PROPERTY INVESTMENT STRATEGY UPDATE** (Pages 185 - 186)

Confidential Appendix 4 to Agenda Item 15 (Paragraph 3)

Malcolm Johnston
Chief Executive

Agenda Despatch Date: 10 March 2023

Extract from Schedule 12A of the Local Government Act 1972 (as amended)

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

Invitees in respect of Standards Related Reports only:

Independent Persons: Mr Robert Brown and Mrs Rose Durban.

Parish/Town Councillor Representative(s): Councillors Mrs W.M. Miers and K. Robertson

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Rother District Council

Report to:	Audit and Standards Committee
Date:	20 March 2023
Title:	Proposed Code of Conduct
Report of:	Lorna Ford, Monitoring Officer
Ward(s):	-
Purpose of Report:	To consider whether or not to recommend to Council that the Local Government Association's Model Code of Conduct be adopted as this Council's Code of Conduct from the new civic year.
Officer	
Recommendation(s):	Recommendation to COUNCIL: That the proposed draft Code of Conduct at Appendix 1 be approved and adopted.

Introduction

1. At the Committee's last meeting held in December, it was agreed to convene a small informal working group to consider and review again the Local Government Association's (LGA's) model Code of Conduct (CoC) with a view to recommending formal adoption from the new civic year. Councillors Mrs Barnes, Courtel and Thomas were nominated to the working group, which, due other priority work, is only due to meet with the Monitoring Officer and Deputy Monitoring Officer on Friday 17 March (after publication of this Agenda) and a verbal update of their recommendations will be made at the meeting.
2. The proposed CoC is attached at Appendix 1.

Background

3. As reported to Members in June 2019, one of the outcomes of the Committee on Standards in Public Life's (CSPL) report into local government ethical standards was a recommendation that an updated model CoC be created to provide consistency across England and reflect the common expectations of the public, regardless of geography or tier. ([CSPL Report Into Local Government Ethical Standards](#))
4. The LGA was therefore tasked with creating an updated model CoC, in consultation with representative bodies of councillors and officers of all tiers of local government. This Council responded to the LGA's consultation on the draft CoC in July 2020. The outcome of the consultation was considered by Members in December 2020 with a more detailed report in March 2021, following the publication of the new CoC by the LGA; detailed guidance was further released in July 2021.
5. At that time, in order to maintain consistency across the Districts and Boroughs, it was agreed to retain the Council's current CoC and not adopt the LGA's new

model CoC. The Government's response to the CSPL's review into ethical standards and recommendations was also awaited which might have resulted in further legislative change and meaningful sanctions.

6. In June 2022, officers reported on the Government's response to the CSPL's report which overall, resulted in no fundamental changes to the current decentralised approach and available sanctions for Members who have been found to have breached the CoC for the foreseeable future. The Audit and Standards Committee also requested that consideration be given to social media being incorporated into the Council's current CoC at that time.
7. An informal meeting of the whole Committee was held on 17 November 2022 to consider the options for discussion at the December meeting. At that time, it was agreed that in the short term, a simple amendment be made to the Council's existing CoC by replicating the text from the LGA's model CoC to incorporate social media; this was subsequently approved and adopted by full Council in December 2022.

Considerations

8. The LGA's model CoC and accompanying guidance is considered by officers to be far easier to read and interpret than our current CoC. The LGA has also provided a very helpful training package that has already been used by officers to deliver CoC training to the parish and town councils across the district; several parish and towns have also adopted the LGA's model CoC.
9. In terms of consistency of approach with our neighbouring district, borough and county councils, whilst this is helpful to the relatively small number of twin-tatters, it would be far more advantageous for Rother District Council (RDC) to be closer aligned with its parish and town councils, given that RDC has a duty under the Localism Act to manage complaints against elected parish and town councillors under their respective CoCs. Should the Council adopt the LGA's model CoC, the parish and town councils across the district, who have not done so, will be encouraged to do likewise.
10. Part 8, Complying with the Code of Conduct, is a welcome addition within the model CoC which is absent (in the main) from the Council's existing CoC. This includes an undertaking for Members to participate in CoC training, co-operate with any CoC investigations and/or determinations and comply with any sanction imposed following a finding that a Member has breached the CoC.
11. In the main, the Council's comments in response to the LGA's consultation in July 2020 were also taken on board, as follows:
 - Application / Capacity – the Council supported the proposal that councillors demonstrate the behaviours set out in the Code when they are publicly acting as, identifying as, and/or giving the impression that they are acting as a councillor, including when representing their council on official business and when using social media. This is in the model CoC.
 - The use of personal tense was supported (I will) – this is how the CoC is drafted.
 - Bullying and harassment – all protected characteristics are included.
 - Civility was replaced with respect; the words "or excessive" were removed.
 - Social Media is included within the model CoC.

- The requirement to declare interests is in the main body of the model CoC.
 - Gifts and Hospitality – supported stance that no gifts ought to be accepted, irrespective of estimated value.
12. Members may wish to consider the value of gifts, if accepted, that should be registered. The LGA’s draft CoC initially suggested £25, however, this was revised upwards to £50. This Council has previously considered that £50 was too high and that £25 should be the figure. Members will need to consider whether a threshold of £25 will entail frequent declarations and whether this is a realistic level.

Risk Management

13. Failure to regularly review the Council’s Code of Conduct may result in a CoC that does not reflect new trends and expected levels of conduct. The Council’s current CoC formed part the ethical framework brought in by the Local Government Act 2000 which became operational in May 2002, with some revision as a result of the Localism Act 2011. It is therefore significantly out of date, cumbersome and hard to interpret for Members, public and officers alike.

Conclusion

14. The Committee is asked to consider whether to recommend that Council adopts the LGA’s model CoC, attached at Appendix 1, in light of any comments made by the informal working group, following their meeting on 17 March 2023.
15. Members are reminded that they can recommend to Council that the LGA’s model CoC be approved and adopted, with or without amendment, or make no recommendation to Council at this time.

Other Implications	Applies?	Other Implications	Applies?
Human Rights	No	Equalities and Diversity	No
Crime and Disorder	No	Consultation	No
Environmental	No	Access to Information	No
Risk Management	Yes	Exempt from publication	No

Chief Executive:	Lorna Ford, Monitoring Officer
Report Contact Officer:	Lisa Cooper, Democratic Services Manager
e-mail address:	lisa.cooper@rother.gov.uk
Appendices:	Appendix 1 – Model Code of Conduct
Relevant previous Minutes:	AS20/15 AS20/33 AS20/44 AS22/08 AS22/36

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CODE OF CONDUCT

DEFINITIONS

For the purposes of this Code of Conduct, a “Councillor” means a Member or Co-opted Member of a Local Authority or a directly Elected Mayor. A “Co-opted Member” is defined in the Localism Act 2011 Section 27(4) as “a person who is not a member of the authority but who:

- a) is a member of any committee or sub-committee of the authority, or;
- b) is a member of, and represents the authority on, any joint committee or joint sub-committee of the authority;

and who is entitled to vote on any question that falls to be decided at any meeting of that committee or sub-committee”.

For the purposes of this Code of Conduct, “Local Authority” includes County Councils, District Councils, London Borough Councils, Parish Councils, Town Councils, Fire and Rescue Authorities, Police Authorities, Joint Authorities, Economic Prosperity Boards, Combined Authorities and National Park Authorities.

PURPOSE OF THE CODE OF CONDUCT

The purpose of this Code of Conduct is to assist you, as a Councillor, in modelling the behaviour that is expected of you, to provide a personal check and balance, and to set out the type of conduct that could lead to action being taken against you. It is also to protect you, the public, fellow Councillors, Local Authority officers and the reputation of Local Government. It sets out general principles of conduct expected of all Councillors and your specific obligations in relation to standards of conduct. The Local Government Association encourages the use of support, training and mediation prior to action being taken using the Code of Conduct. The fundamental aim of the Code of Conduct is to create and maintain public confidence in the role of Councillor and Local Government.

GENERAL PRINCIPLES OF COUNCILLOR CONDUCT

Everyone in public office at all levels; all who serve the public or deliver public services, including Ministers, Civil Servants, Councillors and Local Authority officers; should uphold the [Seven Principles of Public Life](#), also known as the Nolan Principles.

Building on these principles, the following general principles have been developed specifically for the role of Councillor.

In accordance with the public trust placed in me, on all occasions:

- I act with integrity and honesty.
- I act lawfully.

- I treat all persons fairly and with respect; and
- I lead by example and act in a way that secures public confidence in the role of Councillor.

In undertaking my role:

- I impartially exercise my responsibilities in the interests of the local community.
- I do not improperly seek to confer an advantage, or disadvantage, on any person.
- I avoid conflicts of interest.
- I exercise reasonable care and diligence; and
- I ensure that public resources are used prudently in accordance with my Local Authority's requirements and in the public interest.

APPLICATION OF THE CODE OF CONDUCT

This Code of Conduct applies to you as soon as you sign your declaration of acceptance of the office of Councillor or attend your first meeting as a Co-opted Member and continues to apply to you until you cease to be a Councillor.

This Code of Conduct applies to you when you are acting in your capacity as a Councillor which may include when:

- you misuse your position as a Councillor; and
- your actions would give the impression to a reasonable member of the public with knowledge of all the facts that you are acting as a Councillor;

The Code of Conduct applies to all forms of communication and interaction, including:

- at face-to-face meetings;
- at online or telephone meetings;
- in written communication;
- in verbal communication;
- in non-verbal communication; and
- in electronic and social media communication, posts, statements and comments.

You are also expected to uphold high standards of conduct and show leadership at all times when acting as a Councillor.

Your Monitoring Officer has statutory responsibility for the implementation of the Code of Conduct, and you are encouraged to seek advice from your Monitoring Officer on any matters that may relate to the Code of Conduct. Parish and Town Councillors are encouraged to seek advice from their Clerk, who may refer matters to the Monitoring Officer.

STANDARDS OF COUNCILLOR CONDUCT

This section sets out your obligations, which are the minimum standards of conduct required of you as a Councillor. Should your conduct fall short of these standards, a complaint may be made against you, which may result in action being taken.

Guidance is included to help explain the reasons for the obligations and how they

should be followed.

GENERAL CONDUCT

1. Respect

AS A COUNCILLOR:

- 1.1 I treat other Councillors and members of the public with respect.**
- 1.2 I treat Local Authority employees, employees and representatives of partner organisations and those volunteering for the Local Authority with respect and respect the role they play.**

Respect means politeness and courtesy in behaviour, speech, and in the written word. Debate and having different views are all part of a healthy democracy. As a Councillor, you can express, challenge, criticise and disagree with views, ideas, opinions and policies in a robust but civil manner. You should not, however, subject individuals, groups of people or organisations to personal attack.

In your contact with the public, you should treat them politely and courteously. Rude and offensive behaviour lowers the public's expectations and confidence in Councillors.

In return, you have a right to expect respectful behaviour from the public. If members of the public are being abusive, intimidatory or threatening you are entitled to stop any conversation or interaction in person or online and report them to the Local Authority, the relevant social media provider or the Police. This also applies to fellow Councillors, where action could then be taken under the Councillor Code of Conduct, and Local Authority employees, where concerns should be raised in line with the Local Authority's Councillor-officer protocol.

2. Bullying, Harassment and Discrimination

AS A COUNCILLOR:

- 2.1 I do not bully any person.**
- 2.2 I do not harass any person.**
- 2.3 I promote equalities and do not discriminate unlawfully against any person.**

The Advisory, Conciliation and Arbitration Service (ACAS) characterises bullying as offensive, intimidating, malicious or insulting behaviour, an abuse or misuse of power through means that undermine, humiliate, denigrate or injure the recipient. Bullying might be a regular pattern of behaviour or a one-off incident, happen face-to-face, on social media, in emails or phone calls, happen in the workplace or at work social events and may not always be obvious or noticed by others.

The Protection from Harassment Act 1997 defines harassment as conduct

that causes alarm or distress or puts people in fear of violence and must involve such conduct on at least two occasions. It can include repeated attempts to impose unwanted communications and contact upon a person in a manner that could be expected to cause distress or fear in any reasonable person.

Unlawful discrimination is where someone is treated unfairly because of a protected characteristic. Protected characteristics are specific aspects of a person's identity defined by the Equality Act 2010. They are age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation.

The Equality Act 2010 places specific duties on local authorities. Councillors have a central role to play in ensuring that equality issues are integral to the Local Authority's performance and strategic aims, and that there is a strong vision and public commitment to equality across public services.

3. Impartiality of officers of the Council

AS A COUNCILLOR:

3.1 I do not compromise, or attempt to compromise, the impartiality of anyone who works for, or on behalf of, the Local Authority.

Officers work for the Local Authority as a whole and must be politically neutral (unless they are political assistants). They should not be coerced or persuaded to act in a way that would undermine their neutrality. You can question officers in order to understand, for example, their reasons for proposing to act in a particular way, or the content of a report that they have written. However, you must not try and force them to act differently, change their advice, or alter the content of that report, if doing so would prejudice their professional integrity.

4. Confidentiality and Access to Information

AS A COUNCILLOR:

4.1 I do not disclose information:

- a. given to me in confidence by anyone**
- b. acquired by me which I believe, or ought reasonably to be aware, is of a confidential nature, unless**
 - i. I have received the consent of a person authorised to give it;**
 - ii. I am required by law to do so;**
 - iii. the disclosure is made to a third party for the purpose of obtaining professional legal advice provided that the third party agrees not to disclose the information to any other person; or**
 - iv. the disclosure is:**
 - 1. reasonable and in the public interest; and**
 - 2. made in good faith and in compliance with the reasonable requirements of the Local Authority; and**
 - 3. I have consulted the Monitoring Officer prior to its release.**

- 4.2 I do not improperly use knowledge gained solely as a result of my role as a Councillor for the advancement of myself, my friends, my family members, my employer or my business interests.**
- 4.3 I do not prevent anyone from getting information that they are entitled to by law.**

Local authorities must work openly and transparently, and their proceedings and printed materials are open to the public, except in certain legally defined circumstances. You should work on this basis, but there will be times when it is required by law that discussions, documents and other information relating to or held by the local authority must be treated in a confidential manner. Examples include personal data relating to individuals or information relating to ongoing negotiations.

5. Disrepute

AS A COUNCILLOR:

5.1 I do not bring my role or local authority into disrepute.

As a Councillor, you are trusted to make decisions on behalf of your community and your actions and behaviour are subject to greater scrutiny than that of ordinary members of the public. You should be aware that your actions might have an adverse impact on you, other Councillors and/or your Local Authority and may lower the public's confidence in your or your Local Authority's ability to discharge your/its functions. For example, behaviour that is considered dishonest and/or deceitful can bring your Local Authority into disrepute.

You are able to hold the Local Authority and fellow Councillors to account and are able to constructively challenge and express concern about decisions and processes undertaken by the Council whilst continuing to adhere to other aspects of this Code of Conduct.

6. Use of Position

AS A COUNCILLOR:

6.1 I do not use, or attempt to use, my position improperly to the advantage or disadvantage of myself or anyone else.

Your position as a Member of the Local Authority provides you with certain opportunities, responsibilities, and privileges, and you make choices all the time that will impact others. However, you should not take advantage of these opportunities to further your own or others' private interests or to disadvantage anyone unfairly.

7. Use of Local Authority Resources and Facilities

AS A COUNCILLOR:

7.1 I do not misuse Council resources.

7.2 I will, when using the resources of the Local Authority or authorising their use by others:

- a. act in accordance with the Local Authority's requirements; and**
- b. ensure that such resources are not used for political purposes unless that use could reasonably be regarded as likely to facilitate, or be conducive to, the discharge of the functions of the Local Authority or of the office to which I have been elected or appointed.**

You may be provided with resources and facilities by the Local Authority to assist you in carrying out your duties as a Councillor.

Examples include: office support; stationery; equipment such as phones, and computers; transport; and access and use of Local Authority buildings and rooms.

These are given to you to help you carry out your role as a Councillor more effectively and are not to be used for business or personal gain. They should be used in accordance with the purpose for which they have been provided and the Local Authority's own policies regarding their use.

8. Complying with the Code of Conduct

AS A COUNCILLOR:

- 8.1 I undertake Code of Conduct training provided by my Local Authority.**
- 8.2 I co-operate with any Code of Conduct investigation and/or determination.**
- 8.3 I do not intimidate or attempt to intimidate any person who is likely to be involved with the administration of any investigation or proceedings.**
- 8.4 I comply with any sanction imposed on me following a finding that I have breached the Code of Conduct.**

It is extremely important for you as a Councillor to demonstrate high standards, for you to have your actions open to scrutiny and for you not to undermine public trust in the Local Authority or its governance. If you do not understand or are concerned about the Local Authority's processes in handling a complaint you should raise this with your Monitoring Officer.

Protecting your Reputation and the Reputation of the Local Authority

9. Interests

AS A COUNCILLOR:

- 9.1 I register and disclose my interests.**

Section 29 of the Localism Act 2011 requires the Monitoring Officer to establish and maintain a register of interests of members of the Authority.

You need to register your interests so that the public, Local Authority employees and fellow Councillors know which of your interests might give rise to a conflict of interest. The register is a public document that can be consulted when (or before) an issue arises. The register also protects you by allowing you to demonstrate openness and a willingness to be held accountable. You are personally responsible for deciding whether or not you should disclose an interest in a meeting, but it can be helpful for you to know early on if others think that a potential conflict might arise. It is also important that the public know about any interest that might have to be disclosed by you or other Councillors when making or taking part in decisions, so that decision making is seen by the public as open and honest. This helps to ensure that public confidence in the integrity of local governance is maintained.

You should note that failure to register or disclose a disclosable pecuniary interest as set out in **Table 1**, is a criminal offence under the Localism Act 2011.

Appendix B sets out the detailed provisions on registering and disclosing interests. If in doubt, you should always seek advice from your Monitoring Officer.

10. Gifts and Hospitality

AS A COUNCILLOR:

- 10.1 I do not accept gifts or hospitality, irrespective of estimated value, which could give rise to real or substantive personal gain or a reasonable suspicion of influence on my part to show favour from persons seeking to acquire, develop or do business with the Local Authority or from persons who may apply to the local authority for any permission, licence or other significant advantage.**
- 10.2 I register with the Monitoring Officer any gift or hospitality with an estimated value of at least £50 within 28 days of its receipt.**
- 10.3 I register with the Monitoring Officer any significant gift or hospitality that I have been offered but have refused to accept.**

In order to protect your position and the reputation of the Local Authority, you should exercise caution in accepting any gifts or hospitality which are (or which you reasonably believe to be) offered to you because you are a Councillor. The presumption should always be not to accept significant gifts or hospitality. However, there may be times when such a refusal may be difficult if it is seen as rudeness in which case you could accept it but must ensure it is publicly registered. However, you do not need to register gifts and hospitality which are not related to your role as a Councillor, such as Christmas gifts from your friends and family. It is also important to note that it is appropriate to accept normal expenses and hospitality associated with your duties as a Councillor. If you are unsure, do contact your Monitoring Officer for guidance.

THE SEVEN PRINCIPLES OF PUBLIC LIFE

The principles are:

1. Selflessness

Holders of public office should act solely in terms of the public interest.

2. Integrity

Holders of public office must avoid placing themselves under any obligation to people or organisations that might try inappropriately to influence them in their work. They should not act or take decisions in order to gain financial or other material benefits for themselves, their family, or their friends. They must disclose and resolve any interests and relationships.

3. Objectivity

Holders of public office must act and take decisions impartially, fairly and on merit, using the best evidence and without discrimination or bias.

4. Accountability

Holders of public office are accountable to the public for their decisions and actions and must submit themselves to the scrutiny necessary to ensure this.

5. Openness

Holders of public office should act and take decisions in an open and transparent manner. Information should not be withheld from the public unless there are clear and lawful reasons for so doing.

6. Honesty

Holders of public office should be truthful.

7. Leadership

Holders of public office should exhibit these principles in their own behaviour. They should actively promote and robustly support the principles and be willing to challenge poor behaviour wherever it occurs.

REGISTERING INTERESTS

Within 28 days of becoming a Member or your re-election or re-appointment to office you must register with the Monitoring Officer the interests which fall within the categories set out in **Table 1 (Disclosable Pecuniary Interests)** which are as described in “The Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012”. You should also register details of your other personal interests which fall within the categories set out in **Table 2 (Other Registerable Interests)**.

“**Disclosable Pecuniary Interest**” means an interest of yourself, or of your partner if you are aware of your partner's interest, within the descriptions set out in Table 1 below.

“**Partner**” means a spouse or civil partner, or a person with whom you are living as husband or wife, or a person with whom you are living as if you are civil partners.

1. You must ensure that your register of interests is kept up-to-date and within 28 days of becoming aware of any new interest, or of any change to a registered interest, notify the Monitoring Officer.
2. A ‘sensitive interest’ is as an interest which, if disclosed, could lead to the Councillor, or a person connected with the Councillor, being subject to violence or intimidation.
3. Where you have a ‘sensitive interest’ you must notify the Monitoring Officer with the reasons why you believe it is a sensitive interest. If the Monitoring Officer agrees they will withhold the interest from the public register.

NON-PARTICIPATION IN CASE OF DISCLOSABLE PECUNIARY INTEREST

4. Where a matter arises at a meeting which directly relates to one of your Disclosable Pecuniary Interests as set out in **Table 1**, you must disclose the interest, not participate in any discussion or vote on the matter and must not remain in the room unless you have been granted a dispensation. If it is a ‘sensitive interest’, you do not have to disclose the nature of the interest, just that you have an interest. Dispensation may be granted in limited circumstances, to enable you to participate and vote on a matter in which you have a Disclosable Pecuniary Interest.
5. [Where you have a Disclosable Pecuniary Interest on a matter to be considered or is being considered by you as a Cabinet Member in exercise of your executive function, you must notify the Monitoring Officer of the interest and must not take any steps or further steps in the matter apart from arranging for someone else to deal with it].

DISCLOSURE OF OTHER REGISTERABLE INTERESTS

6. Where a matter arises at a meeting which **directly relates** to the financial interest or wellbeing of one of your Other Registerable Interests (as set out in **Table 2**), you must disclose the interest. You may speak on the matter only if members of the public are also allowed to speak at the meeting but otherwise must not take part in any discussion or vote on the matter and

must not remain in the room unless you have been granted a dispensation. If it is a 'sensitive interest', you do not have to disclose the nature of the interest.

DISCLOSURE OF NON-REGISTERABLE INTERESTS

7. Where a matter arises at a meeting which **directly relates** to your financial interest or well-being (and is not a Disclosable Pecuniary Interest set out in Table 1) or a financial interest or well-being of a relative or close associate, you must disclose the interest. You may speak on the matter only if members of the public are also allowed to speak at the meeting. Otherwise you must not take part in any discussion or vote on the matter and must not remain in the room unless you have been granted a dispensation. If it is a 'sensitive interest', you do not have to disclose the nature of the interest.
8. Where a matter arises at a meeting which **affects**:
 - a) your own financial interest or well-being;
 - b) financial interest or well-being of a relative or close associate; or
 - c) a financial interest or wellbeing of a body included under Other Registrable Interests as set out in **Table 2** you must disclose the interest. In order to determine whether you can remain in the meeting after disclosing your interest the following test should be applied.

9. Where a matter (referred to in paragraph 8 above) **affects** the financial interest or well-being:
 - a) to a greater extent than it affects the financial interests of the majority of inhabitants of the ward affected by the decision and;
 - b) a reasonable member of the public knowing all the facts would believe that it would affect your view of the wider public interest.

You may speak on the matter only if members of the public are also allowed to speak at the meeting. Otherwise you must not take part in any discussion or vote on the matter and must not remain in the room unless you have been granted a dispensation.

If it is a 'sensitive interest', you do not have to disclose the nature of the interest.

10. [Where you have an Other Registrable Interest or Non-Registrable Interest on a matter to be considered or is being considered by you as a Cabinet Member in exercise of your executive function, you must notify the Monitoring Officer of the interest and must not take any steps or further steps in the matter apart from arranging for someone else to deal with it].

TABLE 1: DISCLOSABLE PECUNIARY INTERESTS

This table sets out the explanation of Disclosable Pecuniary Interests as set out in the [Relevant Authorities \(Disclosable Pecuniary Interests\) Regulations 2012](#).

SUBJECT	DESCRIPTION
Employment, office, trade, profession or vocation	Any employment, office, trade, profession or vocation carried on for profit or gain.
Sponsorship	<p>Any payment or provision of any other financial benefit (other than from the Council) made to the Councillor during the previous 12-month period for expenses incurred by him/her in carrying out his/her duties as a Councillor, or towards his/her election expenses.</p> <p>This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.</p>
Contracts	<p>Any contract made between the Councillor or his/her spouse or civil partner or the person with whom the Councillor is living as if they were spouses/civil partners (or a firm in which such person is a partner, or an incorporated body of which such person is a director* or a body that such person has a beneficial interest in the securities of*) and the Council:</p> <p>a) under which goods or services are to be provided or works are to be executed; and</p> <p>b) which has not been fully discharged.</p>
Land and Property	<p>Any beneficial interest in land which is within the area of the Council.</p> <p>'Land' excludes an easement, servitude, interest or right in or over land which does not give the Councillor or his/her spouse or civil partner or the person with whom the Councillor is living as if they were spouses/civil partners (alone or jointly with another) a right to occupy or to receive income.</p>
Licenses	Any licence (alone or jointly with others) to occupy land in the area of the Council for a month or longer.
Corporate tenancies	<p>Any tenancy where (to the Councillor's knowledge):</p> <p>a) the landlord is the council; and</p> <p>b) the tenant is a body that the Councillor, or his/her spouse or civil partner or the person with whom the Councillor is living as if they were spouses/civil partners is a partner of or a director* of or has a beneficial interest in the securities* of.</p>
Securities	<p>Any beneficial interest in securities* of a body where:</p> <p>a) that body (to the Councillor's knowledge) has a place of</p>

SUBJECT	DESCRIPTION
	<p>business or land in the area of the Council; and</p> <p>b) either:</p> <p>i. the total nominal value of the securities* exceeds £25,000 or one hundredth of the total issued share capital of that body; or</p> <p>ii. if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which the Councillor, or his/her spouse or civil partner or the person with whom the Councillor is living as if they were spouses/civil partners have a beneficial interest exceeds one hundredth of the total issued share capital of that class.</p>

* 'director' includes a member of the committee of management of an industrial and provident society.

* 'securities' means shares, debentures, debenture stock, loan stock, bonds, units of a collective investment scheme within the meaning of the Financial Services and Markets Act 2000 and other securities of any description, other than money deposited with a building society.

TABLE 2: OTHER REGISTRABLE INTERESTS

You must register as an Other Registerable Interest:

- a) any unpaid directorships.
- b) any body of which you are a Member or are in a position of general control or management and to which you are nominated or appointed by your Authority.
- c) anybody
 - i. exercising functions of a public nature;
 - ii. directed to charitable purposes or;
 - iii. one of whose principal purposes includes the influence of public opinion or policy (including any political party or trade union) of which you are a member or in a position of general control or management.

The Audit Findings for Rother District Council

Year ended 31 March 2022

Rother District Council
March 2023

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Your key Grant Thornton team members are:

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This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management and the Audit and Standards Committee.

Name : Darren Wells

For Grant Thornton UK LLP

Date : 9 March 2023

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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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1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Rother District Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2022 for those charged with governance.

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Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements including the Annual Governance Statement (AGS) and the Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was held remotely during October-March. Our findings are summarised on pages 5 to 15. We have identified adjustments and amendments to notes to the financial statements. These are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion (Appendix E), subject to the following outstanding matters;

- Completion of other land and building valuation testing;
- Receipt of management representation letter {see appendix F}; and
- Review of the final set of financial statements.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit opinion will be unmodified.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have completed our VFM work, which is summarised on page 17, and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report. We are satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.

Significant Matters

We did not encounter any significant difficulties or identify any significant matters arising during our audit.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries, as detailed in "1. Headlines" being resolved, we anticipate issuing an unqualified audit opinion following the Audit & Standards Committee meeting on 20th March 2023, as detailed in Appendix E.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff.

2. Financial Statements



Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan.

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	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	1,189,000	This is approximately 2% of gross revenue expenditure.
Performance materiality	892,000	Calculated as 75% of headline materiality. This is a measure used in audit of testing based upon our assessment of the likelihood of a material misstatement in the financial statements.
Trivial matters	59,400	This has been calculated based upon 5% of your headline materiality.



2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan

Commentary

Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.

We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.

To address the risk we:

- Evaluated the design effectiveness of management controls over journals;
- Analysed the journals listing and determined the criteria for selecting high risk unusual journals;
- Tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration;
- Gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness with regard to corroborative evidence;
- Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Our audit work has not identified issues in respect of this risk. However we raised two control recommendations in relation to journals process. Refer to Appendix A.



2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of the pension fund net liability

The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£11.3m in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions.

The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation.

The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable.

The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation.

To address the risk we:

- Updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluated the design of the associated controls;
- Evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- Assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;
- Assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;
- Tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;
- Undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report.

Our audit work has not identified issues in respect of this risk other than the unadjusted overstatement of £374k to the pension fund net liability (Refer to Appendix C).

Revenue cycle includes fraudulent transactions (rebutted)

Under ISA 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.

This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

Having considered the risk factors set out in ISA240 and nature of the revenue streams at Rother District Council, we have determined that the risk of fraud arising from revenue recognition on the remaining revenue streams can be rebutted, because:

- There is little incentive to manipulate revenue recognition;
- Opportunities to manipulate revenue recognition are very limited;
- The culture and ethical frameworks of local authorities, including Rother District Council, mean that all forms of fraud are seen as unacceptable.

There are no changes to the assessment reported in our Audit Plan. We have not identified any issues in this regard.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of land and buildings and Investment Properties

The Council regularly revalues its land and buildings to ensure that the carrying value is not materially different from the current value at the financial statements date. Investment properties are revalued annually at fair value.

These valuations represent a significant estimate by management in the financial statements.

To address the risk we:

- Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
- Evaluated the competence, capabilities and objectivity of the valuation expert;
- Wrote to the valuer to confirm the basis on which the valuation was carried out;
- Challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the valuer's report and the assumptions that underpin the valuation;
- Tested revaluations made during the year to see if they had been input correctly into your asset register; and
- Evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.

We are currently reviewing two asset valuations and are liaising with officers to clear audit queries. The first is 5.71 ha of land in Mount View Street which the Council acquired in 2021/22. A portion of this land (4.04ha) will be sold to NHS body post year end, was valued at £2.9m and the remainder (1.67ha) will be used for residential development and is valued at £2.5m as at 31 March 2022. The second is land in Blackfriars which is categorised as a surplus asset. This was valued at £4.5m in 2020/21 and is valued at nil in 2021/22. The valuation method remains consistent at fair value in both 2021/22 and 2020/21. This asset is currently held for future housing development and is intended to be transferred to Rother DC Housing Company Ltd.

No issues identified on the valuation of investment properties.

Risk of fraud in expenditure recognition (rebutted)

We consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period). As most public sector bodies are net spending bodies there may be an incentive to manipulate expenditure to meet targets or budgets. The risk of material misstatement due to fraud relating to expenditure recognition may in some cases be greater than the risk of material misstatements due to fraud related to revenue recognition.

Having considered the risk factors and the nature of the expenditure streams at the Council, we have determined that the risk of fraud arising from expenditure recognition can be rebutted, because:

- There is little incentive to manipulate revenue recognition;
- Opportunities to manipulate revenue recognition are very limited;
- The culture and ethical frameworks of local authorities, including the Council, mean that all forms of fraud are seen as unacceptable.

There are no changes to the assessment reported in our Audit Plan. We have not identified any issues in this regard.

2. Financial Statements - Other risk

Risks identified in our Audit Plan

Existence/accuracy of infrastructure asset balances and associated accumulated depreciation charged

The CIPFA Code of Practice on Local Authority Accounting states that Infrastructure assets shall be measured at depreciated historical cost. Historical cost is deemed to be the carrying amount of an asset as at 1 April 2007 (i.e. brought forward from 31 March 2007) or at the date of acquisition, whichever date is the later, and adjusted for subsequent depreciation or impairment.

We identified a risk that the carrying value of infrastructure assets is not appropriate given the nature of how the assets are held on the balance sheet and monitored through the asset register.

Commentary

The inherent risks which we identified in relation to infrastructure assets were:

- An elevated risk of the overstatement of Gross Book Value and accumulated depreciation figures, due to lack of derecognition of replaced components
- A normal risk of understatement of accumulated depreciation and impairment as a result of failure to identify and account for impairment of infrastructure assets and an over or understatement of cumulative depreciation as a result of the use of inappropriate useful economic lives (UELs) in calculating depreciation charges.

We have been working with CIPFA and the English Government to find both long-term and short-term solutions which recognise the information deficits and permit full compliance with the CIPFA Code. It has been recognised that longer-term solutions, by way of a Code update, will take several years to put into place and so short-term solutions are being put in place in the interim. These short-term solutions include the issue of a Statutory Instrument (SI) by government. The English SI was laid before Parliament on 30 November 2022 and came into force on 25 December 2022. CIPFA issued an update to the Code for infrastructure assets in November 2022 and has issued further guidance in January 2023 in relation to useful economic lives (UELs).

We have completed the following work focusing on the Council's current year's infrastructure assets:

- Updated our understanding of the processes and controls put in place by management to ensure that the useful economic lives for infrastructure are set at an appropriate length;
- Updated our understanding of the processes and controls put in place by management to ensure that infrastructure assets which have been replaced are identified and written out of the fixed asset register and financial statements as replacement additions are made; and
- Obtained understanding how management complies with the CIPFA Code of Practice in how it accounts for infrastructure assets.

Based on our work, we are satisfied that the Council has:

- Appropriately removed the gross book value and accumulated depreciation from its disclosures adding a new disclosure setting out opening net book value and any in-year movements
- Not identified any prior period adjustments requiring disclosure in the accounts.

We are currently assessing the Council's application of useful economic lives (UEL) of infrastructure assets to ensure compliance with SI and the requirements in the CIPFA Code update.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations	The Council's accounting policy for Property, Plant and Equipment (PPE) assets (including surplus assets) is at Note 1 (section 16) and for investment properties, at Note 1 (section 12). Both policies cover accounting and valuation process.	The Council engaged Wilks Head and Eve for the valuation of land and buildings and investment properties. We considered and completed the following in the course of our audit:	TBC
PPE: Other land & buildings NBV £50,348,000	The Council's assets are typically fully revalued on a 5 year programme, but the Council arranged for a full revaluation of its land and property (including its investment property) as at 31 March 2022 two years after the previous full revaluation. The exercise was undertaken by external valuers Wilks Head and Eve Chartered Surveyors.	<ul style="list-style-type: none"> - Assessment of management's expert; - Impact of any changes on the valuation method; - Consistency of estimate against Gerald Eve report; - Reasonableness of movement in estimates; - Adequacy of disclosure of estimate in the financial statements; and - Evaluated classification of investment properties. 	- Valuation for 2 samples for land still being challenged.
PPE: Surplus assets NBV £1,665,000	Other land and buildings comprises specialised assets such as leisure centres which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end.	Based on the valuation report, the valuer has not reported material valuation uncertainty for both other land and buildings and investment properties due to quantum of market evidence that support the valuation.	
Investment properties NBV £13,379,000	The total year end valuation of land and buildings was a net increase of £8.9m from 2020/21 (£41.5m) while the investment properties was a net increase of £1.7m from 2020/21 (£11.5m).	<p>We have not identified issues in respect of the valuation of land and buildings (except for the comments made on page 9) and investment properties.</p> <p>Our work on this area is still in progress but would like to flag the following issues and control failures we identified:</p> <ul style="list-style-type: none"> - Audit misstatements (see Appendix C) <ul style="list-style-type: none"> - Errors on calculation of valuation resulting in £170k understatement on two samples and £219k overstatement for one sample with a net impact on land and building of £49k. - Control failures (see Appendix A) <ul style="list-style-type: none"> - Assets revalued have no identifier to easily match what's on the fixed asset register; - Lack of clear dialogue and instructions to valuer to ensure valuation basis used is correct. 	

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment																								
Net pension liability – £11,300,000	<p>The Council's net pension liability at 31 March 2022 is £11.3m (PY £22.6m).</p> <p>The Council recognises and discloses the retirement benefit obligation in accordance with the measurement and presentational requirement of IAS 19 'Employee Benefits'.</p> <p>The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years.</p> <p>The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns.</p> <p>Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.</p>	<p>We have considered and completed the following in the course of our testing:</p> <ul style="list-style-type: none"> Assessment of management's expert; Assessment of actuary's approach taken, based on the full valuation to confirm reasonableness of approach; Use of PwC as auditor's expert to assess actuary and assumptions made by actuary – the table compares your Actuary's assumptions <table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.60%</td> <td>2.55% - 2.60%</td> <td>●</td> </tr> <tr> <td>Pension increase rate</td> <td>3.20%</td> <td>3.05%-3.45%</td> <td>●</td> </tr> <tr> <td>Salary growth</td> <td>3.20%</td> <td>3.05%-4.45%</td> <td>●</td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>21.2 / 22.0</td> <td>20.5 - 24.4</td> <td>●</td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>23.8 / 25.1</td> <td>23.4 - 26.4</td> <td>●</td> </tr> </tbody> </table> <ul style="list-style-type: none"> Completeness and accuracy of the underlying information used to determine the estimate Impact of any changes to valuation method Reasonableness of the Council's share of LPS pension assets. Reasonableness of increase/decrease in estimate Adequacy of disclosure of estimate in the financial statements 	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.60%	2.55% - 2.60%	●	Pension increase rate	3.20%	3.05%-3.45%	●	Salary growth	3.20%	3.05%-4.45%	●	Life expectancy – Males currently aged 45 / 65	21.2 / 22.0	20.5 - 24.4	●	Life expectancy – Females currently aged 45 / 65	23.8 / 25.1	23.4 - 26.4	●	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious</p>
Assumption	Actuary Value	PwC range	Assessment																								
Discount rate	2.60%	2.55% - 2.60%	●																								
Pension increase rate	3.20%	3.05%-3.45%	●																								
Salary growth	3.20%	3.05%-4.45%	●																								
Life expectancy – Males currently aged 45 / 65	21.2 / 22.0	20.5 - 24.4	●																								
Life expectancy – Females currently aged 45 / 65	23.8 / 25.1	23.4 - 26.4	●																								

Assessment

- **Dark Purple** We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- **Blue** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- **Grey** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- **Light Purple** We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

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Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit & Standards Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation will be requested from the Council which is appended in this report.
Confirmation requests from third parties	We sought external confirmations from relevant banks and financial institutions to support our view of the Council's yearend cash and investment balances. We received positive confirmation for all balances. There are no issues to report.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/significant difficulties	All information and explanations requested from management was provided.

2. Financial Statements - other communication requirements



Our responsibility

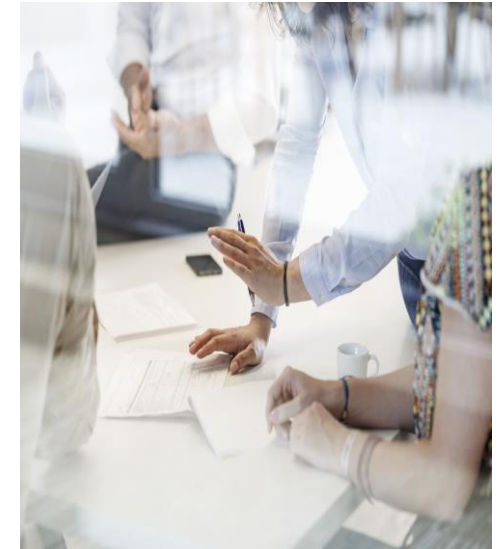
As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

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Issue	Commentary
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p>Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none"> • The use of the going concern basis of accounting is not a matter of significant focus of the auditor’s time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity’s services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • For many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul style="list-style-type: none"> • The nature of the Council and the environment in which it operates • The Council's financial reporting framework • The Council's system of internal control for identifying events or conditions relevant to going concern • management’s going concern assessment. <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none"> • A material uncertainty related to going concern has not been identified • Management’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements including the Annual Governance Statement and the Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to appendix E.</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> • If the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • If we have applied any of our statutory powers or duties. • Where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. <p>We have nothing to report on these matters.</p>
Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. Note that work is not required as the Council does not exceed the threshold.</p>



3. Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office issued its guidance for auditors in April 2020. The Code requires auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

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Improving economy, efficiency and effectiveness

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



Financial Sustainability

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

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:



Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

3. VFM - our procedures and conclusions

We have completed our VFM work and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We did not identify any significant weaknesses in your arrangements. We are satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

4. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \(grantthornton.co.uk\)](#)

5. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit service was identified as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Estimated Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing Benefit Claim	£14,663	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £14,663 in comparison to the total fee for the audit of £65,934 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

Appendices

A. Action plan – Audit of Financial Statements

We have made 7 recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2022/23 audit. The matters reported here are limited to those deficiencies we identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Page 41	<p>We noted two users who posted on the accounting system that have unbalanced amounts of journals with net variance of £40. As per management this resulted from system error that wasn't investigated further on the grounds of materiality.</p>	<p>Whilst the difference on the unbalanced user journal transactions are clearly trivial, management should ensure that systems controls are designed effectively to avoid future errors on journals being posted. This includes a control that would prevent journals to be posted if the debits and credits don't match on each journal and by each user.</p> <p>Management response</p> <p>The system prevents unbalanced journals happening both when they are done manually and uploaded from a template. It would accept up to 5p difference if it was a result of calculation roundings. The controls are there in place and this particular case was an abnormal situation due to a system glitch.</p>
	<p>We noted multiple journal entries in the general ledger's listing (specifically on Income SI category) that have no descriptions. As management confirmed, the system does not allow users to include journals descriptions for this type of transactions. The system only automatically post descriptions that are not clear and have no meaning.</p>	<p>It is fundamental that journals regardless of the amount or number of lines, should be posted with clear descriptions as this provides quick overview of what these journals are being posted for. This is designed to spot errors that can be useful in management's review process of journals before being posted. Management should consider putting a description function for all types of journals and to understand why the system is not allowing descriptions to be recorded for this type of journal.</p> <p>Management response</p> <p>The lack of narrative on Sundry Income Debtor invoices is a result of a system design on Accounts Receivable which does not transfer the narrative from the face of the invoice (SI Order) into the Text field on the General Ledger. This has been investigated with a Unit 4 Users group and is accepted as a system limitation. Detail on the type of transactions is already available through the use of Account, Cost Centre, Location and Product code descriptions, but we are investigating the possibility of having the narrative there as well. At the moment it is impossible without significant additional/duplicated data entry work by the Accounts Receivables officer.</p>

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

A. Action plan – Audit of Financial Statements, cont'd

Assessment	Issue and risk	Recommendations
Page 42	<p>Based on our valuation testing, we noted two areas of land held within fixed assets register that will either be developed, sold or transferred in the future. One relates to land in Mount View Street acquired in 2021/22 for which a portion will be sold to an NHS body while the remainder is planned to be developed for commercial use. The other land in Blackfriars is planned to be transferred to the Council's housing company set up for local housing purposes. While we can see Cabinet minutes demonstrating the decision of the committee for the planned use of these assets, there is no documented dialogue and instructions provided to the valuer to ensure valuation basis is correct. This should include a tracker to show different stages of the decisions held for these land. Management confirmed that the intended use of these assets specifically the land in Blackfriars has not been steady depending on the best use at a point in time and will also depend on the viability study undertaken by the housing company. It is therefore crucial that decisions on stages of the plan of the asset is maintained which should also outline the outcome of decisions, actions to be taken and timescale.</p>	<p>Management's valuation team is well aware about the decisions for these assets but It is important that the concrete plan for the assets are demonstrated not just on the final stages of approval but also in the form of a tracker showing the decisions made, planned and/or alternative actions, and timescale on when will these be achieved. From the auditing perspective, this also provides an understanding on the use of the asset as it affects the assessment on the valuation method that should be applied.</p> <p>Management response</p> <p>These two complex projects evolved over the years and while the Council is comfortable that all the decisions taken around these schemes are accurately reflected within the reports presented and minutes provided it is acknowledged that we need to ensure continual dialogue between the finance and property teams along with the valuers so that everyone is clear on the current progress of developments to ensure valuations can be accurately reflected. We are continually improving the management, monitoring and reporting of the overall capital programme using a standardised approach to ensure all changes are captured and well documented so these improvements to communications will be included as part of this ongoing work.</p>
	<p>NNDR Provision : Figures for the threat report were not updated for year under audit. The Council accounted for the NNDR provision on the basis of last year threat report figures for 2017 list. This resulted in provisions understated by £42k.</p>	<p>As part of the financial reporting process, management should ensure that up-to-date reports are being used in estimating their general provisions.</p> <p>Management response</p> <p>We are doing work this year to improve our working papers for the collection fund to prevent such an omission from happening in the future. We are also taking steps to communicate better with the VOA and Analyse Local and there is a project to standardize the approach to NNDR provision by BAs across the county.</p>
	<p>On our valuation testing, we noted that there is no distinct identifier in terms of name for assets per valuation report versus what's on the Council's fixed asset register and to the corresponding ownership documents.</p>	<p>We recommend management include an identifier or references to each item on the fixed asset register and folders maintained for each individual asset where corresponding evidence can be kept in order. This will make the review process easier and in ensuring supporting evidence can be pulled out easily. As discussed with management this is being addressed for 2022/23.</p> <p>Management response</p> <p>We are aware of this problem and there is a reconciliation exercise ongoing to standardise the descriptions of assets between the information given out to valuers, the fixed asset register maintained by Finance and the descriptions used on the Financial system. The list of properties has already been sent to the valuers in their old format, but we will endeavour to either map those old name or translate them to the new agreed descriptions.</p>

A. Action plan – Audit of Financial Statements, cont'd

Assessment	Issue and risk	Recommendations
	<p>Management confirmed that all FTE quarterly reports in 2021/22 were submitted to National Statistics however we did not see evidence of FTE report submission for the quarter ended June 2021.</p>	<p>This document provides strong evidence to support completeness of FTE being disclosed to the financial statements and is therefore important to be kept on file.</p> <p>Management response</p> <p>We will stress to HR the importance of those records to be retained and passed on to Finance and ask them to diarise sharing this information with Finance either at year end or as and when it is submitted.</p>
Page 43	<p>During the audit, we noted that elections staff costs were inconsistently recorded in different codes. Some of which were posted using basic salary account code while others were posted in employee benefit expense codes.</p>	<p>We recommend that separate code be used for other employee remuneration to easily track expenditures of different nature. This would also help the Council when analysing fluctuations on account level basis.</p> <p>Management response</p> <p>It is true that all these costs are recorded under Basic salary costs, and are thus not easily distinguishable from other regular staff costs, but they only affect 5 distinct Elections cost centres associated with specific elections. They are not easily distinguishable on the system because a decision was made at set up stage that employee information would be restricted on the general ledger. The information can be obtained on request by authorized staff from the Payroll Module. We will, however, check with HR and payroll if for better visibility and transparency purposes the relevant PDs could be attached to a different, separate Account code set up on the system specifically to capture such elections costs which would not have been incurred if elections were not taking place in the particular year.</p>

B. Follow up of prior year recommendations

We identified the following issues in the audit of Rother District Council's 2020/21 financial statements, which resulted in 1 recommendation being reported in our 2020/21 Audit Findings report as partially addressed. We have followed up on the implementation of our recommendation and noted this to has been addressed.

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Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>Inclusion of sensitivity analyses in disclosure on estimation uncertainty</p> <p>Under IAS1 there is a need for the sensitivity analysis disclosures to be considered for all significant estimates. Note 4 includes a sensitivity analysis quantifying the potential impact of changes to the assumptions used in calculating the net pension fund liability. However, there is no sensitivity analysis for other estimates referred to at Note 4. We recommended that in future years where an estimates requires a disclosure at Note 4 then this should include a sensitivity analysis on the impact of changes to assumptions.</p>	<p>In 2020/21, the Council partially addressed this recommendation leaving the disclosure on sensitivity analysis for asset revaluations for 2021/22. This has now been reflected in the 2021/22 statement of accounts and therefore resolved.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

C. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

As of date, we have not identified any adjusted misstatements which we are required to report to those charged with governance.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Auditor recommendations	Adjusted?
<p>liquidity risk disclosure amendment in financial Instruments note for inclusion of interest cost along with principal amount. The maturity analysis disclosed under liquidity risk section of financial instruments disclosure in Note 20 does not include the interest element of loans over the contractual maturities in both current year and prior year.</p>	<p>Amendments proposed to correct error in the contractual maturities disclosed in both current and prior year.</p> <p>Management response Agreed to adjust.</p>	✓
<p>Through discussions with the management, adjustments were made to the CIES however this was not reflected on the Expenditure and Funding Analysis (EFA) note. This relates to account G1206 that's normally expense and therefore mapped to expenditure lines. This has been corrected in the updated accounts to reclassify the amount to income line. There is nil impact on the net income.</p>	<p>Amendments proposed to correct error in EFA note.</p> <p>Management response Agreed to adjust.</p>	✓
<p>Error on the amount of "Change in covid grants held for Government" line for 21/22 within Statement of Cash flows which was shown as £14,774k but should have been £2,713k. This amount was incorrectly brought forward from PY comparative but overall has no impact on the net amount of cash flows.</p>	<p>Amendments proposed to correct statement of cash flows.</p> <p>Management response Agreed to adjust.</p>	✓

C. Audit Adjustments, cont'd

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

As of date, we have not identified any adjusted misstatements which we are required to report to those charged with governance.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Auditor recommendations	Adjusted?
<p>On Note 19, the Council included narrative about the nature of S106 grants but it's not done for new grants S106 Worsham farm (£747k) which leaves the undisclosed nature of S106 grants above the materiality.</p>	<p>Amendments proposed to provide disclosure on the nature of capital grants received in advance.</p> <p>Management response Agreed to adjust.</p>	<p>✓</p>
<p>As per IAS1 there is a need for the sensitivity analysis disclosures to be considered for all significant estimates. This was not disclosed for the depreciation expenses.</p>	<p>Amendments proposed to comply with the requirement of the Code.</p> <p>Management response Agreed to adjust.</p>	<p>✓</p>

C. Audit Adjustments, cont'd

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2021/22 audit which have not been made within the final set of financial statements. The Audit and Standards Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000	Reason for not adjusting
<p>Errors in land and building valuations calculations</p> <p>For three of the samples selected, we noted errors in the calculation of valuation by the values as follows:</p> <p>Land at Mount View street, Variance noted between our recalculation and valuation provided by management. The valuer used 5.86 ha in calculating the land value as opposed to the correct land area of 5.71ha. This resulted in understatement of land valuation by £79k.</p> <ul style="list-style-type: none"> - Public convenience at Dog Hill The valuer in his calculation incorrectly used the amount for "Developed Land" as a basis for calculating value per land as opposed to "Undeveloped land" which this asset falls under. This resulted in an overstatement of land valuation by £219k. - Land at Love Lane Rye The total area as per recalculation by management is 1.779 ha while the valuer has only considered an area of 1.17 ha for their calculations resulting in a net valuation gap of £91,350. <p>The net impact of above misstatements is overstatement on the valuation of land and building by £49k and corresponding overstatement on revaluation reserve.</p>	-	PPE - 49 Revaluation reserve - (49)	-	The Council has not adjusted as this is below materiality.

C. Audit Adjustments, cont'd

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2021/22 audit which have not been made within the final set of financial statements. The Audit & Standards Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000	Reason for not adjusting
<p>Understatement on the pension fund asset</p> <p>IAS 19 assurance letter was received from the pension fund auditors on 15 February 2023. No exceptions was noted other than the £12.9m understatement in the valuation of pooled investments, pooled property investments and pooled equity of the pension fund. We have calculated the portion of misstatement allocated to Rother DC based on its asset percentage of 2.29% over the total asset of the pension fund. The allocated variance to Rother DC is therefore £374k. In effect, the pension fund net liability is overstated by the same amount as at 31 March 2022.</p>	374	374	(374)	The Council has not adjusted as this is below materiality.

D. Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Audit fees	Planned fee	Final fee
Council Audit	£65,934	£TBC
Total audit fees (excluding VAT)	£65,934	£TBC
Non-audit fees for other services	Planned fee	Final fee
Audit Related Services		
Housing benefit subsidy claim	£14,663	£TBC
Total non-audit fees (excluding VAT)	£14,663	£TBC

E. Audit opinion

Our audit opinion is included below.

We anticipate we will provide the Council with an unmodified audit report

Independent auditor's report to the members of Rother District Council

Report on the Audit of the Financial Statements

Opinion on financial statements

We have audited the financial statements of Rother District Council (the 'Authority') for the year ended 31 March 2022, which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2022 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 2021/22; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Chief Finance Officer's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

In our evaluation of the Chief Finance Officer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22 that the Authority's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority and the Authority's disclosures over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Chief Finance Officer with respect to going concern are described in the 'Responsibilities of the Authority, the Chief Finance Officer and Those Charged with Governance for the financial statements' section of this report.

E. Audit opinion, cont'd

Other information

The Chief Finance Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements, and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Chief Finance Officer and Those Charged with Governance for the financial statements

As explained in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Finance Officer. The Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22, for being satisfied that they give a true and fair view, and for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit and Standards Committee is Those Charged with Governance. Those Charged with Governance are responsible for overseeing the Authority's financial reporting process.

E. Audit opinion, cont'd

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Page 52 Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003, the Local Government Act 1972 and the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992) and the Local Government Finance Act 2012.
- We enquired of senior officers and the Audit and Standards Committee, concerning the Authority's policies and procedures relating to:
 - the identification, evaluation and compliance with laws and regulations;
 - the detection and response to the risks of fraud; and

- the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

- We enquired of senior officers, and the Audit and Standards Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.

- We assessed the susceptibility of the Authority's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls, fraudulent revenue recognition and fraudulent expenditure recognition.

- Our audit procedures involved:

- evaluation of the design effectiveness of controls that the Chief Finance Officer has in place to prevent and detect fraud;

- journal entry testing, with a focus on unusual journals made during the year and the accounts production stage for appropriateness and corroboration;

- challenging assumptions and judgements made by management in its significant accounting estimates in respect of land and buildings, investment property and defined benefit pensions liability valuations;

- assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

- Our assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's.

- understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation

- knowledge of the local government sector

E. Audit opinion, cont'd

- understanding of the legal and regulatory requirements specific to the Authority including:

- the provisions of the applicable legislation
- guidance issued by CIPFA, LASAAC and SOLACE
- the applicable statutory provisions.

• In assessing the potential risks of material misstatement, we obtained an understanding of:

- the Authority's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.

- the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

Report on other legal and regulatory requirements – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

We have nothing to report in respect of the above matter

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing 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.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in December 2021. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We have documented our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we have considered whether there is evidence to suggest that there are significant weaknesses in arrangements.

Report on other legal and regulatory requirements – Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for Rother District Council for the year ended 31 March 2022 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2022.

E. Audit opinion, cont'd

We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2022.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

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Signature:

Name: Darren Wells, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

London

Date:

F. Management Letter of Representation

[LETTER TO BE WRITTEN ON CLIENT HEADED PAPER]

Grant Thornton UK LLP

[Click here and enter office address]

[Date] – [TO BE DATED SAME DATE AS DATE OF AUDIT OPINION]

Dear Sirs

Rother District Council

Financial Statements for the year ended 31 March 2022

This representation letter is provided in connection with the audit of the financial statements of Rother District Council for the year ended 31 March 2022 for the purpose of expressing an opinion as to whether the Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards, and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

- i. We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.
- ii. We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.

- iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include the valuation of the net pension liability, the valuation of land and buildings, the valuation of investment properties and surplus assets, depreciation, provisions, fair value estimates, year end accruals and credit loss allowances. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.
- vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
- vii. Except as disclosed in the financial statements:
 - a. there are no unrecorded liabilities, actual or contingent
 - b. none of the assets of the Council has been assigned, pledged or mortgaged
 - c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

F. Management Letter of Representation, cont'd

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- viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The Council's financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
- xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.
- xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xiv. The prior period adjustment disclosed in Note 20 to the financial statements are accurate and complete. There are no other prior period errors to bring to your attention.
- xv. We have updated our going concern assessment. We continue to believe that the Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that :
 - a. the nature of the Council means that, notwithstanding any intention to cease its operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and

preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements

b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and

c. the Council's system of internal control has not identified any events or conditions relevant to going concern.

We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements

xvi. We have considered whether accounting transactions have complied with the requirements of the Local Government Housing Act 1989 in respect of the Housing Revenue Account ring-fence.

xvii. The Council has complied with all aspects of ring-fenced grants that could have a material effect on the Council's financial statements in the event of non-compliance.

Information Provided

xviii. We have provided you with:

- a. access to all information of which we are aware that is relevant to the preparation of the Council's financial statements such as records, documentation and other matters;
- b. additional information that you have requested from us for the purpose of your audit; and
- c. access to persons within the Council via remote arrangements from whom you determined it necessary to obtain audit evidence.
- xix. We have communicated to you all deficiencies in internal control of which management is aware.
- xx. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xxi. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

F. Management Letter of Representation, cont'd

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- xxii. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:
 - a. management;
 - b. employees who have significant roles in internal control; or
 - c. others where the fraud could have a material effect on the financial statements.
- xxiii. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
- xxiv. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxv. We have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.
- xxvi. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

xxvii. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

xxviii. The disclosures within the Narrative Report fairly reflect our understanding of the Council's financial and operating performance over the period covered by the Council's financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Audit and Standards Committee at its meeting on [ENTER DATE].

Yours faithfully

Name.....

Position.....

Date.....

Signed on behalf of the Council

Auditor's Annual Report on Rother District Council

2021/22

February 2022
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Agenda Item 7

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We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



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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Executive summary



Value for money arrangements and key recommendation(s)

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Auditors are required to report their commentary on the Council's arrangements under specified criteria and 2021/22 is the second year that we have reported our findings in this way. As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Our conclusions are summarised in the table below.

Criteria	Risk assessment	2020/21 Auditor Judgment	2021/22 Auditor Judgment	Direction of travel
Financial sustainability	No risks of significant weakness identified	No significant weaknesses in arrangements identified, but improvement recommendation made	No significant weaknesses in arrangements identified. The Council addressed the majority of the improvement recommendations from the prior year. We have made some additional improvement recommendations as part of this year's work.	↔
Governance	No risks of significant weakness identified	No significant weaknesses in arrangements identified, but improvement recommendation made	No significant weaknesses in arrangements identified. The Council has addressed the improvement recommendations from the prior year. We have made some additional improvement recommendations as part of this year's work.	↔
Improving economy, efficiency and effectiveness	No risks of significant weakness identified	No significant weaknesses in arrangements identified, but improvement recommendation made	No significant weaknesses in arrangements identified. The Council addressed the majority of the improvement recommendations from the prior year. We have made some additional improvement recommendations as part of this year's work.	↔

- No significant weaknesses in arrangements identified or improvement recommendation made.
- No significant weaknesses in arrangements identified, but improvement recommendations made.
- Significant weaknesses in arrangements identified and key recommendations made.

Executive summary



Financial sustainability

The Council continues to operate in an increasingly uncertain financial environment. For 21/22 the Council set a budget that required the use of £2.7m of reserves to meet a breakeven position. At year end the Council produced an outturn position of breakeven requiring a lower use of reserves than initially planned.

The Council continues to face financial challenges in terms of the medium term financial outlook which is becoming increasingly reliant on the use of further reserves and would not be sustainable if left unaddressed. The Council is taking several actions to respond to this pressure including an upcoming Service Planning Review process to investigate how services can be delivered differently, a Financial Stability Programme aimed at finding the necessary efficiencies required and devolving services to Bexhill Town Council. The track record of delivering savings in 2021/22 and 2022/23 is low at 31% and 21% respectively. A contributory factor to this is delays in the transfer of services to Bexhill Town Council. Officers expect this process to gain traction in 2023/24 to deliver the required savings on a recurring basis.

We have not identified a significant weaknesses in arrangements in 2021/22, but note the developing 2023/24 budget and updated MTFP that confirms without further action, an underlying budget deficit will remain until at least 2027/28 requiring a use of reserves that will see usable reserves fall below £5m (the minimum level recommended by the Chief Finance Officer) between 24/25 and 27/28 and the Council will not be able to replenish revenue reserves during this period. Taking decisive action now to minimize the use of reserves in the medium term is key.

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Governance

The Council has undertaken a full review of its risk management processes with the support of external consultants. This review has responded to improvement recommendations made in the prior year Value for Money work. The improvements were implemented in the 2022/23 year due to the timing of the VFM work but have positively impacted the processes that allow the Council to meet its objectives.

We have made some improvement recommendations that represent actions that could be taken to achieve best practice in risk management, internal audit assurance, budget monitoring and the budget setting processes at the Council. However none of these points represent a weakness in arrangements.



Improving economy, efficiency and effectiveness

2021/22 was the first full year of operation of two of the Council's key partnerships, Bexhill Town Council and Rother DC Housing Company. Activity between the Council and these two organisations has been limited in the year. The arrangements in place to set up and approve the two projects are appropriate. We have raised some improvement recommendations in relation to strengthening the ongoing governance arrangements between the Council and these two organisations to ensure that members receive regular updates on the progress and performance of the two projects whilst still in a transition phase. In relation to the company, actions to make these improvements are already in train in 2022/23.

Benchmarking analysis has highlighted three areas of high unit cost services that the Council may have the opportunity to take a targeted approach to reducing as part of the upcoming Service Planning Review process to assist further with the medium term financial challenge.

Monitoring of non-financial performance remains largely unchanged and we have made some improvement recommendations that could further strengthen the process.

Opinion on the financial statements and use of auditor's powers

We bring the following matters to your attention:

Opinion on the financial statements

Auditors are required to express an opinion on the financial statements that states whether they : (i) present a true and fair view of the Council's financial position, and (ii) have been prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22

We have substantially completed our audit of your financial statements and expect to issue an unqualified audit opinion, following the Audit & Standards Committee meeting on 20th March 2023.

Statutory recommendations

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly

No such issues identified

Public Interest Report

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.

No such issues identified

Application to the Court

Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.

No such issues identified

Advisory notice

Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority:

- is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure,
- is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or
- is about to enter an item of account, the entry of which is unlawful.

No such issues identified

Judicial review

Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.

No such issues identified

Securing economy, efficiency and effectiveness in the Council's use of resources

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. The Council's responsibilities are set out in Appendix A.

Councils 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's Auditor Guidance Note (AGN) 03, 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).



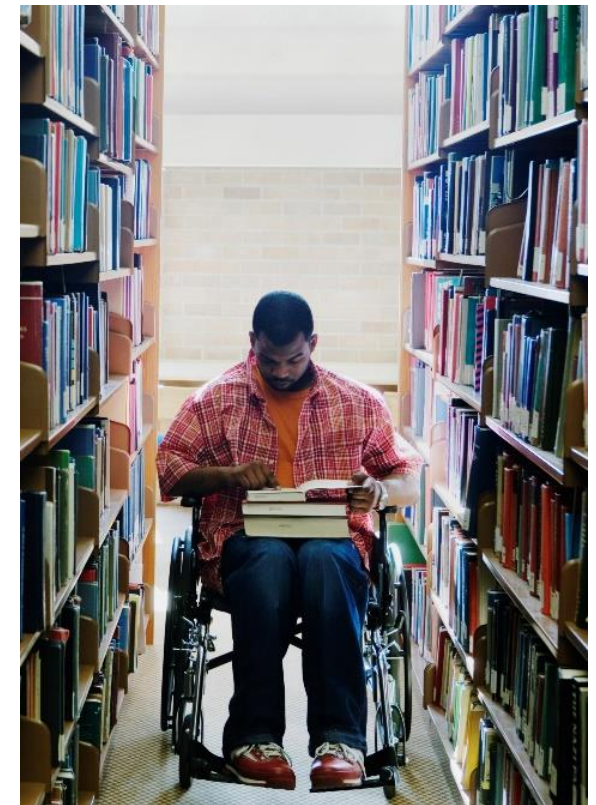
Governance

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



Our commentary on the Council's arrangements in each of these three areas, is set out on pages 7 to 28.

Financial sustainability



We considered how the Council:

- identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds them into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- 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
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

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21/22 Financial Position

The Council set a balanced budget for 21/22 which was approved by members in February 2021. In order to produce the balanced position the Council was reliant on efficiency savings through its Financial Sustainability Programme (FSP) of £632k and the use of £2.7m of general fund and earmarked reserves. Therefore, the budget was an expected underlying deficit position, before use of reserves. The forecast outturn position is monitored by the Finance Team and reported to members quarterly. In the first two quarters of the year the Council expected to overspend on its balanced budget predominantly due to under delivery of the Financial Sustainability Programme. Although under delivery of that programme has continued throughout 21/22 the Council's year end outturn position was better than the initial budgeted position, breaking even with the use of £1.4m of reserves, compared with the planned £2.7m usage. The reason for the improved performance was increased income from government grants, such as for homelessness prevention, and improved performance by the Housing, Communities and Neighbourhood Directorate across income and expenditure factors.

22/23 Budget and Medium Term Financial Plan (MTFP)

Although the Council's year end performance for 21/22 is ahead of its budgeted position, achievement of a breakeven position still required the use of reserves which is unsustainable in the medium term. The position also relied on government grants, which carry a degree of uncertainty and therefore are unpredictable as a source of future funding. The Council continues to explore additional ways in which generate income from other sources including its commercial property investment programme and returns on financial investments, and ways to respond to uncertainty and reserve usage as part of its annual update of the MTFP.

Members approved the 22/23 budget and MTFP in February 2022. The budget, in line with legislation, was a balanced position consisting of net expenditure of £16.736m matched with income from key funding sources such as Council tax, Business Rates, government grants and the planned use of reserves of £3.2m to produce a breakeven position. At Q2 of 22/23 the Council's forecast outturn is £527k better than budgeted and therefore the Council is on track to achieve its balanced budget at the mid-point of the financial year, with a lower use of reserves than initially forecast.

The MTFP spans 22/23 to 26/27 and forecasts a total budget gap of £2.7m over the 5 year period of the MTFP to be funded from reserves. This equates to 3.9% of the net expenditure expected over the life of the MTFP. We would consider a 5% deficit or more to be significant in terms of sustainability. This position does not currently suggest a weakness in budgetary arrangements but if the underlying causes of the deficit position in the early years of the MTFP are left unaddressed the gap could increase. The 23/24 budget setting process has already seen the forecast gap over 5 years increase to £4.4m. The financial gap is greater than 5% of net expenditure in individual years, however there are currently sufficient reserves available to support the full 5-year deficit. A continued focus on reducing the medium term gap over future years needs to be the Council's priority to meet its objective of protecting services. The Council already has its Financial Stability Programme in place as well as a plan to transfer some discretionary service to Bexhill Town Council. In 23/24 the Council will also undertake a Service Planning Review to identify potential alternative delivery models for services. These are all positive actions to respond to its financial challenge, notwithstanding that due to the multi year nature of the projects, their full impact will take some time to be evidenced. A time lag between implementation and effect is to be expected.

We would expect the Council to review and update assumptions in relation to key sources of funding (from Council Tax and Business Rates, fees and charges and funding included in the annual Local Government Settlement) and key sources of expenditure (most notably inflation and pay) each year during the budget setting process.

Income assumptions within the budget and MTFP have been identified as being appropriate and realistic reflecting the annual Local Government Settlement and the maximum allowable Council Tax increase without triggering a referendum. The Council has effectively maximised this stable form of income to mitigate some of the uncertainty around grant funding from central government. Fees and charges for services have been reviewed in full as part of the budget setting process. The increases are in line with the Retail Price Index (RPI), unless charges are set by a national tariff. The inflation base is appropriate based on the nature of the services.

Financial sustainability

RPI continued to rise throughout the budget setting process and 22/23 financial year, by virtue of their nature fees and charges are set annually with limited scope to continually make changes. The 23/24 budget does account for the significant increase.

Assumptions in relation to key sources of expenditure in the budget have been observed to be on the more optimistic side and therefore may require review when producing the 23/24 budget process, which uses a roll forward approach and updates for changes in key assumptions. Non-pay inflation increases in the 22/23 budget were based on the Consumer Price Index (CPI) which is appropriate. During the budget setting period the average CPI rate was 5.15% and therefore the inflation estimate used in the budget of 1.8-2% is considered optimistic and could result in the Council having a further budget shortfall than anticipated. The Council does have a £200k contingency within the budget to react to changes in assumptions however our high-level analysis demonstrate this may not be sufficient, in isolation, to cover inflation above the Council's estimate.

The Council's estimate for pay related awards of 1% from September 2022 was arguably optimistic given the developing environment at the time of budget setting. Trade unions have since negotiated a much higher award (although this was not known at the time of the budget) which averages out to approximately 7% across the pay spine backdated to April 22.

Despite these key expenditure assumptions being optimistic the Council is on track to deliver its 23/23 forecast position as a result of favourable variances across other assumptions such as financing costs for capital projects which have been delayed, however these are likely to be non-recurrent events and therefore it is important that assumptions are reviewed as part of the 23/24 budget setting process (**Recommendation 1**).

Throughout the budget setting and MTFP process there is a clear consideration of the financial risks the Council is facing. Although there is not one dedicated section within the documentation that highlights these risks it is inherent throughout the budget setting papers, discussion by members and challenge by the Overview and Scrutiny Committee. All common risks in the sector are covered and there is also consideration of Council specific risks based on the demographic and operations of Rother District Council, including risks around homelessness and planning appeals. A key risk to the MTFP is the ongoing use of reserves and this is reiterated consistently to members and officers throughout the year.

Savings

The Council established its Financial Sustainability Programme (FSP) in March 21 to deliver efficiencies in 21/22 to 23/24. The FSP approach to addressing the revenue budget deficit was based on the protection of discretionary services rather than reducing services via savings. Heads of Service, relevant portfolio holders, members of the Senior Leadership Team and the Corporate Management Team all have input into the identification and ongoing monitoring of the delivery of the programme and therefore internal stakeholder engagement in relation to savings is appropriate.

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The total efficiency target from the programme in each year is included in the Council's MTFP and budget and monitored at this high level through quarterly budget monitoring reports. Cabinet also receives a twice yearly update on the programme which focusses on monitoring the progress of the processes in relation to the programme and highlighting any newly identified schemes. Cabinet does not receive monitoring of the individual schemes within the programme on a regular basis in order for schemes with specific delivery challenges to be highlighted and targeted action taken. There has been informal monitoring at this detailed level undertaken by the officer led Programme Management Office (PMO) in 21/22 and by the Financial Stability Board (FSB) (merged into the Corporate Programme Board) in 22/23 which includes a useful performance dashboard approach. Given that the programme has under-delivered in 21/22 it would be of benefit for schemes to be monitored more frequently and at a more granular level of detail at the top tier of the organization to ensure that decision makers have a full suite of information with which to make informed decisions. We do note improvements below Cabinet noted in 22/23 and therefore there is the opportunity to extend these upwards to a member attended forum. (**Recommendation 2**)

The Council does not report on the split of non-recurrent to recurrent savings in its monitoring to the FSB Corporate Programme Board. This may be useful to include in the monitoring dashboard, so decision makers have sight of savings which have a multiyear impact and the scale of reliance on one off savings. This can help prompt decisions to shift the balance more towards recurrent means. The majority of the savings target for 22/23 was non-recurrent (£485k of the £635k target - 76%). The Council should explore ways that it can shift this balance and identify more recurrent schemes (**Recommendation 2**).

For 21/22 the efficiency target included in the FSP was £632k as a result of the changes made to services, but only £196k was achieved. Likewise for 22/23 the target was £635k and £133k had been achieved as at the Q2 monitoring report. This demonstrates that the Council is finding savings delivery a challenge. The delivery of the FSP, is directly linked to the use of reserves required to balance the Council's budget each year and therefore under-delivery is placing pressure on the Council's future financial sustainability. The Council's own analysis demonstrates that if the whole programme under-delivers by 50% over the 5 year period of the MTFP then reserves would fall to an unsustainably low level by 26/27 and if only 25% of the FSP was delivered reserves would run out before the 5 year period of the MTFP was reached (in 25/26). The delivery rate of 31% and 21% in 2021/22 and 2022/23 respectively highlights the risk to financial sustainability. The Council therefore needs to prioritise exploring ways to increase the deliverability of the FSP in order to protect the delivery of future services and its reserves (**Recommendation 2**).

Financial sustainability

A key project that has been undertaken to protect the Council's discretionary services has been the creation of Bexhill Town Council with certain discretionary services to be devolved and allow them to continue to be delivered for the benefit of service users while making vital savings for the Council. Services identified for devolvement include parks and gardens, non-income earning car parks, public conveniences, christmas lights, museum services, bus shelters and the cost of backfilling a devolvement team. Over the 3 year period of the FSP the transfer is estimated by the Council to make savings of £1.4m in total, recurring in each year after the end of the FSP. In 21/22 no services were transferred. Officers expect that the first service will be transferred at the end of 22/23 or early 23/24 as negotiations are nearing completion at the time of writing. Although this devolving of services was expected to be a phased approach it is vital to realizing the savings within the FSP and therefore the Council should explore ways that it can increase the frequency, intensity and formality of liaison with the Town Council to increase the speed of transfer of services **(Recommendation 2)**.

We investigated whether the Council carry out "Post implementation reviews" of savings initiatives, to ensure lessons are learned and opportunities to make further savings are maximized. We did not identify any such reviews. Given that savings are undelivered in years 21/22 and 22/23 to date these reviews could allow corrective action to be taken on under-delivering projects and also identify successfully delivered schemes and explore opportunities to extend these projects to other service lines **(Recommendation 2)**.

Reserves

The Council reviews its reserves strategy annually as part of the budget setting process. As such it is able to forecast the use of reserves that is likely to be required to balance the budget and MTFP over a 5 year period or where the Council may be able to contribute to those reserves. The Council then reports performance of reserves usage against its financial plan as part of the quarterly budget reporting to Cabinet and Overview and Scrutiny Committee.

The reserves available for use are the Council's General Fund Reserve, which can be used for any purpose, and earmarked General Fund Reserves which are set aside by the Council for specific purposes or projects but can be used without restriction. Reserves are finite and therefore once used require replenishment to be able to protect the Council against future financial uncertainties. The usage of earmarked reserves, as a temporary measure for purposes they were not earmarked for, takes away resources for the specific projects they were intended for and therefore also require replenishment to allow Council priorities to be met. The Council has set a minimum level of reserves of £5m that it deemed appropriate to hold to protect itself against future uncertainties

In 21/22 the Council used £1.4m of general fund and earmarked reserves to balance the budget and £3.2m in 22/23. By the end of 22/23 the Council expects to have £7.5m in usable reserves.

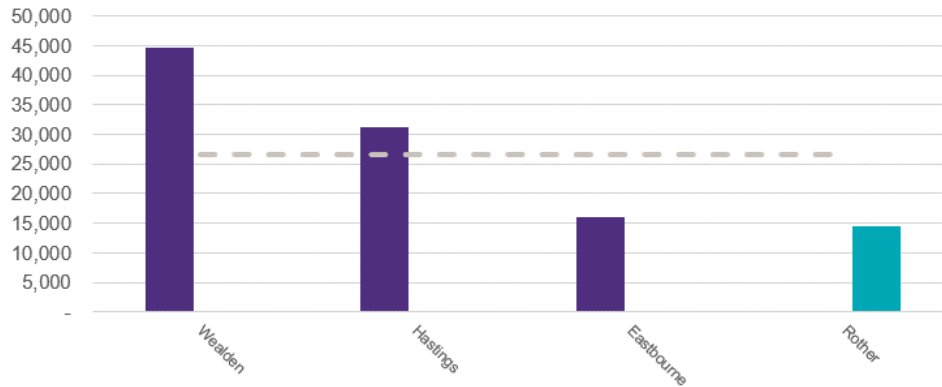
The initial 22/23 MTFP recorded that in 23/24 to 26/27 the Council's reserve usage would see reserves drop below the £5m minimum agreed level with members but would recover, with reserves being replenished in the latter years of the MTFP. The 23/24 budget process which is still in progress, confirms that without further action, an underlying budget deficit will remain until at least 2027/28 requiring a use of reserves that will see usable reserves fall below £5m between 24/25 and 27/28 and the Council will not be able to replenish revenue reserves during this time.

Grant Thornton published a paper in September 22 entitled 'Lessons from recent Public Interest reports' which includes a strong emphasis on the importance of maintaining an adequate level of reserves. There is no formal definition as to what constitutes adequate, but Grant Thornton's view is that reserves should be a minimum of 5% of net spending and preferably be somewhere between 5% and 10%. The Council has undertaken some analysis as to what the 5% and 10% levels would be based on the MTFP and has determined that their planned reserve levels are within the expectations set out in the report. As stressed to Members, the paper is only intended as a high-level guide and the judgement on the adequacy of the reserves is the responsibility of the Council. In the view of the Chief Finance Officer (CFO) it would be prudent for the Council to ensure that its Revenue Reserves are at least £5m and where this cannot be achieved in the short term, to develop proposals that replenish reserves to that level. Therefore, for the Council to be in line with its own analysis of adequacy, the Council should establish a detailed action plan to replenish reserves over the medium term and ensure this is closely monitored as a stand alone item by the Senior Leadership Team (SLT), Overview and Scrutiny Committee (OSC) and Cabinet **(Recommendation 3)**.

Financial sustainability

Page 68

Total general fund and earmarked general fund reserves as at 31 March (£'000s)

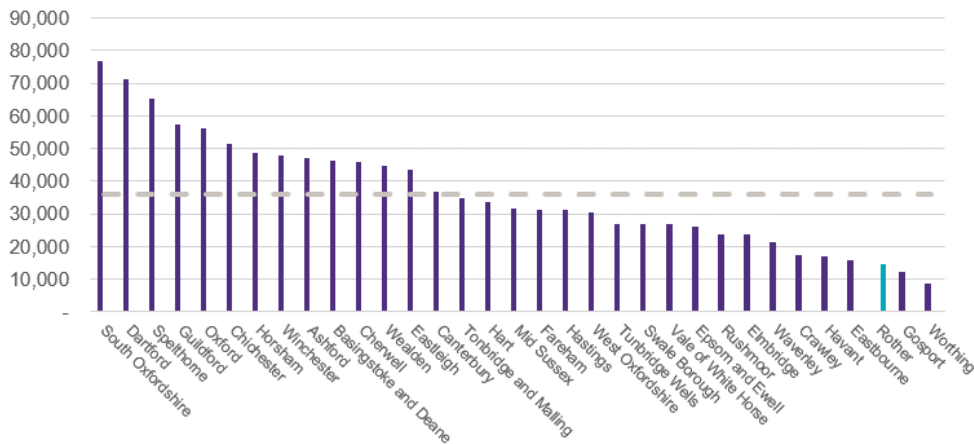


Benchmarking analysis comparing reserves levels against other district councils in East Sussex and others in South East England confirms that the Council's general fund and earmarked reserves levels as disclosed in the 21/22 Financial Statements are significantly below the average balances of other similar councils. This therefore further supports the improvement recommendation that replenishment of reserves should be a priority in the medium term.

Conclusion

Overall, although we have identified areas for improvement in arrangements, these represent actions to be taken to ensure best practice in ensuring financial sustainability and do not represent a weakness in current arrangements. The Council's financial arrangement remain fit for purpose. The majority of improvement recommendations made in 20/21 having been addressed in 21/22. See our follow up of prior year recommendations on pages 29 to 31 for further details.

Total general fund and earmarked general fund reserves as at 31 March (£'000s)



Improvement recommendations



Financial sustainability

Recommendation 1 The Council should review the assumptions in the budget and MTFP to ensure they are realistic

Why/impact

Assumptions which are overly optimistic in the budget setting process can lead to additional financial pressures higher than expected unplanned variances occur in year.

Summary Findings

The non-pay inflation assumptions used within the budget as well as the pay award assumptions have been found to be overly optimistic. The inflation assumptions used were lower than both the CPI at the time of the budget and the consistently increasing CPI over the financial year. The pay award assumption was also significantly lower than the pay award announced, however this was not announced at the time of the budget setting. The Council is on track to meet its breakeven budget for 22/23 despite the use of optimistic expenditure assumptions due to favourable variances elsewhere in the budget

Management comments

The assumptions contained within the MTFP have to be based on the best information available at the time of writing and need to be both realistic and affordable. There are instances where contracts are linked to various indices (CPI/RPI etc) where we would absolutely need to be reflecting the inflationary position as we know that these are the rates set out in the contracts and we have certainty over what those cost pressures will then be in at least the next financial year, with assumptions having to be made regarding the movement of inflation in future years. The position is not however the same when it comes to staff pay awards, there is no contractual basis on which to directly link the award to any inflationary index and indeed public sector pay has lagged behind both private sector and inflation for years now.

To forecast pay awards at 10% would not be realistic or prudent, this would not be affordable for local government as a sector and that is widely acknowledged and would be significantly increasing forecast deficits which would be highly unlikely to materialise. Having noted this it is however accepted that the MTFP could be enhanced and improved through the use of additional sensitivity analysis not only around areas such as pay awards but also other significant budget headings which may be subject to volatility and forecasting error, such as business rates, changes in collection rates etc.

We will therefore review the assumption used when compiling the 2024/25 MTFP and also include a section on sensitivity analysis to show what impact a material change might have on any projected future surplus/deficits.

The range of recommendations that external auditors can make is explained in Appendix C

Improvement recommendations



Financial sustainability

Recommendation 2 The Council therefore needs to prioritise exploring ways to increase the deliverability of the Financial Stability Programme (FSP) in order to protect the delivery of future services and reserves. Some factors to consider in achieving this include:

- Greater oversight of the programme more frequently, at individual scheme level and by decision makers at the top tier of the organisation
- Increased focus on identifying recurrent, rather non-recurrent one off, savings within the programme
- Increasing the frequency, intensity and formality of liaison with Bexhill Town Council to progress transfer of discretionary services at a faster rate
- Undertake post implementation reviews of savings schemes within the programme once they have been delivered (in full or partially)

Why/impact

Due to the recent under-delivery of savings via the FSP, and expected under delivery in 22/23, closer and more frequent attention by decision makers may be required to the progress of savings schemes in year so that action can be taken in a timely manner to respond to any under-delivering schemes.

To maximise the success and achievability the Council could benefit from additional scrutiny and input in identifying savings in the initial stages of budget setting.

Recurrent savings are those which have a multi year impact and therefore reduce the pressure on services to identify an increasing level of savings each year.

Protecting discretionary services is a key objective of the FSP and a key element of achieving this is transferring services to the Town Council to ensure they continue to be delivered at no cost to the Council. Successful negotiations in relation to the terms of the transfer are required to progress this process, delays in these negotiations therefore have a direct impact on the ability for the Council to realise the associated savings.

Performing post implementation reviews of savings after they have been achieved is a way the Council could ensure lessons are learned and opportunities to make further savings are maximised.

Summary Findings

Performance of the FSP against target is included, in total within the quarterly budget monitoring reporting to Cabinet. Progress of the processes involved in the FSP are reported twice yearly to Cabinet. Monitoring of savings at individual scheme level is undertaken informally by the Programme Management Office and by Senior Leadership Team and Corporate Management Team. The Council has formalised review of the programme via the Financial Stability Board, which has been subsumed into the Corporate Programme Board, via a dashboard. However these arrangements were not implemented until 22/23.

Of the 22/23 savings target within the FSP of £635k, only £150k of these were recurrent, with the remainder being one-off savings lasting only one financial year. As such the Council is reliant on non-recurrent means of meeting its savings target and budget which is not sustainable for the medium to long term.

Despite devolving services being a key success factor in the FSP, with savings due to be realised from the start of the FSP in 21/22, at the end of 22/23 negotiations remain ongoing with Bexhill Town Council and no services have yet been successfully transferred. This is expected to gain traction and progress towards the end of 22/23 and in 23/24 under a phased approach.

We did not identify any post implementation reviews taking place in relation to successful savings schemes.

Improvement recommendations



Financial sustainability

Recommendation 2 (continued) Management Comments

Phase 1 of the devolution programme (effective from April 2023) focusses on the devolvement of public conveniences in Bexhill to the Town Council. As of January 2023 the Town Council have agreed in principle to take over the running and maintenance of the 14 public conveniences in the town, subject to approval of the leases by their Full Council in March 2023. The leases are planned to be in place for the start of the 2023/24 financial year. This is an important milestone in the protection of discretionary services for Rother residents and it marks the first phase of the wider devolution programme. Savings from the 1 April 2023 are expected to be in the region of £147,000 for running costs alone.

Phase 2 of devolvement programme (effective from April 2024) focusses on the devolvement of public conveniences and other assets in parishes and Rye and Battle Town Councils. But it is expected that the biggest savings will come from devolving the maintenance of open spaces across the district. An options paper on grounds maintenance will be presented to Members in due course, informed by the ongoing discussions with the town and parish councils.

The returns for the Service Planning process were submitted at the end of January 2023 and included savings proposals and the Strategic Leadership Team (SLT) is now in the process of assessing and prioritising the savings before bringing proposals forward to Members for consideration. This will then inform a revised Financial Stability Plan with the aim implement all initiatives by April 2024 (sooner where possible). The aim of the process is to embed organisational resilience and give the Council greater financial flexibility, enabling future year's budgets to be balanced without the use of reserves. Longer term initiatives including a programme of Customer Focus Reviews (aimed at making efficiencies, digitalising services and considering alternative delivery models (such as shared services)) will also begin in the latter part of 2023.

Savings proposals will be monitored on a quarterly basis as part of the budget monitoring process as well as being included as part of the Corporate Programme Board. Part of the improved project governance process being developed will include post project implementation reviews and 'lessons learnt'.

Improvement recommendations



Financial sustainability

Recommendation 3 The Council should establish a detailed action plan to replenish reserves over the medium term and ensure this is closely monitored as a stand-alone item by the Senior Leadership Team (SLT), Overview and Scrutiny Committee (OSC) and Cabinet with a clear method to hold relevant budget holders to account, given the potentially significant impact on service delivery of sustained reserves usage. Whether the frequency of review of this action plan is sufficient should also be considered.

Why/impact Reserves are a finite resource and to ensure that the Council can use reserves to protect itself, and its services, from future uncertainties reserves are required to be rebuilt and replenished.

Summary Findings The Council forecasts that in each of the 5 years of the MTFP there will be a budget gap, which left unaddressed, will require the use of reserves to balance the budget. The Council has used reserves in 21/22 and plans to do so in 22/23. The Council has a policy of maintaining a minimum level of general fund and earmarked reserves of £5m. The latest MTFP suggests, that without further action, the Council's reserves will fall below this level in 24/25. Non-delivery of the FSP in full could further exacerbate the need to call on reserves and reduce the balance at a much quicker rate.

Management comments The forecast budget gap for 2024/25 is c£0.9m. As mentioned above in response to recommendation 2, officers are currently working on savings proposals, to inform a revised Financial Stability Programme, identified as part of the new Service Planning process, the intention of which is to try and ensure the budget is sustainable in the medium term by removing any reliance on reserves to balance the revenue budget whilst also protecting the current recommended minimum reserve levels (currently set at £5m for the 2023/24 financial year).

Governance



We considered how the Council:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effective processes and systems are in place to ensure budgetary control; communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting; and ensures corrective action is taken where needed, including in relation to significant partnerships
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and board member behaviour (such as gifts and hospitality or declaration/conflicts of interests) and where it procures and commissions services.

Risk Management

The Risk Management Coordinator is responsible for facilitating all strategic risk management activity including maintaining the Risk Management Policy and collating and reporting on updates to the Corporate Risk Register to the Audit and Standards Committee. The responsibility for identifying and managing risks, however, remains with Senior Management. The Risk Management Co-Ordinator for the majority of 21/22 was the Assistant Director of Resources. This role passed to the Audit Manager from March 22 due to retirement. There has been a smooth transition with no gaps in oversight or management noted as a result of the change.

The Council engaged their insurance provider, Zurich, to undertake a review of their Enterprise Risk Management, Business Continuity and Disaster Recovery arrangements in February 2022, and following the findings of this work have been engaged to carry out further work to implement practical solutions to help to improve risk management processes. Most of these improvements, given the timing of that work, have occurred after the 21/22 year, having been implemented in September 22. Therefore the improvement recommendations raised in our prior year Auditor's Report have been addressed upon completion of these updates.

Prior to the 21/22 year the Council's Risk Management Policy was last reviewed in detail in February 2020, with a summarized review in March 21, by the Audit and Standards Committee. A full review and update took place as part of the Zurich work and a new Policy has been implemented in 22/23. The most significant changes made to the previous policy are: the inclusion of detail on the risk management methodology and defining the Council's risk appetite; defining clear roles and responsibilities of Council staff in the risk management process; providing a clear framework for the three types of risk (corporate, service based and project based) as well as a step by step process for identifying, scoring and monitoring risks. As such the policy is now deemed fit for purpose in 22/23.

The policy continues to use a well-established 5x5 scoring matrix to assess the significance of the Council's strategic risks as reported in the Corporate Risk Register.

This method is common place in the sector and therefore well understood at the Council, no significant changes in this respect.

The Audit & Standards Committee receive the Corporate Risk Register to monitor, challenge and make changes to the risks included in the register to ensure they continue to reflect the current priorities and environment. The Committee met six times during 21/22 and received the risk register at 2 of those meetings – September 21 and March 22. This level of oversight is less than would normally be observed at similar councils. The level of oversight should reflect the level of risk being faced at the Council. The number of red rated risks, which are the most likely and/or impactful, has increased from 2 to 4, after mitigations, between March 21 and March 22 and therefore shows an increase in the risk potentially being faced by the Council which has not been matched by a change in the level of monitoring of those risks (Recommendation 4).

We do note that there are no severe scoring risks (25 would be the highest score) which demonstrates that the Council is effectively putting in place mitigations to reduce risks to an acceptable level within their appetite per their Risk Management Policy.

The Corporate Risk Register is reviewed and updated by the Corporate Management Team, including the lead officer, prior to presentation to the Committee. Therefore there is an additional layer of review and scrutiny of the register and its risks prior to members receiving this for discussion. We have not noted the Corporate Risk Register being presented as a stand-alone item in 21/22 to Cabinet who are the decision makers of the organisation and therefore we would recommend this takes place as the understanding of risk in making key decisions is paramount in ensuring that the decisions being approved can be tolerated within the Council's risk appetite (Recommendation 4).

To ensure the number of risks is manageable, reflective of the size and operations of the Council and strategic in nature we would expect the risk register to include between 10 and 20 based on comparison of similar councils across the country. Rother had 38 in 21/22 which could limit the opportunity for meaningful discussion to take place and to monitor effectively. Review of the register confirms all risks are strategic in nature and additions, changes in risk scoring and removals of risks have taken place throughout the year.

Governance

Therefore, the high number of risks is not having a negative impact on the level of oversight achieved. Following updates to the risk management process in September 22 the number of risks has been reduced to 16 which is within our expectation. This addresses our prior year recommendation.

The register, despite its length, was well discussed with members raising concerns or queries on specific risks and this is expected to continue following the improvements made in the 22/23 year.

In addition to the Corporate Risk Register the Audit & Standards Committee was expected to receive and review the risk registers for individual services to raise awareness of the key operational risks faced by each service area and the mitigations that are in place to prevent or reduce their impact. This process has been halted amid management changes in services and although this would be useful to allow members to link the impact of operational risks on strategic risks and priorities it is not commonplace for the two types of risk to be presented regularly in the same forum. It is beneficial to keep a clear distinction between operational and strategic risks as they are managed differently, at different levels of the organisation and have different potential impacts. It has been observed that very few service areas keep their own risk registers to manage operational risks. However, this shortcoming is expected to be addressed by a requirement to complete a risk register as part of the new Service Planning Programme process which is currently being rolled out in 23/24 and should be prioritized to ensure all types of risk are effectively managed (Recommendation 4).

In order to ensure that risks can be appropriately assessed by decision makers we would expect the format of the risk register to meet some minimum standards – these include:

- risks being assigned to a specific officer for accountability,
- risks being mapped to the Council's priorities within the Corporate Plan
- risk being RAG (Red, Amber, Green) rated to highlight those that require immediate action,
- direction of travel of each risk is clear to highlight any trends where action should be taken immediately or risks removed,
- scoring includes likelihood and impact factors and that risks are linked to the Council's objectives

Prior to the refresh of the risk register following Zurich support there was no evidence of risks being linked to Council priorities or stating the direction of travel. These elements are beneficial to allow members to identify further action that may need to be taken to improve direction of travel, where a risk can be removed based on its trend and to ensure that only risks that impact the ability to achieve objectives are included on the register as this should be the focus of decision makers.

Other areas of good practice are noted within the register in place in 21/22 including a clear distinction between risk score before and after mitigating actions to allow members to assess the effectiveness of actions being taken. As noted a full review of the register with the support of Zurich has taken place in 22/23 and this has resulted in multiple positive changes which provide additional information to assist members in making more informed decisions. However this has removed some of the useful information such as scores before and after mitigating actions so there is less clarity on their impact (Recommendation 4).

Internal Audit and Audit & Standards Committee (Those Charged with Governance)

Effective risk management at the Council is supported by the Internal Audit Service. To be effective, Internal Audit must be, and be seen to be, independent from the activities it evaluates. Rother's Internal Audit Service achieves this by operating as an independent unit within the Deputy Chief Executive's Directorate. It has unrestricted access to Senior Management; reports in its own name and has no managerial responsibility for any of the systems it reviews. This enables Internal Audit to provide independent and objective assurance when reporting on the Council's activities.

The team completed 91.3% of the 21/22 Audit Plan and only two planned audits were still outstanding at the end of the financial year. Both of these audits have since been completed and good/substantial assurance was obtained in each case. The 21/22 plan had good coverage across a range of the Council's operations including finance, housing, health and safety, planning, IT and procurement. There are no gaps in the assurance provided by Internal Audit. The Head of Internal Audit Opinion concludes that "the Audit Manager's overall opinion on the Council's framework of governance, risk management and control in 2021/22 is therefore that it is adequate and effective." There were 20 audits completed in total in year and of these 3 were limited assurance, which is a low level of assurance. Internal Audit has confirmed in its year-end report that the issues raised in these reports have now been addressed. This is a timely response from the Council to identified weaknesses. The limited assurance reports were on creditors, debtors and the BACS system.

Most Internal Audit recommendations are implemented by management within six months of the audit report being issued. However, a few take far longer to resolve. Two of the three long outstanding audit recommendations highlighted in the 21/22 annual report date back to 2018/19 and are still unresolved. These relate to the Procurement audit and the ICT Governance audit. Internal Audit continually seek resolution through quarterly reminders, escalation to senior management and escalation to the Audit & Standards Committee but with limited success and as such an alternative approach to foster greater engagement on these specific issues is required (Recommendation 5).

Internal Audit update the Audit & Standards Committee quarterly on progress against their audit plan. The frequency of such reporting is in line with the prior year and is commonplace in the sector.

Governance

Members of the Committee are well engaged in the process and regularly ask questions of the Internal Audit Manager. Membership of the Committee has remained relatively stable in 21/22, there has been the addition of two Audit Independent Persons to the committee in year. Both have further strengthened arrangements and ability to scrutinize risk management, governance, Internal Audit progress and processes whilst retaining the knowledge of existing members.

The Internal Audit Manager is required to develop and maintain a Quality Assurance and Improvement Programme to evaluate the Internal Audit Team's conformance with the Standards they are required to follow, to assess the efficiency and effectiveness of all Internal Audit activity and to identify opportunities for improvement. This is achieved via several mechanisms - annual self-assessments, 5-yearly external quality assessment, supervision and the review of all Internal Audit output and obtaining client feedback

The Team's first external quality assessment was completed in April 2017 and the report concluded that the Rother Internal Audit Service "generally conforms with the Public Sector Internal Audit Standards and general good practice for the profession". However more than five years have elapsed since the last external quality assessment and a further review is now overdue. Consequently, the Audit Manager is currently in the process of obtaining competitive quotes to carry out another review this financial year. This will need to be prioritised to ensure members can be assured of the effectiveness of the service (Recommendation 5). To provide assurance, in light of an out of date external review, members have been made aware of positive performance in terms of the service's self assessment, response to quality assurance questionnaires and performance against its Key Performance Indicator (KPI) metrics.

Although there is a focus on effectiveness reviews of the Internal Audit Service we have not noted any such reviews being undertaken of the Audit & Standards Committee or any of the other Council committees. These are a mechanism by which the Council ensure that their committees remain fit for purpose and adhere to their terms of reference (Recommendation 6).

The Audit and Standards Committee considers any complaints against councillors. There have been a small number of complaints in the year. Reporting details the action taken in each case and demonstrates the Council reacted in a timely manner and resolutions found in the majority of cases with further investigation sought where required.

Budget Setting Process

The approach to setting the budget has remained largely consistent with the prior year with the 22/23 budget following a three phase approach starting with a refresh of the MTFP in September 21 which then informed the drafting of the annual budget before both were finalised in February 22 ahead of the financial year. At each stage the Overview and Scrutiny Committee has received and challenged the budget and MTFP prior to Cabinet receiving the information. Final sign off and approval was then provided by Full Council in February 2022. By virtue of the process, the budget is informed by the MTFP and the two are developed in conjunction following initial updates to medium term assumptions.

The budget setting process is largely driven by the Chief Finance Officer with support from the Finance Team. The team liaise with budget holders throughout the year to gather financial performance information, explain variances and work together to develop savings schemes. The annual budget setting process does seem to be a largely top-down approach lead by finance and therefore greater collaboration with budget holders could be of benefit as this can identify new opportunities for efficiencies, more robust assumptions and more buy in from teams to deliver budgets as they have a greater sense of ownership. In 23/24 the Council are initiating a Service Planning Process whereby each service will produce an action plan for efficiencies, savings and how they will deliver services and this will directly impact the budget, this is expected to foster greater collaboration (Recommendation 7).

The top-tier of the organisation are well engaged in the budget setting process with input and challenged observed from the Senior Leadership Team (SLT), Cabinet and Council members, the Overview and Scrutiny Committee and externally through the annual public consultation exercise and as such robust collaborative arrangements already exist at this level.

As there have been several iterations of the budget, there has been several opportunities for the Council to consider trends, scenarios, and sensitivity analysis which are useful tools in ensuring that assumptions used in the budget are robust.

Scenario planning usually takes the form of planning for optimistic, pessimistic and middling scenarios in relation to the budget based on movements in key assumptions. There is no evidence of this being formalised within the MTFP or budget. This is commonly used in the sector as a way of planning ahead for potential challenges and limiting the need to make reactive decisions should such challenges occur. As such the Council may benefit from implementing this kind of analysis, given future uncertainties around inflation, cost of living, Covid-19 recovery and future government funding beyond the 22/23 settlement (Recommendation 7).

Trend analysis involves looking at historical data as a way of predicting what may happen in the future and incorporating this into the budget assumptions. The MTFP and budget is forward looking in nature and as such there is no evidence of trend analysis. Given the dynamic nature of the local government financial landscape this would have limited benefit and the current approach based on knowns and forecasts is appropriate.

Sensitivity analysis takes the form of calculating the impact a percentage movement in a budget assumption would have on the outturn overall. Although there is limited evidence of this within the budget across the full range of assumptions there is evidence that this has been undertaken in relation to the Financial Stability Programme (FSP) specifically. The Council also access information from their Treasury Advisors and the LG Futures tool to assist with ad-hoc, informal modelling. The Council could benefit from wider use of sensitivity analysis of key assumptions within the budget which are demonstrating changes over the year such as Inflation and Interest rates. The analysis undertaken should balance the capacity and resources available with the benefit it generates to the budget setting process and member understanding (Recommendation 7).

Governance

Budget Monitoring

Cabinet, and Overview and Scrutiny Committee (OSC), continue to receive a report monitoring performance against the budget each quarter. The frequency of review should reflect the risk associated with finances and given uncertainty in the sector and the expected use of reserves review of the financial position, monthly would seem more appropriate. The Senior Leadership Team receive a report on the position monthly and the finance team, in order to produce, challenge and ensure accuracy of the information, liaise with budget holder regularly prior to the SLT meetings. As such there is sufficient oversight of the position reflecting the financial environment and input from Overview and Scrutiny ensures there is an additional layer of support and scrutiny throughout the process. Input from these groups between Cabinet meetings also mitigates some of the risk of the 3-4 month time lag noted between the date of Cabinet meetings and the date the financial information relates to as SLT and OSC are able to escalate issues to Cabinet based on more up to date information to help inform their decisions.

The regular liaison between the finance team and budget holders, which is then reported to SLT, ensures that budget holders are regularly being held to account for any variances in their individual service budgets by SLT and that these variances are picked up promptly. SLT then attend Cabinet meetings where they are actively held to account by members, although budget holders do not attend these meetings SLT act as the mechanism of accountability between budget holders and members and there is a clear line of reporting between the operational and strategic levels of the organization in terms of finances.

The format of the budget monitoring reports provides the actual quarterly variance from budget and the forecast outturn position. This is an important distinction to allow budget holders and decision makers to assess the full potential impact of the current variance by year end and take action accordingly. The report effectively explains why the variance in each case has occurred and therefore ensures members understand the underlying operational factors impacting the budget. However there is limited information included on next steps and actions being taken where there are negative variances, this would be particularly useful for underperforming services and would allow decision makers to track progress at each meeting against those actions [Recommendation 8].

Stakeholder Engagement

This is facilitated through a dedicated section of the website for past and current consultations. Therefore there is an open forum with which to actively seek feedback from service users in relation to proposals to change the way services are delivered. This is supported by a Consultation Charter which reinforces and acknowledges the benefit of consultation and seeks to encourage it in an open, honest and transparent manner. In 21/22 the Council undertook public consultation exercises across a range of operations including anti-poverty, budget and Council tax, public spaces, street trading and leisure and therefore demonstrates a wide scope in seeking feedback to ensure multiple service lines benefit from suggested improvements.

Public consultations are time and resource intensive and therefore should only be used where the benefit of the information outweighs that cost. There were approximately six consultation exercises in 21/22 and this reflects the size of the Council and fact that no significant changes, reductions or removals of the services are expected in the near future.

Each consultation is advertised openly and is easy to access, it clearly identifies how to take part and provides necessary background information to the proposal to ensure there are no barriers to people providing their opinions. Questionnaires are used to gather feedback which are succinct, focused on the issue at hand but also provide the opportunity for open input. Therefore the Council's approach to gathering feedback is appropriately inclusive and transparent.

Responses tend to be predominantly from residents, as opposed to other stakeholders such as staff, partnership organisation or local businesses. Response rates are low when compared to the number of residents in the borough. However, although the Council could explore ways to increase the response rate to increase the benefit of the information received on decision making this is unlikely to be a priority given the time and resource cost involved in consultations. Any risk of low response rates from specific consultations is somewhat mitigated by the fact that the Council has Rother Citizens Panel. The Panel are hundreds of Rother residents who volunteer to take part in consultations and customer research from Rother District Council and its partners. Any resident can join and therefore this is an additional route, already in place, to bolster the formal consultation feedback. The Council also actively encourage public questions at Council and Committee meetings, and there is evidence that this does take place in practice with public attendance observed at Cabinet, Overview and Scrutiny Committee and Audit and Standards Committees in the year.

The Council undertook a Customer Survey presented to Cabinet in October 21. The survey results will help identify objectives for the new Corporate Customer Service Strategy, as part of the Corporate Plan priority objective to be a more open Council and place customers at the heart of everything they do. This is yet another example of consultation, openness and collaboration with service users.

Overall there are multiple examples of service user engagement and the Council has effectively balanced the benefit of stakeholder engagement with the cost of achieving that engagement and therefore value for money seems to have been achieved in this area.

Conclusion

Overall, although we have identified areas for improvement in arrangements, these represent actions to be taken to ensure best practice in ensuring robust governance and do not represent a weakness in current arrangements. The Council's governance arrangements, where unchanged from prior year, remain fit for purpose, and improvements have been evidenced since the prior year, therefore demonstrating a positive direction of travel.

Improvement recommendations



Governance

Recommendation 4 To further enhance the risk management process the Council should consider:

- Increasing the frequency with which the Audit & Standards Committee review the Corporate Risk Register
- Ensuring that Cabinet receive the Corporate Risk Register at least annually
- Ensuring that each service develops and maintains its own service level risk register
- Continually reviewing the format of the risk register, following external consultation, to ensure it continues to remain fit for purpose

Why/impact

The Corporate Risk Register is a key mechanism for managing risk to the achievement of the Council's strategic objectives and therefore it is important that there is a clear link between those objectives and the risk being faced, and that the content of the register appropriately informs decision makers.

To ensure that the risks within the register, supporting actions and scoring remain appropriate it is important it undergoes regular scrutiny at the top tier of the organisation and is included in Cabinet meeting papers for transparency to the entire organisation and to ensure that decisions approved at this level are acceptable within the Council's risk appetite.

Effective risk management ensures that both the strategic and operational risks of the organisation are managed consistently.

Summary Findings

The level of oversight of the Corporate Risk Register should reflect the level of risk being faced at the Council. The number of red rated risks, which are the most likely and/or impactful, has increased from 2 to 4, after mitigations, between March 21 and March 22 and therefore shows an increase in the risk potentially being faced by the Council which has not been matched by a change in the level of monitoring of those risks. The Audit & standards Committee, who monitor the register only received this twice in the financial year. In addition Cabinet did not receive the Corporate Risk Register in the 21/22.

It has been observed that very few service areas keep their own risk registers to manage operational risks. However, this shortcoming is expected to be addressed by a requirement to complete a risk register as part of the new Service Planning Programme process which is currently being rolled out in 23/24 and should be prioritised to ensure all types of risk are effectively managed.

The Council have reviewed and updated the format of the Corporate Risk Register following consultation with an external expert, however some beneficial information appears to have been omitted including linking risks to corporate objective, demonstrating the direction of travel for each risk and removing information relating to risk scoring before and after mitigating actions. Each of these elements is useful in helping members make informed decisions in relation to risk.

Management Comments

To further improve and embed risk management processes and understanding within the Council we are proposing the following;

- As at January 2023 there were no red risk ratings on the Corporate Risk Register. Risk registers are also provided to the Corporate Projects Board covering significant projects. It is therefore proposed to keep to reporting every 6 months to Audit and Standards Committee
- An annual update to Cabinet as part of the Councils medium term budget planning process
- Annually reviewing the Corporate Risk Register and Risk Appetite Statement to ensure it remains fit for purpose

As recognised within the findings, there is a section on service risks within the new Service Planning templates designed for the 2023/24 financial year which requires all service areas to record and monitor their operational risks.

Improvement recommendations



Governance

Recommendation 5 In order to maximise the effectiveness of the Internal Audit service in supporting the Council's risk management arrangements the Council should explore ways that it can increase the responsiveness to longstanding internal audit recommendations. The Internal Audit service should also prioritise obtaining an external review of its effectiveness to ensure it is compliant with relevant standards and the Council can continue to be assured of its effectiveness.

Why/impact

Audit recommendations are raised to highlight areas of improvement required to strengthen the internal control environment and therefore if not addressed in a timely manner the challenges highlighted by the recommendation remain within the system.

External assurances provide a view on and recommendations for improvements that ensure Internal Audit continue to be effective in their role. This type of review is also a requirement, every 5 years, under the Public Sector Internal Audit Standards with which the service must comply.

Summary Findings

Two of the three long outstanding audit recommendations highlighted in the annual report for 21/22 date back to 18/19 and are still unresolved. Internal Audit continually seek resolution through quarterly reminders, escalation to senior management and escalation to the Audit & Standards Committee but with limited success and as such an alternative approach to foster greater engagement on these specific issues is required.

The Internal Audit Team's first external quality assessment was completed in April 2017 and the report concluded that the Rother Internal Audit Service "generally conforms with the Public Sector Internal Audit Standards and general good practice for the profession". However more than five years have elapsed since the last external quality assessment a further review is now overdue.

Management Comments

An external review of the internal audit service is currently being undertaken, the results of which should be available in March 2023 at which point any recommendations for improvement can be considered and prioritised. Long outstanding audit recommendations will be reviewed by SLT on a 6 monthly basis and then prioritised as appropriate.

Recommendation 6

The Council should consider implementing a rolling schedule of committee effectiveness reviews

Why/impact

Effectiveness reviews provide useful information to members on whether the committees that help them to make informed decisions remain fit for purpose and are complying with their terms of reference.

Summary Findings

Although there is a focus on effectiveness reviews of the Internal Audit Service we have not noted any such reviews being undertaken of the Audit & Standards Committee or any of the other Council committees.

Management Comments

The Audit and Standards Committee will be undertaking the CIPFA best practice self-assessment tool in March 2023 to assess the effectiveness of the committee and to establish an action plan to address any areas which may need strengthening.

Improvement recommendations



Governance

Recommendation 7 The Council should consider ways in which it can strengthen the annual budget setting process, including:

- Exploring ways to foster greater collaboration with budget holders
- Incorporating the use of scenario planning
- Extending the use of sensitivity analysis beyond the Financial Stability Programme

Why/impact

Budget holders are ultimately the officers who are responsible for delivering the budget at an operational level and therefore greater collaboration with budget holders could be of benefit as this can identify new opportunities for efficiencies, more robust assumptions and more buy in from teams to deliver budgets as they have a greater sense of ownership.

Scenario planning is commonly used in the sector as a way of planning ahead for potential challenges and limiting the need to make reactive decisions should such challenges occur, as they already have an action plan in place for a range of possible scenarios ahead of time. Similarly with sensitivity analysis, awareness of the impact of possible changes in dynamic assumptions within the budget allows the Council to plan ahead for those situations.

Summary Findings

The budget setting process is largely driven by the Chief Finance Officer with support from the Finance Team. The team liaise with budget holders throughout the year to gather financial performance information, explain variances and work together to develop savings schemes. In 23/24 the Council are initiating a Service Planning Process whereby each service will produce an action plan for efficiencies, savings and how they will deliver services and this will directly impact the budget, this is expected to foster greater collaboration.

There is no evidence, in the 22/23 budget for MTFP, of planning for optimistic, pessimistic and middling scenarios based on the potential changes in key assumptions. Likewise, although sensitivity analysis is used in the Financial Stability Programme to highlight the impact of savings delivery on reserves no other key assumptions in the budget or MTFP have been subject to this type of analysis.

Management Comments

As outlined within the response to recommendation 1 above, sensitivity analysis will be added to the 2024/25 MTFP and this will also include a section on scenario planning. The team structure and responsibilities of the finance team are currently under review, the future focus will be on delivering a 'business partnering' approach with a greater emphasis on connecting the revenue and capital spending of the council and more of a focus on the needs to the service departments being supported to engender a more collaborative approach and greater ownership and accountability of budgets by service managers.

Improvement recommendations



Governance

Recommendation 8 The Council should review the format of the budget monitoring reports presented to Senior Leadership Team and Cabinet to ensure that they contain sufficient relevant information to allow members to hold services to account, in particular the Council should consider including actions being taken in relation to negative variances.

Why/impact To ensure that decision makers can easily identify those services which are underperforming financially and the actions that will be taken to address that underperformance. This allows members to more easily track progress and impact of those actions on underperforming services and hold relevant budget holders to account where required.

Summary Findings Quarterly budget monitoring reporting to Cabinet highlights variances to budget and effectively explains why the variance in each case has occurred. Therefore members understand the underlying operational factors impacting the budget. However there is limited information included on next steps and actions being taken where there are negative variances.

Management Comments The budget monitoring reports will be reviewed and improvements will be introduced for the 2023/24 financial year.

Improving economy, efficiency and effectiveness



We considered how the Council:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement

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

where it commissions or procures services assesses whether it is realising the expected benefits.

Non- Financial Performance Reporting

The Council continue to monitor operational performance via Key Performance Indicator (KPI) reporting to Cabinet and Overview and Scrutiny Committee. The KPIs are reviewed and refreshed at the start of each financial year to ensure they remain relevant and these have been presented and finalised by Cabinet, initially in March 21 and finalised in May 21. The KPIs cover planning, additional income, housing and communities, waste collection and economic development and poverty related activities. Although these categories do not directly link to all priorities in the Corporate Plan nor the directorates structure there is coverage across a range of the Council's operations, in particular there is monitoring of services where the Council is experiencing below target financial performance. As such the Council does have mechanisms in place to support identifying the operational factors that may be driving financial challenges so that action can be targeted appropriately.

The KPIs reviewed at the start of the year have a clear target for each with the aim of providing decision makers with information with which to judge if a service is under or overperforming against expectations. The quarterly monitoring report against these KPIs includes a summary which highlights the status of whether the KPI target has been met and short and long term trends in the data, this draws decision makers attention to areas of challenge and therefore facilitates a targeted approach to discussion. This is supported by a detailed appendix with additional information. However, as with the financial reporting members receive, there is limited information on the actions proposed to be taken and who is accountable for KPIs which are underperforming. At 21/22 Q4 performance has an alert status for the majority of KPIs, meaning they are below their target, as such this additional information would be useful to help members understand what is being done in response and who is accountable so that this can easily be monitored (Recommendation 9).

Cabinet and the Overview and Scrutiny Committee are expected to receive the monitoring report quarterly however for 21/22 there was no reporting observed for Q1.

Given the underperformance across several metrics at year end more frequent monitoring of the KPI's at this level of the organisation may better facilitate earlier response to the underlying cause and positively impact performance by year end (Recommendation 9).

The KPI monitoring report focusses on establishing the effectiveness of the Council's performance by focusing on an inward looking view. In order to gain an alternative perspective the Council could also undertake an outward view to gauge performance relative to other similar organisations and learn from those organisation where they may be comparatively worse, or provide assurances where comparatively better. We raised a recommendation in the prior year around the benefits of undertaking benchmarking however there is still limited evidence of this comparative analysis being included in the KPI reporting, undertaken for specific services or used even on an ad-hoc basis. There is the opportunity, as part of the upcoming Service Planning Review process, to formalise benchmarking to support decision making for service lines. Informal benchmarking does take place as part of the budget setting process as the Finance Team by comparing to similar bodies and this is used as an additional source of assurance for the assumptions the Council has made in its budget (Recommendation 9).

Improving economy, efficiency and effectiveness

Complaints, where the complainant is unsatisfied with the action taken by the Council, can also be raised with the Ombudsman. For 21/22 there were 6 such complaints taken to the Ombudsman for investigation of which 5 were upheld as the Council were found to be at fault. This is more than the average for similar councils but we do note that the cross section is small in terms of data and 6 complaints in total is a low level. The upheld complaints covered a range of issues from confidentiality to speed of response and therefore there is not one significant issue that needs addressing but small issues of human error, albeit not pervasive in nature.

The Council took part in a peer review undertaken by the Local Government Association in 21/22. The review covered a range of Council processes across a range of services to see how well they were governed, its purpose being to identify potential improvements to Council processes. The review raised 12 recommendations, which is in line with similar reviews at other councils. The recommendations are focused on improvements that would demonstrate best practice as opposed to signifying weaknesses in the Council's arrangements. The Council has accepted all of the recommendations and developed them into an action plan to ensure that they can be delivered. There is no evidence of monitoring of this action plan at committee or Cabinet level and therefore progress against the recommendations is unknown (Recommendation 10).

Benchmarking Analysis

Using Grant Thornton internal benchmarking tools, which makes use of the annual RA return forms sent by each council nationally to Department for Levelling Up, Homes and Communities (LUHC), we have compared unit costs of Council services with all other district councils. This is a tool designed to highlight high level potential opportunities for savings where unit costs may be high, with the caveat that the information does not account for regional variances between districts or differences in the categorisation and completion of the underlying RA returns by different councils. This analysis has identified those directorates with very high comparative unit costs, which also contain individual services with very high comparative unit costs, and which are also significant areas of expenditure for the Council. The information available relates to 22/23, although we note little difference in total service expenditure in the RA form between 21/22 and 22/23 for the Council.

Service	Total Cost 21/22 £000	Units (per head/per dwelling)	Unit Costs £	Unit Cost Score	Council Response to Date
Housing Services – Homelessness	1,999	96,716	20.67	Very High	Increased demand for this service has occurred as a result of the pandemic, which is largely out of the Council's control. This impacts high total costs but given unit costs are also very high the Council has the opportunity to explore ways to tackle unit costs as well as demand to reduce the deficit currently being seen from the budget in this area (Recommendation 11). We do note that the Council has already taken extensive action to respond to the challenges, which are both reactive as well as proactive focusing on prevention and root cause. Response include a clear defined strategy for homelessness, close monitoring of homelessness specific KPIs, investment in temporary accommodation, Rother Leasing scheme to increase access to housing and working with social enterprise to tackle prevention. These are all positive responses and a time lag between action and impact is to be expected.
Environmental and Regulatory Services – Street Cleansing	1,347	96,716	13.93	Very High	This is not an area the Council monitors closely with no specific KPIs included in the quarterly performance reporting to members nor is it highlighted as a cause of any specific financial variances in the budget monitoring. As such the Council has the opportunity to undertake work to identify the cause of the high cost, develop an action plan to respond and monitor performance on an ongoing basis (Recommendation 11).
Environmental and Regulatory Services – Waste Collection	48,261	46,024	68.68	Very High	Waste Collection KPIs are monitored via the Councils performance monitoring, quarterly. At the end of 21/22 Waste Collection levels were below target and therefore there is potential that this is contributing to the high unit costs by the Council being unable to benefit from economies of scale and incurring fix costs despite collections being behind where they should be. The Council has a commercial waste contractor who has been in place since 2019 and therefore there is the opportunity to liaise with the contractor to explore efficiencies that could be generated within the terms of that contract (Recommendation 11)

Improving economy, efficiency and effectiveness

As noted the Council is planning to undertake a Service Planning Review process in 23/24 which is a deep-dive approach to identifying efficiencies and new ways of delivering services. Through this process the Council has the opportunity to identify and take a targeted approach to unit cost, as well as demand, reduction (Recommendation 11).

Key Partnerships

Two key partnerships associated with the Council, as they help support the Council's operational and financial ambitions and relatively newly established, are Bexhill Town Council, set up to devolve specific discretionary services to, and Alliance Homes (Rother) Ltd (now Rother DC Housing Company Limited) set up to deliver affordable homes in the borough in line with the Council's Corporate Plan.

Bexhill Town Council came into being from 1 April 2021. The entity was established to transfer, under a phased approach, six discretionary services. At the time of writing, and in 21/22, no services have yet been transferred to the Town Council and negotiations and agreement of terms are still being discussed. The first service, public conveniences, is expected to transfer at the end of 22/23 or early 23/24, with more services following in 23/24. Therefore, to date, the Council has not yet realised the savings expected from this element of their plan to protect discretionary services.

Members received regular communications at Cabinet during the decision making phase of setting up the Town Council, however the last report to Cabinet observed in relation to the Town Council was in June 21. In the process of setting up the entity the Council received support from a Community Governance Review, a dedicated steering group and legal representatives. The decision was approved appropriately through the governance structures of the Council, regularly, prior to the establishment of the Town Council at the start of the year. Given that there has been a delay in transferring services and realising the benefits from this project members would benefit from frequent updates on the progress of negotiations on transferring services to the Town Council, similar to the level during the set up phase of the project, so that action can be taken as required to progress the project (Recommendation 12).

Rother DC Housing Company is a wholly owned subsidiary of the Council and was set up prior to 21/22 and evidence has confirmed that appropriate approval processes were followed, the company has a clear rationale and purpose which supports the Council's objectives, appropriate advice was sought in setting up the company and the risks and rewards of the project were considered. There has been limited activity at the company and limited transactions between the company and the Council in 21/22, however the established governance arrangements have been in place for the entire financial year.

The Business Plan which underpins the company sets the principles by which the company will operate and are the Shareholder's direction to the board. The Governance Structure is simple and clear from the documentation that the Council is the sole shareholder and that below that the Company is run by an independent Board supported by a Chief Operating Officer (COO) and a team of three officers (Housing Development Programme Manager, Developments Project Manager and Business Support Assistant).

Per the Business Plan, Articles of Association and Shareholder Agreement the Board is permitted to be comprised of up to 4 Elected Members of the Council and up to 4 other independent persons be appointed as Executive Directors of the company. The Council is responsible for the financial funding of the company activities and also operates a Service Level Agreement (SLA) to minimise revenue expenditure in the early years. Under this agreement the company does not directly employ staff and instead the Council provides this resource therefore allowing the company access to resources at a cost.

The fact that funding is provided by the Council, staff are essentially loaned by the Council under the SLA and the fact that the Board of Directors is made up of some elected members of the Council potentially impacts the independence of decision making, this is partially mitigated against by the fact there are independent Board members. The Housing Director of the Council is the lead Officer at the company loaned under the SLA agreement from the Council. His duties at the Council have been back-filled during this secondment to ensure there is some distinction in roles and responsibilities between the two entities.

A 2018 article by Grant Thornton identified some early steps for success of companies and this included that the governance structure should enable the company to trade freely and compete with the private sector. Elected members and local authority officers are likely to sit on the board of any company it owns, but balancing this with the appointment of non-executive directors and the use of shareholder committees helps to keep the local authority's input at a strategic rather than operational level. The Business Plan does include these two specific distinctions but more could be done to ensure that operational decisions were more independent as Council staff currently deliver these under the SLA (Recommendation 13).

Ongoing monitoring of the performance, financial and non-financial, is a way of gaining appropriate assurances the company is achieving value for money. Monitoring arrangements were relatively informal in 21/22. These include a weekly meeting each Thursday at project officer level between the two entities and a weekly Shareholder Representative meeting, which is a strategic level conversation lead by the Council. The intention has been to formalise these meetings since January 22 and Terms of Reference have been in place since December 22 to facilitate this. Meetings continued to be informal prior to this, and therefore provide the opportunity to discuss performance but with no specific agenda, although we suggest they are sufficiently regular reflecting the relative newness of the company. Regular, but highly informal, discussions between the Chief Finance Officer of the Council and the acting COO of the Company also take place.

Improving economy, efficiency and effectiveness

Since the purpose of the company is to deliver housing for which the Council is providing finance, the Council's Capital Programme and quarterly monitoring includes schemes being delivered by the company. As such there is currently a mechanism in place for decision makers at the Council to review performance. Council and Cabinet receive an annual report from the company which is essentially a refresh of the Business Plan, This was last reviewed in February 2022. However delivery of the capital schemes by the Company included in the Council Capital Programme are behind schedule and there is limited information on actions being taken within these reports, as already noted, and as such members would benefit from more regular and detailed reporting of the activity and performance of the company outside of the Council's established capital monitoring to help facilitate increased progress (Recommendation 13).

Governance arrangements between the Council and company are formally reviewed and updates provided to the Audit & Standards Committee as an effective way to ensure they remain fit for purpose as the arrangements are embedding, these reviews are expected to continue.

In addition to seeking to increase housing provision for the benefit of residents the Council also has a Property investment Strategy which aims to increase the volume and quality of commercial properties in the borough and therefore is one of the few commercial ventures the Council has. The strategy sets out the types of property that the Council will seek to acquire and the factors that will be considered when assessing the suitability of potential acquisitions. It also describes how purchases may be funded and how the Council will manage risk. Therefore it clearly balances the risk and the reward. Members receive regular updates on the progress of the strategy and the strategy itself is updated for changes in legislation to ensure it remains relevant. In April 22 members were assured that although in the past, it was feasible to consider properties that were outside the district boundary, provided that a case could be made for the acquisition having an economic benefit to the district; recent tightening of Treasury Guidelines around the use of borrowing from the Public Works Loans Board (PWLB) effectively means that only properties within Rother District can now be considered. This was therefore reiterated to ensure the strategy does not focus on investments such as these. In practice, the Council has only ever acquired premises within Rother and therefore has avoided any risk to date.

Conclusion

Overall, arrangements to secure economy, effectiveness and efficiency are appropriate. Improvement recommendations have been made but these are suggested as methods of achieving best practice as opposed to correcting underperforming arrangements at the Council.

Improvement recommendations



Improving economy, efficiency and effectiveness

- Recommendation 9** The Council should consider ways it can enhance the monitoring of non-financial performance. This could include:
- Adhering to a programme of at least quarterly reporting of performance against operational performance metrics to Cabinet
 - Including information on the actions to respond to and the responsible individual for underperforming metrics within the KPI reporting to Cabinet
 - Including within the KPI reporting, or as a separate exercise, a Council-wide approach to benchmarking performance with similar entities

Why/impact

Paying equal attention to financial and non-financial performance assists members in making informed decisions since, in most cases, non-financial underperformance directly impacts the Council's financial position.

Comparing performance to similar organisations provides important information to assess if certain services are outliers in terms of their financial and non-financial performance, therefore identifying potential opportunities for improvement. This information is of maximum benefit if applied consistently across the Council.

Summary Findings

Cabinet and the Overview and Scrutiny Committee are expected to receive the monitoring report quarterly however for 21/22 there was no reporting observed for Q1. Members received detailed information within the performance reporting Cabinet in relation to actual performance compared to target, trends and underlying causes but there is no information on the action being taken to respond or who is responsible for that action.

The KPI monitoring report focusses on establishing the effectiveness of the Council's performance by focusing on an inward looking view. In order to gain an alternative perspective the Council could also undertake an outward view to gauge their performance relative to other similar organisations and learn from those organisations where they may be comparatively worse, or provide assurances where comparatively better. There is no evidence of this taking place at the Council on a consistent basis, the 23/24 Service Planning Review process provides an opportunity to use this type of analysis.

Management Comments

The Council's Service Planning Review taking place in the 23/24 will provide an opportunity to explore the use of benchmarking to assist decision making as part of that programme. There are also plans to implement a programme of Customer Focus Reviews (from late 2023 onwards) to not only address the 3Es but also inform the future Digital Programme and alternative service delivery methods where appropriate.

Improvement recommendations



Improving economy, efficiency and effectiveness

Recommendation 10

The Council should ensure that the action plan to respond to recommendations from the Local Government Association (LGA) Peer review is monitored regularly by a relevant committee.

Why/impact

To ensure the expected benefits can be realised from the actions identified from the recommendations it is important that their progress is tracked and action taken to respond where progress is not identified.

Summary Findings

The Council took part in a peer review undertaken by the Local Government Association in 21/22. The review raised 12 recommendations. The Council has accepted all of the recommendations and developed them into an action plan to ensure that they can be delivered. There is no evidence of monitoring of this action plan at committee or Cabinet level and therefore progress against the recommendations is unknown.

Management Comments

The recommendations from the Peer Review, Annual Governance Statement, this VFM improvement plan (and future Customer Focus Reviews) will be brought together into a single Improvement Plan for the Council and will be reported through to the Audit and Standards Committee.

Improvement recommendations



Improving economy, efficiency and effectiveness

Recommendation 11 The Council should use the Service Planning Review process, taking place in 23/24, to explore ways that it can target reduction of both unit cost and demand in services which are producing comparatively high unit costs when compared to other districts. These areas are homelessness, street cleansing and waste collection. Where services are delivered by contractors (waste collection) this process should be used to liaise with those contractors to explore potential efficiencies and where operational metrics are not currently monitored in relation to these areas (street cleansing) the Council may wish to consider including these within their performance KPI reporting to track impact of any actions.

Why/impact Although the Council has experienced increased demand across certain services, as a result of the pandemic or changing patterns of consumption, which impacts the total costs of the services it provides there is another factor which exacerbates total costs which is the cost of providing each unit of that service. As such the Council's approach to efficiencies and savings should seek to target and reduce both elements of total cost.

Summary Findings Having compared unit costs of Council services with other District Councils to identify those directorates with very high comparative unit costs, which contain individual services with very high comparative unit costs, which are also significant areas of expenditure for the Council, we have identified homelessness, street cleansing and waste collection as areas with comparatively high unit costs which if reduced could help the Council respond to the medium term financial challenge it faces.

Management Comments There are currently discussions ongoing with the Council's waste and street cleansing contractor (Biffa) in terms of contract savings which can be achieved. However it should be noted that as these are formal contract arrangements there is only so much that can be achieved through negotiation and service adjustments outside of a new procurement exercise. These discussions are also being held with the Councils' grounds maintenance contractor as this is another area of significant spend which is being negatively impacted by the significant increases in inflation currently being experienced. This review focuses on the 2021/22 financial year but since that time the waste partnership has introduced independent street cleansing output monitoring every 4 months through a third party contractor. The following KPI's have also just been recommended by Cabinet;

- Waste collections missed bins/100,000: Target 62/ 100,000
- % of public land found with unacceptable levels of litter: Target 2.50%
- % of public land found with unacceptable levels of detritus: Target 7%
- Fly tips recorded on public land/month: Target Average below 70
- NES - fly tips: Target Monitor

The Council has a capital initiative in place to help address the high unit cost of homelessness and in particular temporary accommodation which involves the acquisition of property to support residents that present as homeless. There is a corporate KPI in place which helps to monitor this and as can be seen from the latest report the direction of travel for this indicator is positive with the target cost of temporary accommodation £1,201 compared to the actual as at qtr 3 (2022/23) of £1,082. The Council is however intending to undertake a review of the capital intervention to ensure that this is still the best strategy in terms of improved outcomes for residents and value for money.

We also feel it is important to note that, while the benchmarking undertaken is useful to highlight potential areas for further investigation, the RA/RO forms used compare all district councils and therefore do not take any account of regional and local variations, such as high housing costs. Waste contracts for example are more expensive to deliver in rural areas due to increased travel times and similarly housing costs can be disproportionately high for authorities that no longer have their own housing stock to use for temporary accommodation needs. This context is important when considering high level benchmarking of this nature.

Improvement recommendations



Improving economy, efficiency and effectiveness

Recommendation 12 Whilst the Council is in a transition phase of transferring discretionary services to Bexhill Town Council, it should consider instilling a regular agenda item at Cabinet to update members on the progress of the negotiations until all services, agreed as part of the Financial Stability Programme, are fully transferred.

Why/impact

The success of the Financial Stability Programme, which began in 21/22, relies upon savings expected as a result of the transfer of services to Bexhill Town. Therefore members should be able to track the progress of the transfer as it impacts the financial objectives of the Council.

Summary Findings

Members received regular communications at Cabinet during the decision making phase of setting up the Town Council, however the last report to Cabinet observed in relation to the Town Council was in June 21. Given that there has been a delay in transferring services and realising the benefits from this project members would benefit from frequent updates on the progress of negotiations on transferring services to the Town Council, similar to the level during the set up phase of the project, so that action can be taken as required to progress the project

Management Comments

An additional section will be added to the quarterly budget monitoring reports to ensure this area is given adequate focus and consideration.

Recommendation 13 The Council should continually review governance arrangements between themselves and Rother DC Housing Company to ensure they remain fit for purpose, including reviewing the appropriateness of the use of Council staff delivering services at the company on the independence of decision making and more regular and detailed reporting of company performance to the Council.

Why/impact

A 2018 article by GT included some early identified steps for success of companies and this included that the governance structure should enable the company to trade freely and compete with the private sector. This is facilitated by independent, commercially focused decision making.

The Council is the sole shareholder of the company and provides funding for its projects, as such members should be aware of the performance of the company on a regular basis as it directly impacts the Council's ability to meet its financial targets.

Summary Findings

Elected members and local authority officers are likely to sit on the board of any company it owns, but balancing this with the appointment of non-executive directors and the use of shareholder committees helps to keep the local authority's input at a strategic rather than operational level, the Business Plan does include these two specific distinctions but operational decisions are implemented by Council staff under the Service Level Agreement between the two entities.

Management Comments

A governance review of the Housing Company has just been undertaken with recommendations made to the Audit and Standards Committee in January 2023. The Local Partnerships 'Local Authority Company Review Guidance' has been shared with both the company and internal audit as the guidance provides a best practice check list in terms of expected governance arrangements. The company is going to use this checklist to benchmark how things are currently operating which will in turn drive an improvement plan for any areas identified which need strengthening. The Company is also currently seeking to recruit non-executive directors to the Board which also represents best practice. An internal audit review of the company's governance arrangements is scheduled to take place in 2023/24.

Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
1	Financial Sustainability - The Chief Finance Officer should make a definite statement in the annual budget setting report that he believes the level of reserves held are adequate in line with s25 of the 2003 Local Government Act.	Improvement	April 22	<p>This has not been addressed in the 22/23 budget setting process which took place in the 21/22 financial year. This is due to the recommendation being raised after the process completed in February 2022. We note that the level of reserves is reported quarterly alongside the budget monitoring and is key aspect of the budget setting process but their adequacy is not explicitly confirmed.</p> <p>There is evidence that the CFO has included a much more robust statement regarding adequacy of reserves within the 23/24 budget and has explicitly stated the intention to maintain a minimum balance of general fund reserves of £5m.</p>	Yes (in 22/23)	No – addressed in the 22/23 year when producing the 23/24 budget and as such has been achieved and can be considered closed for next years VFM work.
Page 89	Financial Sustainability - A workforce plan or people strategy, aligned to the corporate plan and MTFS should be prepared, formally approved and circulated to appropriate officers.	Improvement	April 22	We identified no evidence of such a plan or strategy having been produced in the 21/22 year	No	Yes - The recommendation is re-raised for action and follow up 22/23. We accept that the timing of the 20/21 report did not allow for this to be produced and aligned with the 22/23 budget. However there is no evidence of this having been progressed as part of the 23/24 budget setting process currently under way.
3	Financial Sustainability - Consideration should be given to making a clear distinction between statutory and discretionary spending in the budgetary information provided to members and published on the web.	Improvement	April 22	The Council's budget for 22/23 and 23/24 continues to be allocated to directorates and services, with no distinction between those that are statutory and those that are discretionary. Protecting discretionary services is centric to the ethos of the Council's Financial Stability Programme with Bexhill Town Council having been set up to facilitate devolvement of these types of services. As such decision makers would continue to benefit from being able to distinguish those that are discretionary and can be devolved more easily.	Yes (in 22/23)	Yes - The recommendation is re-raised for action and follow up 22/23. We accept that the timing of the 20/21 report did not allow for this change. However there is no evidence of this having been progressed as part of the 23/24 budget setting process currently under way.

Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
4	<p>Governance - To further enhance the risk management approach the Council's review of risk management it should consider:</p> <ul style="list-style-type: none"> • Provide detail guidance on risk management for risk managers • Reducing the number of risks in the corporate risk register to those risks with greatest impact or likelihood and manage the lower scored risks at Director level. • Factors such as target risk score, actions required, sources of risk and assurance and dates of last and next review should be recorded in the risk register. • Developing a comprehensive risk management training programme for members and staff. 	Improvement	April 22	The Council engaged Zurich to provide support in updating their risk management procedures, the improvements identified from this work were implemented in September 22. The updates to the processes as a result of this work have included clarity on staff roles and responsibilities within the refreshed Risk Management Policy, a reduction in the number of risks in the Corporate Risk Register from 38 to 16, updates to the format of the Corporate Risk Register and staff training and input into the refresh facilitated by Zurich. As such the recommendations from the prior year VFM work have been addressed in the 22/23 year.	Yes (in 22/23)	No – addressed in the 22/23 year following external support and as such has been achieved and can be considered closed for next years VFM work.
5	Governance - Codes of conduct, the Anti Fraud and Corruption Strategy and Whistleblowing Policy should be updated as soon as possible and annual thereafter	Improvement	April 22	We would expect key policies to be reviewed every 3-5 years to remain relevant, prior year work noted that the policies were from Sept 2019 and these still remain relevant to 21/22. We have noted updates to key policies, including the Code of Conduct in late 2022 and therefore, although not in the 21/22 year, provide evidence of ongoing updates taking place.	Yes	No

Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
6	<p>Improving Economy, Effectiveness and Efficiency (3E's) - Consideration should be given to developing a programme of service reviews using such tools as benchmarking to identify best practice. Firstly, it could compare its performance reporting (in terms of number and types of KPIs against other Sussex Districts) to determine whether others are capturing and reporting useful information the Council is not. Secondly, the Council could actually compare the performance of existing KPIs against other Councils (starting in Sussex initially to determine whether the exercise is useful).</p>	Improvement	April 22	As noted in our narrative within the 3E's section of our report there is still no evidence of a formal, council wide, approach to benchmarking.	No	Yes – to be reconsidered in future years' VFM work, we note that the prior recommendation was not raised until April 22 and the Council's Service Planning Review taking place in the 23/24 year provides an opportunity to explore the use of benchmarking to assist decision making as part of that programme.
	<p>Improving Economy, Effectiveness and Efficiency (3E's) - Consideration should be given to improving procurement practice by</p> <ul style="list-style-type: none"> Reporting performance against agreed performance targets every six months When the Procurement Strategy is next updated sections are added outlining guidance in relation to partnering, e-procurement and procurement with small to medium size enterprises and the voluntary sector. 	Improvement	April 22	<p>On the first point we have noted both an annual report being taken to Cabinet in February 22 on Procurement Activity and a mid-year report in October 22. The Procurement Strategy and the Annual Report includes KPI targets for 20/21 and then an action plan for 22/23 which suggests that there was a lack of monitoring of performance in 21/22, there is no evidence of reporting of any such KPIs prior to February 22 to Cabinet. Our recommendations were raised in our report dated April 22 and therefore since us raising this issue the Council has responded successfully responded. This has impacted 22/23 rather than in 21/22 due to the timing of our reporting.</p> <p>The Procurement Strategy was last updated in Dec 2020 and therefore is not yet due to be updated, we expect strategies to be updated every 3-5 years unless legislation or the operational environment requires and as such we would not expect the second point to have been addressed</p>	Yes	No

Opinion on the financial statements



Audit opinion on the financial statements

We expect to issue an unqualified audit opinion on the Council's financial statements. Our Audit Findings Report will be presented to the Audit & Standards Committee on 20th March 2023.

Audit Findings Report

More detailed findings can be found in our Audit Findings Report, which is reported alongside this report at the Council's Audit & Standards Committee on 20th March 2023.

Whole of Government Accounts

To support the audit of the Whole of Government Accounts (WGA), we are required to review and report on the WGA return prepared by the Council. This work includes performing specified procedures under group audit instructions issued by the National Audit Office. This work will be completed following the audit of the financial statements. The Council's expenditure and assets are below the £2bn threshold for a detailed audit of the return.

Preparation of the accounts

The Council provided draft accounts in line with the national deadline and provided a good set of working papers to support it.

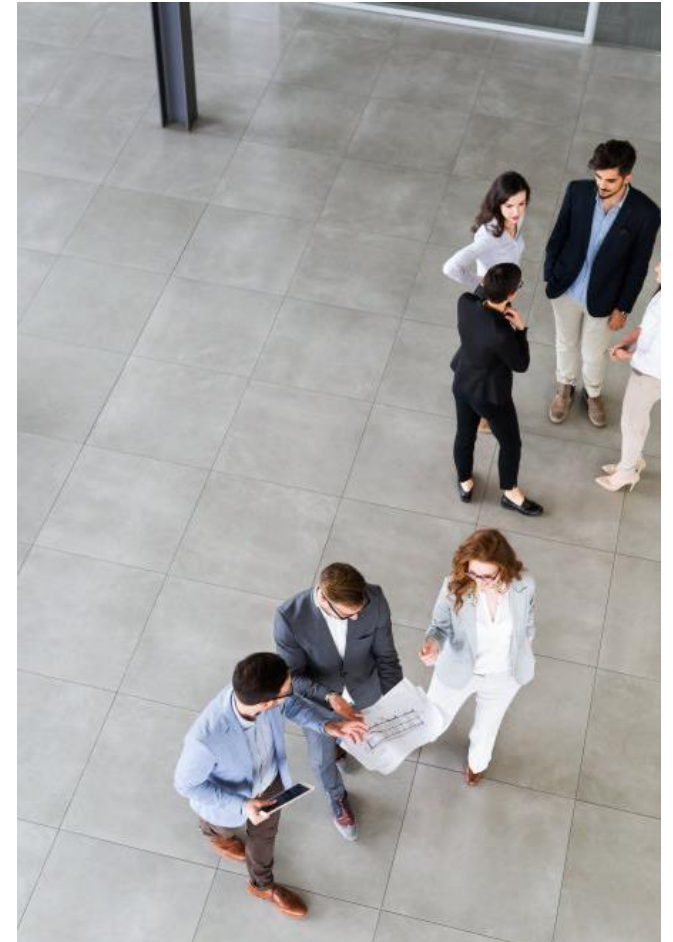
Issues arising from the accounts:

The key issues were:

- Kjdsfj
- Fjhsfho
- Dsjfhfoi

Grant Thornton provides an independent opinion on whether the accounts are:

- True and fair
- Prepared in accordance with relevant accounting standards
- Prepared in accordance with relevant UK legislation



Appendices

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.

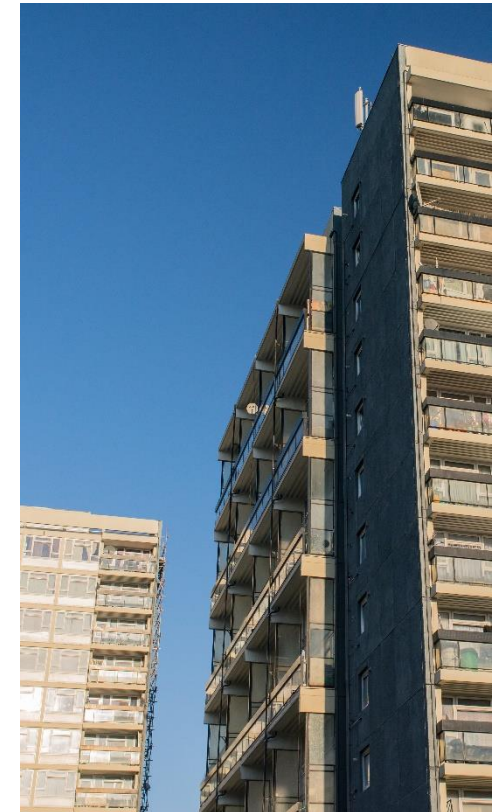
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records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

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 Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) or equivalent is required to prepare the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer (or equivalent) 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 – An explanatory note on recommendations

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

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.	No	N/A
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as ‘key recommendations’.	No	N/A
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council’s arrangements.	Yes	See relevant sections

Appendix C – Sources of evidence



Staff involved

- Malcolm Johnston, Chief Executive
- Antony Baden, Chief Finance Officer
- Lorna Ford, Deputy Chief Executive and Monitoring Officer
- Lisa Cooper, Democratic Services Manager and Deputy Monitoring Officer
- Joe Powell, Head of Housing and Community Services (seconded to Rother Dc Housing Company)
- Nicola Mitchel, Corporate Programme and Projects Officer
- Gary Angell, Internal Audit Manager



Documents Reviewed

- 21/22, 22/23 and 23/24 Budget Report
- Medium Term Financial Plan
- Capital Strategy
- Treasury Management and Annual Investment Strategy
- Reserves Strategy
- Budget Monitoring Reports
- Financial Stability Programme Reports
- Capital Monitoring Reports
- Treasury Management Monitoring Reports
- Year-End Outturn Report
- Cashflow Forecast
- Corporate Plan
- Internal Audit Plan
- Internal Audit Progress Reports
- Internal Audit Annual Report (including Head of Internal Audit Opinion)
- Internal Audit Self-Assessment
- Risk Management Policy
- Corporate Risk Register
- Annual Governance Statement
- Member Code of Conduct
- Constitution
- Anti-Fraud and Corruption policy
- Whistleblowing Policy
- Councillor Gifts, Hospitality and Interests Declarations
- Non-Financial Performance Reporting
- Consultation and Engagement Framework
- Consultations (including Public Consultation on 22/23 Budget)
- Rother DC Housing Limited Business Plan
- Committee Papers and Minutes (Council, Cabinet, Audit & Standards and Overview and Scrutiny predominantly)
- Procurement Strategy
- Procurement Rules
- Annual Procurement Report and KPI Reporting
- Contract Register
- Customer Survey
- LGA Corporate Peer Review
- External Audit Progress Reports
- Statement of Accounts 21/22
- Code of Conduct Complaints Monitoring
- Property Investment Strategy and Updates
- Grant Thornton – In Good Company September 2018

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Rother District Council Audit Progress Report and Sector Update

Year ending 31 March 2023

March 2023

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Sector Update	7

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Authority or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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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Introduction

Your key Grant Thornton team members are:

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This paper provides the Audit and Standards Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes in some instances challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Audit and Standards Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications <https://www.grantthornton.co.uk/en/services/public-sector-services/>

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

Progress at March 2023

Financial Statements Audit

2021/22

We have substantially completed our work on the financial statements audit. An Audit Findings Report is attached as a separate paper for members consideration.

Value for Money

The new Code of Audit Practice (the “Code”) came into force on 1 April 2020 for audit years 2020/21 and onwards. The most significant change under the new Code was the introduction of an Auditor’s Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations, if required.

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies auditors are required to issue the Auditor’s Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay. As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. The extended deadline for the issue of the Auditor’s Annual Report is now no more than three months after the date of the opinion on the financial statements.

We have been undertaking our field work on the VFM review over the last few months. Our findings are presented in the 2021/22 Auditor’s Annual Report separately on the Committee’s agenda.

Other areas

Certification of claims and returns

Our work on certifying the Authority’s 2021/22 annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions (DWP) is in progress.

Meetings

We continue to meet with Finance Officers to progress the 2021/22 financial statements audit.

Events

We provide a range of workshops, along with network events for members and publications to support the Authority. Your officers attended our Accounts Workshop in January and February 2023, where we highlighted financial reporting requirements for local authority accounts and gave insight into elements of the audit approach.

Further details of the publications that may be of interest to the Authority are set out in our Sector Update section of this report

Audit Deliverables

2021/22 Deliverables	Revised Planned Date	Status
Audit Plan	June 2022	Completed
Audit Findings Report Findings from the financial statements audit	March 2023	completed
Auditors Report This includes the opinion on your financial statements.	April 2023	Not yet due
Auditor's Annual Report This report communicates the key outputs of the audit, including our commentary on the Authority's value for money arrangements.	March 2023	completed

Sector Update

Authorities continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:



Public Sector



Local
government

Audit Market Developments

Financial Reporting Council Report On The Quality Of Local Audit

In late October 2022 the Financial Reporting Council (FRC) published its inspection findings into the quality of major local body audits in England, which includes large health and local government bodies.

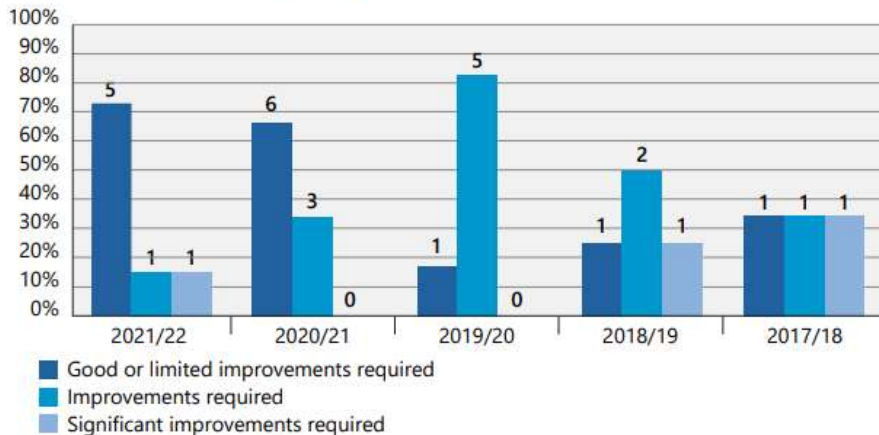
The Quality Assurance Department (QAD) of the Institute of Chartered Accountants in England and Wales (ICAEW) inspects a sample of local audits that do not meet the definition of a 'major' local audit and the FRC's report also includes a summary of their findings.

The FRC reported that 71% of Grant Thornton audits inspected (7 in total) were assessed as either good or limited improvements required.

This is a pleasing result and reflects on our significant investment in audit quality over recent years. The positive direction of travel over the past five years is illustrated below:

Page 105 of 105

Our assessment of the quality of financial statement audits reviewed



The FRC also inspected our work on VfM arrangements at four bodies.

It is pleasing to note that all of these inspections were assessed as requiring no more than limited improvements (which is the same as the previous year).

As far as the ICAEW are concerned, overall, the audit work reviewed was found to be of a good standard.

Seven of the eight files reviewed (88%) were either 'good' or 'generally acceptable', but one file 'required improvement'.

The ICAEW identified one of our files as requiring 'Improvement' – but it should be noted that this was a 2019-20 file and therefore the learnings from prior years' review could not have been taken into account, an issue recognised by the ICAEW in their report to us.

The ICAEW found that our VfM work was good on each of the files reviewed, and they did not identify any issues with this aspect of the audit teams' work.

Whilst are pleased with our continuing improvement journey, we continue to invest in audit quality to ensure that the required standards are met.

The full report can be found [here](#).



Financial Reporting Council



Audit Market Developments (continued)

Local Government External Audit Procurement

Public Sector Audit Appointments Ltd (PSAA) has recently announced the outcome of its national procurement of audit services across the Local Government sector.

This exercise covers the audits from 2023/24 to 2027/28 and covers the 470 local government, police and fire bodies (99% of eligible local bodies) that opted into the national scheme.

We are delighted to have been reappointed as the largest supplier of local government audit. The public sector has played a significant role within the firm for over 30 years and we remain committed to the success of the sector.

Our UK Public Sector Assurance (PSA) team employs 440 people, including 29 Key Audit Partners and specialists in financial reporting, audit quality, and value for money.

The team is dedicated to public audit work in local government and the NHS, with contracts with PSAA, Audit Scotland and over 100 health bodies. The Public Sector Assurance team is a regular commentator on issues facing the sector and oversees the firm's thought leadership, such as its series of publications on grants and public interest reports.

Mark Stocks, lead Partner for PSA at Grant Thornton, said 'This is a very welcome outcome and reflects our previous delivery as well as our ongoing commitment to invest in the public sector.'

Further information can be found [here](#)



Exploring the reasons for delayed publication of audited local authority accounts in England – Grant Thornton

Recent performance against target publication dates for audited local authority accounts in England has been poor. There are some reasons for optimism that there will be an improvement in the timeliness of publication of audited accounts as foundations are being laid for the future.

In this report we explore the requirements for publication of draft and audited accounts and look at some of the reasons for the decline in performance against these requirements over time. Only 12% of audited accounts for 2021/22 were published by the target date of 30 November 2022. There is no single cause for the delays in completing local authority audits, and unfortunately there is no quick solution in a complicated system involving multiple parties. We consider a variety of factors contributing to delays, note the measures which have already been taken to support the local audit system and make recommendations for further improvement.

There are some reasons for cautious optimism that the system will begin to recover and there will be a gradual return to better compliance with publication targets. However, we consider that these are outweighed by a number of risk factors and that the September deadline for audited accounts set by DHLUC is not achievable in the short term and also not achievable until there is further significant change in local audit and local government.

We note the following matters that are yet to be tackled:

- clarity over the purpose of local audit
- the complexity of local government financial statements
- agreement on the focus of financial statements audit work
- an improvement in the quality of financial statements and working papers

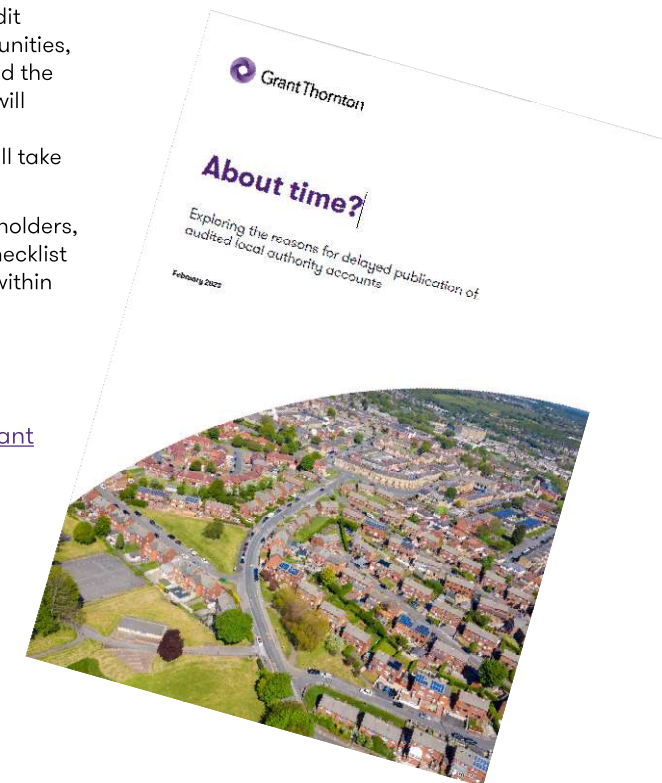
- an agreed approach to dealing with the backlog of local government audits
- Government intervention where there are significant failures in financial reporting processes

All key stakeholders including local audited bodies, the audit firms, the Department for Levelling Up Housing and Communities, PSAA, the NAO, the FRC and its successor ARGA, CIPFA and the Institute of Chartered Accountants in England and Wales will need to continue their efforts to support a coherent and sustainable system of local audit, acknowledging that it will take time to get things back on track.

We make recommendations in our report for various stakeholders, including Audit Committees and auditors, and include a checklist for consideration by management and Audit Committees within an Appendix to the report.

Read the full report here:

[Report: key challenges in local audit accounting | Grant Thornton](#)



Grant Thornton – Nearly 60 councils at risk of ‘running out of money’ next year

Grant Thornton has warned that the soaring cost of living combined with a decade of austerity could see up to a sixth of English councils fully deplete their reserves in 2023-24 without substantial spending cuts .

Research found that, as a result of higher inflation, councils are expected to have a cumulative budget deficit of £7.3bn by 2025-26 – an increase of £4.6bn since forecasts made at the beginning of this year.

Grant Thornton said that although reserves were bolstered by more than £5bn in 2020-21 due to higher government funding, these balances will “continue to unwind through the long tail of Covid-19” with close to 60 councils forecast to use all earmarked and unallocated reserves next year.

Without additional income, authorities would need to make savings of over £125 per person by 2025-26, equal to the average yearly spend on homelessness, sports and leisure, parks and open spaces, libraries and waste services.

Phillip Woolley, Head of Public Services Consulting at Grant Thornton, said: “Local government has faced unprecedented demands and pressures over the last decade and without action from both central government and councils, in the face of these inflationary pressures, the list of authorities in need of exceptional support looks set to grow quickly.

“Our research shows the additional Covid-19 funding, while critical to support immediate challenges, has not addressed underlying systemic issues or the precariousness of councils’ financial sustainability in the face of economic instability.

“Local authorities are also now facing the risk of interest rate rises, increasing debt financing costs and the real risk of reduced funding from central government, in response to the current economic turmoil facing the country. Without committed intervention from all sides, there is a risk that the sector levels down instead of up.”

Grant Thornton estimated unitary authorities would have the largest budget gap (£1.8bn) by 2025-26, but district councils would have the largest gap compared to net spending at 10.2%.

The firm added that austerity and changing policy demands have left councils struggling to innovate in their services and prevented investment in finance and procurement, diminishing the sector’s ability to tackle medium-term challenges.

Grant Thornton said additional government funding alone will not lead to improvements, and that councils should focus on improving governance and developing financial stability plans.

Joanne Pitt, local government policy manager at CIPFA, said: “With no spending review and no fair funding review, CIPFA shares Grant Thornton’s concerns about the financial sustainability of some in the sector.

“While there are actions local authorities can take to strengthen their own financial resilience, they are facing significant inflationary pressures and rising demand which makes this hugely challenging for the sector.”



Grant Thornton – Lessons learned- procurement and contract management

In December 2022 Grant Thornton published a national report on the key themes from 53 Annual Auditor Reports for 2020-21 and from other recent high profile public reports.

Local government spends more than any one individual central government department on goods and services, including the Department of Health and Social Care.

Procurement and contract management is working well at many local authorities. Where it has gone wrong, significant risks have arisen in relation to the use of public money, service delivery, and the reputation of the councils concerned. We considered five themes and made 15 recommendations for local authorities to reflect on.

The five themes are:

1 Strategic Planning

- Strategic alignment
- Sharing the strategy
- Understanding the implications of using alternative service delivery models

2 Internal control

- Procedures – fully comprehensive and fully documented
- Re-procurement when contracts end
- Tone at the top

3 Time, technical expertise and people

- Each aspect of resourcing can be problematic
- Each aspect of resourcing can be problematic
- Timescales should not be rushed

- Strong technical skills are needed to sense check supplier proposals and avoid the need for later changes
- The Central Procurement Unit (CPU) can provide oversight and cohesion
- CPU and service line staff need to understand one another and co-operate.

4 Commercial awareness

- Understanding price
- Anticipating trends
- Sharing knowledge in a timely manner

5 Contract management

- Maintaining contract, waiver and breaches registers
- Setting clear roles and responsibilities
- Using indicators that map back to strategy
- Multi-year arrangements

Summary

- Regular training, both for members and officers, remains important.
- Effective leadership and communication, relationships built on openness and trust, market awareness, and a sense of common purpose can be just as important as mastering the technical and regulatory requirements.
- Underpinning our findings is the need for individuals involved in procurement activity to ensure they adhere to the Nolan Principles of Public Life.



<https://www.grantthornton.co.uk/insights/local-government-procurement-and-contract-management-lessons-learned/>

Audit Committees: Practical Guidance For Local Authorities And Police – CIPFA

In October CIPFA published this guide, stating “This fully revised and updated edition takes into account recent legislative changes and professional developments and supports the 2022 CIPFA Position Statement. It includes additional guidance and resources to support audit committee members, and those working with and supporting the committee’s development.”

CIPFA go on to state “Audit committees are a key component of governance. Their purpose is to provide an independent and high-level focus on the adequacy of governance, risk and control arrangements. They play an important role in supporting leadership teams, elected representatives, police and crime commissioners and chief constables.

This edition updates CIPFA’s 2018 publication to complement the 2022 edition of the CIPFA Position Statement on audit committees.

The suite of publications has separate guidance resources for audit committee members in authorities, members of police audit committees, and a supplement for those responsible for guiding the committee.

New aspects include legislation changes in Wales and new expectations in England following the Redmond Review. All authorities and police bodies are encouraged to use the publication to review and develop their arrangements in accordance with the Position Statement.

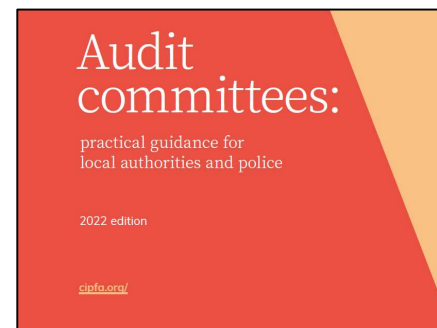
The appendices include suggested terms of reference, a knowledge and skills framework and effectiveness improvement tools.”

The guide covers a number of key areas for Audit Committees, including:

- Purpose
- Core functions:
 - Governance, Risk and Control
 - Accountability and Public Reporting
 - Assurance and Audit arrangements
 - Ensuring focus
- Independence and accountability
- Membership and effectiveness

The guide can be purchased via the CIPFA website:

[Audit Committee Guidance: 2022 update | CIPFA](#)



Challenge

Has the Audit Committee considered its arrangements against this updated guidance?

Audit and Risk Assurance Committee effectiveness tool – NAO

The National Audit Office (NAO) has published this tool which supports Audit Committees in assessing their effectiveness.

The NAO comment “Audit and Risk Assurance Committees (ARACs) play a crucial role in supporting the effective governance of central government departments, their agencies and arm’s-length bodies.

ARACs are operating in a highly challenging context. Government organisations are managing many short- and long-term risks and are required to be resilient to a number of pressures. This has created an environment where ARACs need to be dynamic and responsive to the changing risk profiles and demands of their organisations. ARACs can see this as an opportunity to work out how they can most proactively work with the Board and accounting officer.

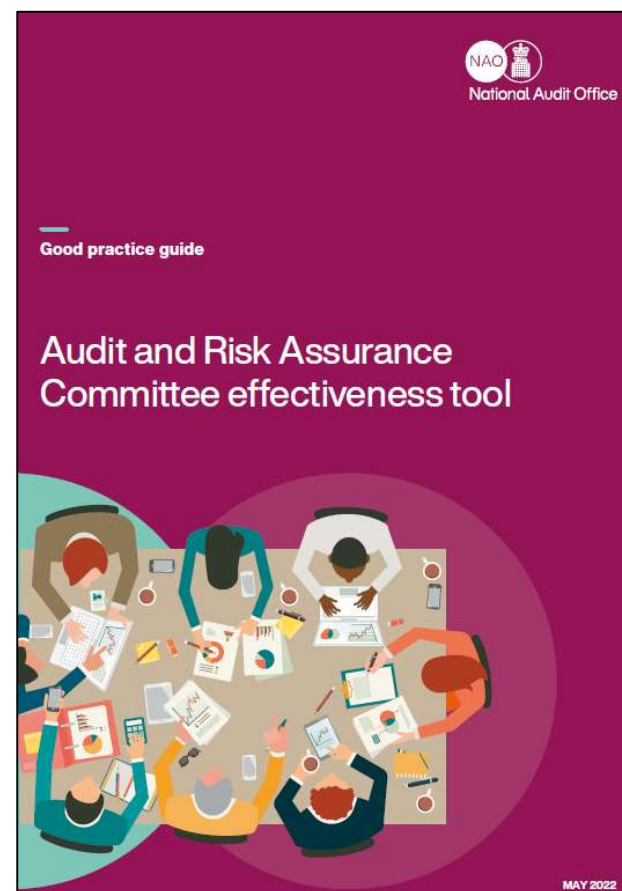
Against this background, the NAO’s effectiveness tool provides a way for ARACs to assess their effectiveness against more than just the basic requirements. It provides aspects of good practice to give ARACs greater confidence and the opportunity to meet the requirements of their role.

The NAO’s effectiveness tool is a comprehensive way for ARACs to assess their effectiveness on a regular basis.”

The tool covers:

- Membership, independence, objectivity and understanding
- Skills and experience
- Roles and responsibilities
- Scope
- Communication and reporting

Although the tool is designed for central government Audit Committees it is also relevant to local government.



The guide can be found here:

[Audit and Risk Assurance Committee effectiveness tool - National Audit Office \(NAO\) Report](#)

Response to local audit consultation – Department for Levelling Up, Housing and Communities (“DLUHC”)

The Department for Levelling Up, Housing and Communities (“DLUHC”) has published its response to the local audit consultation. This follows the “Redmond Review”, which reported in September 2020.

The response confirms plans to establish a new regulator, the Audit Reporting and Governance Authority (ARGA), as the system leader for local audit within a new, simplified local audit framework.

Ahead of ARGA’s establishment, a shadow system leader arrangement will start at the Financial Reporting Council (FRC) from September 2022.

The consultation response also announces:

- Plans to make audit committees compulsory for all councils, with each audit committee required to include at least one independent member. This will create greater transparency and consistency across local bodies.
- ARGA will take over statutory responsibility for preparing and issuing the Code of Audit Practice (from the National Audit Office).
- A post-implementation review of the new Value for Money arrangements. The Code is a key part of the local audit system, and it is important to ensure that it helps to facilitate effective local audit. To allow time for the new arrangements to bed in the response proposes this is completed within three years.

The full response can be found here:

[Government response to local audit framework: technical consultation - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/government-response-to-local-audit-framework-technical-consultation)



The Value of Internal Audit – CIPFA

One of the key elements of good governance is an independent and objective internal audit service. Some organisations engage fully and reap significant benefits from the assurance, insight and expertise they bring whilst others pay lip-service to them and see their work as an administrative burden.

CIPFA's recent report, [Internal Audit: Untapped Potential](#), lifts the lid on internal audit in public services. For some chief financial officers and chief executives, this report confirms the value and contribution of internal audit teams with 87% of respondents recognising the contribution internal audit makes to their organisation. However, some leadership teams saw internal audit as providing a basic service at minimal cost.

Getting the most out of the function requires honest conversations and long-term planning. Maintaining appropriate skills and knowledge within the function is necessary to ensure high quality internal audit in public services are retained.

Culture and governance

The Audit Committee should monitor the delivery of internal audit and their output will be a key part of the annual work-plan. However, internal audit is not a substitute for risk management and should enhance the overall assurances received by management. Executives and Officers should engage with internal audit recommendations to ensure the organisation gains maximum value from reviews.

Capacity

Reducing internal audit days can lead to a lack of 'corporate grip' and not identifying issues at an early stage. This report raises concerns over the capacity of internal audit across the public sector. The profession needs to be valued and invested in to make it more attractive to new blood and for bodies to be able to attract the best candidates to their service.

Expectations

To maximise the impact of internal audit, a clear and aligned strategic audit plan and annual audit plan should be in place. This should be agreed with all stakeholders.

Future plans

Internal audit needs to adapt to the changing landscape, including risks such as climate change, digital and technological developments, cyber-security and ongoing financial and service pressures within their planning processes. For financial resilience and medium- and long-term financial strategies internal audit can provide vital independent assurance to decision makers to allow them to take on more risk and be more ambitious. Leadership teams need to be clear on what assurances they will require going forward.

For more information, [Rob Whiteman](#) share his views on this report.





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Rother District Council

Report to:	Audit and Standards Committee
Date:	20 March 2023
Title:	Amendment to the Constitution – Delegations to Officers
Report of:	Malcolm Johnston, Chief Executive
Ward(s):	-
Purpose of Report:	To present an amendment to the Constitution for approval and adoption.
Officer Recommendation(s):	Recommendation to COUNCIL: That Article 15.3 of the Constitution be amended as proposed at paragraph 5 of this report.

Introduction

1. As Members are aware, the responsibility for considering and recommending changes to the Constitution now sits with the Audit and Standards Committee (A&SC), as set out in Article 15 of the Constitution.
2. Following legal advice concerning the approval process for delegations to officers, this report details a necessary amendment to the Constitution to regularise the procedure.
3. The need for this report was highlighted to full Council on the 20 February 2023.

Changes to the Constitution

4. It has been brought to the Council's attention that the approval process for delegations to officers must be approved and adopted by full Council. Currently, at Article 15.3, Changes to the Constitution, it specifically excludes delegations to officers.
5. It is therefore recommended to regularise the situation and improve clarity, Article 15.3 be amended as follows:

15.3 Changes to the Constitution

- (a) **Approval:** All Changes to the Constitution, including ~~except for~~ delegations to officers, will ~~only~~ be approved by the Council after consideration of the proposal by the Audit and Standards Committee.

Risk Management

6. The Council is required to have an up-to-date Constitution available at all times. The risk of having a Constitution that is difficult to understand may lead

to Members and officers not acting in accordance with the Constitution which could result in potential challenge, maladministration and reputational damage. It is important to keep the provisions within the Constitution under review and make appropriate recommendations for change in light of experience and legal advice.

Conclusion

7. Members are asked to recommend the necessary amendment to Council.

Other Implications	Applies?	Other Implications	Applies?
Human Rights	No	Equalities and Diversity	No
Crime and Disorder	No	Consultation	No
Environmental	No	Access to Information	No
Risk Management	Yes	Exempt from publication	No

Chief Executive:	Malcolm Johnston
Report Contact Officer:	Lisa Cooper, Democratic Services Manager
e-mail address:	lisa.cooper@rother.gov.uk
Appendices:	None.
Relevant previous Minutes:	

Rother District Council

Report to:	Audit and Standards Committee
Date:	20 March 2023
Title:	Homes England 2022/23 Compliance Audit Programme
Report of:	Joe Powell, Head of Service Housing & Communities
Purpose of Report:	To present an update from a recent Homes England audit of the Next Steps Accommodation Programme (NSAP)
Officer	
Recommendation(s):	It be RESOLVED : That the report be noted.

Introduction

1. This report provides the outcome from the Homes England audit of the Next Steps Accommodation Programme 2021 (NSAP). This was our first external audit of this capital grant scheme. The NSAP 2021 was delivered by Homes England in collaboration with the Department of Levelling Up Housing and Communities (DLUHC) in support of the Government's wider objectives to end rough sleeping.
2. The Council was successful in its bid to the NSAP 2021 and was awarded £391,050 of match funding. The Council was able to use this match funding to purchase several properties and provide supported accommodation to former rough sleepers. As part of NSAP 2021, we were also awarded funding of up to £76,600 so that residents can be supported in their homes. The support is delivered through the local East Sussex Rough Sleeping Initiative (RSI), which brings together a range of service providers and agencies from across Housing, Health, Social Care and the wider voluntary and community sector.

Details

3. The purpose of the Compliance Audit report is to confirm that grant recipients have met Homes England's funding conditions and contractual requirements and have properly exercised their responsibilities as set out in the Capital Funding Guide.
4. Homes England selected one of our NSAP schemes that was purchased in late 2021, and that joined the RSI support contract from April 2022.
5. The audit outcomes had to be acknowledged within three months of the report notification, and therefore Councillor Drayson has had prior sight of, and acknowledged, the Audit report. This was due to the dates of the Audit and Standards Committee meetings falling outside that timescale.

Conclusion

6. On review of the evidence provided, the outcome of the audit has shown we have complied with all the programme requirements and guidance. A GREEN grade has been assigned and no breaches were identified.

Financial Implications

7. Homes England use the audit findings to inform their future investment decisions and to reassure the Homes England Chief Accounting Officer that public funds have been properly used.

Other Implications	Applies?	Other Implications	Applies?
Human Rights	No	Equalities and Diversity	No
Crime and Disorder	No	External Consultation	No
Environmental	No	Access to Information	No
Risk Management	No	Exempt from publication	No

Chief Executive:	Malcolm Johnston
Report Contact Officer:	Kathryn Harlow
e-mail address:	kathryn.harlow@rother.gov.uk
Appendices:	Appendix A - Compliance Audit Report 2022/23
Relevant Previous Minutes:	None
Background Papers:	None
Reference Documents:	None



Compliance Audit Report – 2022/23

5119 – ROTHER DISTRICT COUNCIL

Final Grade	Green - Meets requirements
Independent Auditor Organisation	Grant Thornton
Independent Auditor Name	Stacy Lang

Report Purpose and Objectives

The purpose of the Compliance Audit report is to confirm that grant recipients have met Homes England's funding conditions and contractual requirements and have properly exercised their responsibilities as set out in the Capital Funding Guide.

We use the audit findings (which are confidential between Homes England and the grant recipient) to inform our future investment decisions and to reassure the Homes England Chief Accounting Officer that public funds have been properly used.

Where findings have been determined as breaches they are then used as the basis for recommendations and final grades for Providers. Grades of green, amber or red are awarded; definitions are provided at the end of this report. Where applicable the Provider is to use the recommendations to prevent similar breaches from reoccurring in the future and to aid good governance for complying with Homes England's policies, procedures and funding conditions.

Information about the audit process and guidance is available at:
<https://www.gov.uk/guidance/compliance-audit>

Compliance Audit Grade and Judgement Summary

Final Grade	Green - Meets requirements
Judgement Summary	On review of the evidence provided, the outcome of the audit has shown the provider has complied with all the programme requirements and guidance. A GREEN grade has been assigned and no breaches were identified.



Scheme/Completions details

Scheme ID/ Completion ID	Address/Site ID	Scheme type
1058887	[REDACTED]	Next Steps Accommodation - Capital

Audit Results

Number of Schemes/Completions Audited	1
Number of Breaches Assigned	0
Number of High Severity Breaches	0
Number of Medium Severity Breaches	0
Number of Low Severity Breaches	0

Provider's Acknowledgement of Report

The contents of this report including all recommendations must be acknowledged by your Board's Chair or equivalent. Confirmation of this acknowledgement must be recorded in the IMS Compliance Audit System by your Compliance Audit Lead no later **than three calendar months** of the report email notification being sent.

Report acknowledged by:

Date:

Confidentiality

The information contained within this report has been compiled purely to assist Homes England in its statutory duty relating to the payment of grant to the Provider. Homes England accepts no liability for the accuracy or completeness of any information contained within this report. This report is confidential between Homes England and the Provider and no third party can place any reliance upon it.

Compliance Audit Grade Definitions

Green Grade	No high or medium severity breaches identified, although there may be low
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	breaches identified. The Homes England audit report shows that the provider has a satisfactory overall performance but may identify areas where minor improvements are required.
Amber Grade	One or more medium severity breaches identified. The Homes England audit report will shows that the provider has failed to meet some requirements but has not misapplied public money. The provider will be expected to correct identified problem(s) in future schemes and current developments.
Red Grade	One or more high level severity breaches identified, the Homes England audit report shows that the provider has failed to meet some requirements and there has been a risk of misapplication of public funds.

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Rother District Council

Report to:	Audit and Standards Committee
Date:	20 March 2023
Title:	Internal Audit Report to 31 December 2022
Report of:	Gary Angell, Audit Manager
Purpose of Report:	To report on Internal Audit activity in the third quarter of 2022/23 and to provide a progress update on the implementation of audit recommendations made in earlier periods.
Officer Recommendation(s):	It be RESOLVED: That the Internal Audit report to 31 December 2022 be noted.

Introduction

1. The Council is required to ensure that it has reliable and effective internal control systems in place. The adequacy of these systems is tested by both Internal and External Audit.
2. The Council's Internal Audit Service operates in accordance with the Public Sector Internal Audit Standards. It is a requirement of these Standards that we report to the Audit and Standards Committee on audit matters and any emerging issues not only in relation to audit, but also to risk management and corporate governance.

Current Position

3. Resources within the Internal Audit Service are now back to normal but the knock-on effect of the prolonged absence of one member of the team and a higher than usual volume of the audits with control issues this year means that it will no longer be possible to deliver all of the audits planned for 2022/23.
4. In total, three audits will need to be dropped. These are ICT Asset Management, Licensing and Main Accounting. The first two of these will now be carried out as part of next year's Audit Plan. However, the ongoing need for the Main Accounting audit has been reassessed and it will no longer feature in its existing format in future years. The reasoning for this is explained in the report on the Internal Audit Plan 2023/24 which follows this item.
5. All remaining Governance Audits are still on target to be completed by 31 March 2023.

Summary of Activity to 31 December 2022

6. Five audit reports were issued in the quarter. An overview of the findings arising from each of these audits is given in the Executive Summaries which are reproduced in Appendix A.

7. Three of these audits (Homelessness Prevention Initiatives, Treasury Management and Cyber Security) provided substantial assurance, but the other two (Community Infrastructure Levy (CIL) and Public Conveniences Cleaning Contract) only received limited assurance ratings. Neither of these audits had any high risk recommendations, but they were marked down because of the number of issues found. At the CIL audit, these mostly related to collection and enforcement, whereas insufficient record keeping and problems with the contract sum were found at the Public Conveniences Cleaning Contract audit.

Review of Capital Projects

8. Following a discussion on the findings of the Investment Property audit at the last meeting on 5 December 2022, Members requested that the Council carry out an urgent review of all Capital Projects in light of the current financial situation. The Director of Place and Climate Change confirmed that a full review of Capital projects is underway, and the latest position is outlined at Appendix B.

Implementation of Audit Recommendations

9. Each quarter, Members are updated on the progress made on implementing the audit recommendations reported at previous meetings. Appendix C shows a summary of the current position.
10. There are currently eight recommendations in the 'Old Years' section. This is made up of two recommendations from 2018/19 and six recommendations from 2021/22. Whilst some progress continues to be made in respect of many of these recommendations, this progress is mostly slow, and not all recommendations showed signs of movement this quarter. The External Auditors are also now highlighting the fact that some of the issues raised by Internal Audit are taking a long time to address and their latest VFM report (currently at draft report stage) recommends that "the Council should explore ways it can increase the responsiveness to longstanding Internal Audit recommendations". The Audit Manager will therefore send a list of all longstanding recommendations to the Senior Leadership Team on a six-monthly basis so that it can discuss progress with the officers concerned.
11. The latest progress update supplied by the managers with the two oldest recommendations is as follows:

Audit	Recommendation	Current Position
Procurement Issued 05/10/18	To formalise an SLA for the service provided by the East Sussex Procurement Hub.	The document has now been drafted and is currently with the Wealden Legal team for review and comment. Once this review has been completed the draft will be shared and discussed with SLT prior to being agreed. [Chief Finance Officer]
ICT Governance Issued 12/04/19	To produce a new ICT Disaster Recovery Plan.	Documentation detailing suppliers, contacts etc has been created. A Remote Data Centre Project is also underway. [ICT Manager & Data Protection Officer]

12. Progress on the current year recommendations remains good, with two-thirds of them already completed.

Audits Planned Next Quarter

13. The audits scheduled to take place in the first quarter of 2023/24 are yet to be determined. They will be selected from the new Audit Plan once it has been approved elsewhere on the agenda.

Conclusion

14. Three audits in the 2022/23 Audit Plan will not be completed this financial year because of resourcing issues and the higher than usual volume of issues found.
15. Two of the audits completed this quarter received limited assurance.
16. Further action is required to encourage officers with longstanding audit recommendations to address the issues raised.

Other Implications	Applies?	Other Implications	Applies?
Human Rights	No	Equalities and Diversity	No
Crime and Disorder	No	External Consultation	No
Environmental	No	Access to Information	No
Risk Management	No	Exempt from publication	No

Chief Executive:	Malcolm Johnston
Report Contact Officer:	Gary Angell, Audit Manager
e-mail address:	gary.angell@rother.gov.uk
Appendices:	A – Audit Reports issued during Quarter to 31 December 2022 B – List of Capital Projects and Review Position C – Summary of Progress on Recommendations Made up to 30 September 2022
Relevant Previous Minutes:	AS22/43
Background Papers: Reference Documents:	None.

HOMELESSNESS PREVENTION INITIATIVES AUDIT

Service Manager: Joe Powell

Officer(s) Responsible for Implementing Recommendations: Kathryn Harlow and Claire Ellwood

Overall Level of Assurance: **SUBSTANTIAL**

Purpose and Objectives

The purpose of the audit is to provide organisational and departmental management with an assurance as to the adequacy of the control systems based on compliance with the control objectives set out in the table below.

These objectives are designed to assess the extent to which the organisation meets its legal requirements, its own needs and those of its stakeholders and how the control systems in place contribute to the overall governance arrangements and securing value for money from the Council's services and operations.

Background Information

When the Homelessness Prevention Initiatives were last audited in 2017/18 and 2018/19, significant control issues were found resulting in audits with minimal and limited assurance ratings. A new management team is now in place and procedures and controls have improved significantly since then. For example, there is now a designated officer who acts as a liaison between Housing Needs Officers, clients and letting agents. This helps to ensure paperwork to support each grant or loan is obtained and processes are carried out more efficiently and effectively.

Limitations of Coverage

The Rother Leasing Scheme was not reviewed as part of this audit.

Control Objectives

The audit opinion is based on the extent of compliance with the objectives (below), which have either been met in full (**M**), partially met (**P**) or not met (**N**).

<p>Financial Assistance – Homelessness prevention grants and loans are only paid to bona fide landlords in respect of clients in genuine need, and all loans are subsequently recharged.</p>	<p>M</p>
<p>Rother Tenant Finder Scheme – Financial incentives are only paid to bona fide landlords in respect of clients in genuine need; properties meet the required standards for health and safety; the Council has secured nomination rights on the property for a minimum period of 12 months; there is a budget for the scheme which is regularly monitored.</p>	<p>P</p>

Level of Assurance

Based on the findings from the audit we have determined that substantial assurance can be given on the governance arrangements.

The main issue identified at the audit relates to gas safety certificates. Closer attention needs to be paid to the faults listed on these certificates, and the letting agent contacted where appropriate, to ensure that all necessary remedial work is carried out before the client moves in.

Other recommendations/advisories were also made regarding a few minor procedural issues to help improve internal control.

Executive Summary

Overall, the control objectives are considered to have largely been met, but we have made one medium and two low risk recommendations to management to further enhance the governance arrangements.

Internal Audit Service
October 2022

COMMUNITY INFRASTRUCTURE LEVY (CIL) AUDIT

Service Managers: Jeff Pyrah and Myles Joyce

Officer(s) Responsible for Implementing Recommendations: Aaron Sams and Christine Hyszka

Overall Level of Assurance: **LIMITED**

Purpose and Objectives

The purpose of the audit is to provide organisational and departmental management with an assurance as to the adequacy of the control systems based on compliance with the control objectives set out in the table below.

These objectives are designed to assess the extent to which the organisation meets its legal requirements, its own needs and those of its stakeholders and how the control systems in place contribute to the overall governance arrangements and securing value for money from the Council's services and operations.

Background Information

Since this audit was last undertaken in 2019 there have been significant staff changes within the Planning team. This includes the management responsible for CIL and the post of Principal CIL Officer, which was undertaken by a different officer at the start of the COVID-19 lockdown. The post then remained vacant for over three months in late 2021/early 2022 before the current Principal CIL Officer took on the role. It should be acknowledged that many of the control issues identified during this audit originated in the period prior to the current management structure. In recent months, prioritisation has been given to the setting up of policies and procedures for paying out CIL grants to support important infrastructure projects. Nevertheless, the control issues identified regarding debt management, monitoring and enforcement now need to be addressed by management.

Control Objectives

The audit opinion is based on the extent of compliance with the objectives (below), which have either been met in full (M), partially met (P) or not met (N).

CIL Scheme – The Charging Schedule implemented at the Council has been scrutinised by an independent examiner and approved by Members, and full details of the CIL Scheme published on the Council’s website.	M
Calculation of Liability – The levy is calculated in accordance with the approved Charging Schedule and by applying the relevant formulae based on internal area and agreed indices.	P
Exemptions and Relief – Compulsory and non-compulsory provisions for exemption or relief from the levy have been granted in accordance with the regulations.	M
Collection – Liability to CIL is established and the liable person promptly billed once development has commenced. Any overpayments are correctly refunded.	P

Enforcement – Appropriate enforcement action is taken against responsible persons who fail to adhere to the CIL regulations.	N
Use of CIL Funds – CIL receipts are spent in accordance with regulations and payments are authorised before the funds are released. The allocation of funds to Town and Parish Councils, etc is correctly apportioned.	M
Reporting Arrangements – The CIL received, spent, transferred and retained is reported and placed on the Council’s website.	M

Level of Assurance

Based on the findings from the audit we have determined that only limited assurance can be given on the overall governance arrangements owing to the number of issues found, especially around collection and enforcement.

The main issues found relate to:

- **CIL Calculation, Liability Notices and Demand Notices** – To date, there has been no management oversight of these key stages to identify errors and delays. The audit found CIL calculation/liability notice errors worth £130,000 (all of which have since been rectified) and a demand notice which was issued six weeks late. The Principal CIL Officer has therefore agreed to introduce a second person check at each of these stages so that any similar issues can be promptly identified and rectified.
- **Monitoring of Arrears** – Outstanding debts were not being monitored. Failure to monitor outstanding debts and take prompt and appropriate enforcement action increases the risk of bad debts leading to financial loss to the Council. Planning officers have now agreed to review all overdue demand notices on a weekly basis and to re-establish contact with customers with aged debts in order to recover the sums owed.
- **Instalments** – The Council has a published Instalment Policy which allows developers of sites with CIL liability of £50,000 or more to pay CIL in instalments. The Policy states that instalments will be cancelled and the full amount of CIL due becomes payable immediately if an instalment becomes overdue. However, as outstanding debts are not being monitored, debtors have continued with instalment plans when payments have fallen overdue. The Principal CIL Officer has agreed to make this point clearer in correspondence with customers and to monitor instalments more closely from now on.
- **Enforcement** – No interest or surcharges are being applied for late payment or any infringement of the CIL regulations. Stop notices cannot be issued for non-payment as debts are not being monitored. Cases of suspected infringement referred to Planning by Internal Audit are not being followed up. Consequently, substantial sums of money potentially remain uncollected and there is nothing to deter developers from future breaches of CIL regulations. Planning management accept that this situation is unsatisfactory. The default position will now be to apply CIL surcharges unless the client can demonstrate exceptional circumstances and late payment interest will be applied to all outstanding cases on a quarterly basis from now on.

Executive Summary

Overall, the control objectives are considered to have only been partially met. We have made seven medium and two low risk recommendations to management all of which are aimed at enhancing the governance arrangements.

Internal Audit Service
October 2022

PUBLIC CONVENIENCES CLEANING CONTRACT AUDIT

Service Manager: Deborah Kenneally

Officer(s) Responsible for Implementing Recommendations: Deborah Kenneally and Lynsey Goodwill

Overall Level of Assurance: **LIMITED**

Purpose and Objectives

The purpose of the audit is to provide organisational and departmental management with an assurance as to the adequacy of the control systems based on compliance with the control objectives set out in the table below.

These objectives are designed to assess the extent to which the organisation meets its legal requirements, its own needs and those of its stakeholders and how the control systems in place contribute to the overall governance arrangements and securing value for money from the Council's services and operations.

Control Objectives

The audit opinion is based on the extent of compliance with the objectives (below), which have either been met in full (**M**), partially met (**P**) or not met (**N**).

Contract – The contract is properly authorised and the contract documentation complete.	M
Monitoring Performance – The performance of the Contractor is adequately monitored to ensure compliance with the terms of the contracts.	P
Payments – All contract payments are correct and within the authorised budget.	P
Budget – The budget is monitored and controlled.	M

Level of Assurance

Based on the findings from the audit we have determined that only limited assurance can be given on the overall governance arrangements owing to the number of issues found.

Two main problem areas were identified, namely:

- **Record Keeping** – Whilst regular inspections of the public conveniences are taking place, no assurance could be given on the performance of the contract. This is because, at the time of the audit, no proper record was being kept of service delivery issues, and none of the matters discussed at weekly meetings with the Contractor’s supervisors were being minuted. Instead, most day-to-day communication with the Contractor took place via a WhatsApp group installed on the Contact Compliance Officers (CCOs) private mobile phones. Apart from the absence of any audit trail on Council systems, this approach also raised concerns about supervisory oversight (as there were no RDC managers in the WhatsApp

group), business continuity, and compliance with GDPR and Freedom of Information Act legislation.

Management has since agreed (1) to discontinue the use of WhatsApp and look into alternative means of communication between the CCOs and the Contractor, and (2) to record all problems found at inspections and to minute any remedial action agreed by the Contractor at the weekly meetings.

- **Contract Sum** – Several issues were found with the annual inflation uplift, including the inconsistent use of indices and other calculation errors. It is therefore evident that insufficient checks are being carried out to ensure the calculation is correct before each uplift is applied. Internal Audit calculated that this has resulted in the Council overpaying by £3,683.80 during the first five years of the contract. Furthermore, the contract has recently been extended but the latest (Year 6) uplift calculation supplied by the Contractor could not be agreed at the audit because insufficient supporting evidence has been provided. This should have been queried by RDC management at the time because the whole basis of the calculation has changed.

Management has since agreed (1) to ensure that all future uplift calculations are checked by RDC officers, (2) to obtain reimbursement for the overpayment identified at the audit, and (3) to seek clarification and evidence as to how the uplift was calculated for Year 6 and to carry forward any necessary adjustments to the Year 7 uplift calculation.

The need to improve the recording and recharging of minor works was also highlighted in the report.

Executive Summary

Overall, the control objectives are considered to have only been partially met. We have made five medium and three low risk recommendations to management all of which are aimed at enhancing the governance arrangements.

Internal Audit Service
December 2022

TREASURY MANAGEMENT AUDIT

Service Manager: Antony Baden

Officer(s) Responsible for Implementing Recommendations: Aleksandra Janowicz

Overall Level of Assurance: **SUBSTANTIAL**

Purpose and Objectives

The purpose of the audit is to provide organisational and departmental management with an assurance as to the adequacy of the control systems based on compliance with the control objectives set out in the table below.

These objectives are designed to assess the extent to which the organisation meets its legal requirements, its own needs and those of its stakeholders and how the control systems in place contribute to the overall governance arrangements and securing value for money from the Council's services and operations.

Control Objectives

The audit opinion is based on the extent of compliance with the objectives (below), which have either been met in full (**M**), partially met (**P**) or not met (**N**).

INVESTMENTS	
Policy and Procedures – Investments are only made in accordance with the Council's approved policy and any amendments are promptly actioned. The Council seeks to maximise the return on its investments where it is prudent to do so.	P
Authorisation and Record Keeping – All investments and withdrawals are properly authorised with all relevant records and accounts updated and adequate documentation kept to support the transfer of funds.	M
Monitoring of Performance – There is regular monitoring and reporting of investment performance.	M
LOANS	
Policy and Procedures – The Council has an approved strategy for external borrowing and borrowing levels are related to the Council's needs.	M
Authorisation and Record Keeping – All loans are properly authorised with all relevant records and accounts updated and adequate documentation kept to support each transaction.	M
Repayment and Interest – All loan repayments and interest charges are correctly calculated and properly recorded.	M

INVESTMENTS AND LOANS	
<p>Reconciliation and Other Controls – There are regular reconciliations to ensure that all transactions are accounted for. There is fidelity insurance cover for all staff involved in Treasury Management. Members receive Treasury Management training.</p>	<p>M</p>

Level of Assurance

Based on the findings from the audit we have determined that substantial assurance can be given on the governance arrangements.

The main issue found related to the interpretation of the suggested maximum investment limit for local authority loans in the Treasury Management Strategy. Internal Audit read this to mean that a maximum of 50% of the Council’s total investments could be placed with local authorities at any one time, with an additional rule that the maximum investment with any single local authority is £2 million. However, the Chief Finance Officer’s interpretation was that only one of the aforementioned criteria need apply meaning that a recent £6 million loan to Thurrock Council was within the rules. The guidance is therefore unclear.

Apart from this ambiguity, there is also a need to ensure that the strategy is flexible enough to take advantage of better interest rates whilst still remaining prudent, and to include loans to the Rother DC Housing Company.

A recommendation has therefore been made that the Treasury Management Strategy should be amended to ensure that:

- Investment limits to financial counterparties are clear and unambiguous;
- It allows officers greater flexibility whilst also ensuring consistency with prudential indicators;
- Investments through loans to the Housing Company are included in the strategy.

In response, the Finance team has agreed that the strategy will be amended for 2023/24 to include all of the above points.

The only other issues found during the audit were minor in nature and are dealt with in the report.

Executive Summary

Overall, the control objectives are considered to have largely been met. We have made one medium and two low risk recommendations to management all of which are aimed at enhancing the governance arrangements.

Internal Audit Service
December 2022

CYBER SECURITY AUDIT

Service Manager: Graham McCallum

Officer(s) Responsible for Implementing Recommendations: Graham McCallum

Overall Level of Assurance: **SUBSTANTIAL**

Purpose and Objectives

The purpose of the audit is to provide organisational and departmental management with an assurance as to the adequacy of the control systems based on compliance with the control objectives set out in the table below.

These objectives are designed to assess the extent to which the organisation meets its legal requirements, its own needs and those of its stakeholders and how the control systems in place contribute to the overall governance arrangements and securing value for money from the Council's services and operations.

Control Objectives

The audit opinion is based on the extent of compliance with the objectives (below), which have either been met in full (**M**), partially met (**P**) or not met (**N**).

Security Strategy – There are policies and procedures in place to protect the confidentiality, integrity and availability of the Council's data.	P
Data Security – All connections to network data are approved and secure.	M
System Security – The network is protected, traffic is monitored, and the risk of network failure and/or data loss minimised.	P

Level of Assurance

Based on the findings from the audit we have determined that substantial assurance can be given on the governance arrangements.

Two main issues were found, both of which relate to cyber security training – i.e. the need to improve the measures for ensuring that all staff and Members undertake it, and complete refresher training each year thereafter. The ICT Manager has agreed to liaise with Human Resources and follow up all outstanding cases to ensure that this is achieved.

The only other issues found during the audit were minor in nature and are dealt with in the report.

Note - System security is only rated as 'partially met' because a recommendation to produce a new ICT Disaster Recovery Plan is still outstanding from another audit.

Executive Summary

Overall, the control objectives are considered to have largely been met but we have made two medium and two low risk recommendations to management to further enhance the governance arrangements.

Internal Audit Service
December 2022

The following information was supplied by the Director of Place and Climate Change on 03/03/23.

Capital Project	Review Position
Acquisitions, Transformation and Regeneration	
Other Schemes	
Corporate Document Image Processing System	No review as yet undertaken
Rother Transformation ICT Investment	No review as yet undertaken
Community Grants	No review as yet undertaken
Cemetery Entrance	No review as yet undertaken
Development of Town Hall Bexhill	This scheme has been put on hold with projected final spend reported to Full Council. A decision on progression of this scheme will be a matter for the new Council and a review will be undertaken at that point.
Ravenside Roundabout	No funding currently allocated to this scheme. Funding options continue to be explored
CIL Scheme 1 Village Hall Energy Project	CIL Funded - Currently at Stage 1 of delivery which is Village Hall assessments. Full funding but scope of capital works will be determined at stage 2.
UK Shared Prosperity Fund	Externally Funded - Rye Fisheries scheme is in development and this scheme will be spent in 2023/24
Property Investment (PI)	
Beeching Road Hotel and Food store Development	Currently at heads of terms stage and in negotiation with a food store provider and hotel provider to ascertain final costs and funding structure. Delegated authority to agree has been given to the Property Investment Panel, which will consider the final terms prior to proceeding. A Budget of £15m has been agreed by Council subject to final terms.
PIS - Beeching Park Estate	Complete and spent
PIS - Beeching Road 18-40 (Creative Workspace)	This scheme is substantively complete; however some issues remain unresolved with the contractor around guttering and water ingress which are currently being rectified. No further spend anticipated on this scheme.
Barnhorn Green GP Surgery and Industrial Development	A Planning application has been submitted and is now likely to be considered at committee in the summer
Mount View - NHS Mental Health Hospital	Capital outlay has been spent on land acquisition. A capital receipt is expected following the on-sale of the phase 1 land to ES NHS Partnership Trust
PIS - Buckhurst Place	Acquisition of Sainsbury's complete
Housing Development Schemes	
Community Led Housing Scheme - CHF	Development of Cemetery Lodge proposal continues
Blackfriars Housing Development - Infrastructure only	Currently under construction. Identified overspend to be confirmed based on finalised embankment design works.

Capital Project	Review Position
RDC Housing Company Limited funding	Loan Funding Agreement not yet signed, however funding of £2.7m facilitated so far.
RDC Housing Company share investment	No review as yet undertaken
Development of council owned sites	Mostly spent on pre-development works at Camber and Rye sites.
King Offa Residential scheme	Land transfer complete. Brown Field Land Release Fund works now scheduled for delivery spring 2023
Mount View Street Development - Housing	No Project or Funding agreed
Camber, Old Lydd Road	Brown Field Land Release Fund works now scheduled for delivery winter 2023, dependant on planning approval
Housing and Community Services	
De La Warr Pavilion - Capital Grant	No review as yet undertaken
Land Swap re Former High School Site	Complete and spent
Bexhill Leisure Centre - site development	No review as yet undertaken
Fairlight Coastal Protection	No review as yet undertaken
Disabled Facilities Grant	No review as yet undertaken
Sidley Sports and Recreation	No review as yet undertaken
New bins	No review as yet undertaken
Improvements to Northiam Recreation Ground s106	No review as yet undertaken
Bexhill Promenade - Protective Barriers	No review as yet undertaken
Housing - Temporary Accommodation Purchase	No review as yet undertaken
Bexhill Promenade - Shelter 1	No review as yet undertaken
Bexhill Promenade - Outflow pipe	No review as yet undertaken
Bexhill Leisure Centre - refurbishment	No review as yet undertaken
Capital - Northiam Cemetery Extension – S106	No review as yet undertaken
Strategy & Planning	
Payments to Parishes - CIL	No review as yet undertaken
Resources	
ICT Infrastructure Replacement Programme	No review as yet undertaken
New website development	No review as yet undertaken
Invest To Save initiatives (Financial Stability Prog)	No review as yet undertaken

Summary of Progress on Recommendations Made up to 30 September 2022

Old Years: Audit recommendations made in 2018/19 (2) and 2021/22 (6)

Previous quarter's performance shown in brackets

Risk	Issued		Implemented		Work-in-Progress		Not Started	
High	4		4	(4)	0	(0)	0	(0)
Medium	64		58	(58)	5	(4)	1	(2)
Low	46		44	(44)	2	(1)	0	(1)
Total	114		106	(106)	7	(5)	1	(3)
			93.0%	(93.0%)	6.1%	(4.4%)	0.9%	(2.6%)

Note – All audit recommendations made in 2019/20 and 2020/21 have been resolved.

Breakdown of outstanding audit recommendations by Service Manager:

Duncan Ellis (Chief Finance Officer)

- Procurement (2018/19) – issued 05/10/18. Recommendation to formalise an SLA for the service provided by the East Sussex Procurement Hub (Medium).
- Creditors (2021/22) – issued 01/02/22 (1 Medium)

Graham Burgess (Property Investment & Regeneration Manager)

- Estates Income (2021/22) – issued 30/06/21 (1 Medium)

Graham McCallum (ICT Manager & Data Protection Officer)

- ICT Governance (2018/19) – issued 12/04/19. Recommendation to produce a new ICT Disaster Recovery Plan (Medium)
- Data Protection (2021/22) – issued 25/06/21 (2 Medium & 1 Low)

Joe Powell (Head of Housing & Community)

- Housing Temporary Accommodation (2021/22) – issued 20/09/21 (1 Low)

Current Year – Audit Recommendations 2022/23 (up to 30 September 2022)

Previous quarter's performance shown in brackets

Risk	Issued		Implemented		Work-in-Progress		Not Started	
High	2	(1)	1	(1)	1	(0)	0	(0)
Medium	13	(9)	8	(6)	2	(3)	3	(0)
Low	6	(3)	5	(2)	0	(1)	1	(0)
Total	21	(13)	14	(9)	3	(4)	4	(0)
			66.7%	(69.2%)	14.3%	(30.8%)	19.0%	(0%)

Rother District Council

Report to:	Audit and Standards Committee
Date:	20 March 2023
Title:	Review of Internal Audit 2022/23
Report of:	Gary Angell, Audit Manager
Purpose of Report: Officer	To report on the effectiveness of the Internal Audit Service.
Recommendation(s):	It be RESOLVED: That the Review of Internal Audit 2022/23 be approved.

Introduction

1. The Council's Internal Audit Service is operated in accordance with the Public Sector Internal Audit Standards. These Standards require the Audit Manager to undertake periodic self-assessments of the effectiveness of Internal Audit, but they do not specify how frequently these reviews should take place. The Audit Manager considers it beneficial for annual reviews to be carried out, and for Members to receive the findings, prior to 31 March each year so that reliance can be placed on the effectiveness of Internal Audit when reviewing the Annual Governance Statement.

Quality Assurance and Improvement Programme

2. The Public Sector Internal Audit Standards (hereafter referred to as 'the Standards') aim to achieve consistent industry standards for Internal Audit. The Standards also require the Audit Manager to develop and maintain a Quality Assurance and Improvement Programme (QAIP) that covers all aspects of the Internal Audit activity. This includes both internal and external assessments.
3. Periodic internal assessments are necessary to evaluate conformance with the Definition of Internal Auditing, the Code of Ethics, and Attribute and Performance Standards. The Audit Manager therefore carries out an annual self-assessment review of the Internal Audit function in order to meet this requirement and uses a comprehensive checklist to ensure that all aspects of the Standards are covered. Given the length of this document, the results of the review have been summarised for this report, but the detailed checklist is also available to view upon request. The Summary Compliance Checklist can be found in Appendix A.
4. Internal Auditors are expected to comply with the Standards as far as possible and where compliance is not possible, to explain why. The level of compliance with each aspect of the Standards is indicated in the checklist by a tick in the relevant column; **Y** (Yes - Compliant), **P** (Partial Compliance) or **N** (Not Compliant). Where an item on the checklist is not compliant or only partially compliant, there is an explanatory comment. However, on this occasion, there are no items which required further action.

5. Any material non-compliance with the Standards would need to be highlighted in the Annual Governance Statement, but no such issues were found.
6. In addition to periodic self-assessment, the Standards also require an external (peer) assessment to be carried out at least once every five years. The last peer review was completed in 2016/17 so a further external assessment is now overdue. This has been arranged and is currently being undertaken by the Chief Internal Auditor at Lewes District and Eastbourne Borough Councils as part of a reciprocal arrangement between Rother District Council and Hastings Borough Council, Lewes District and Eastbourne Borough Councils and Wealden District Council.
7. Pending the outcome of the latest peer review, it should be noted that the 2016/17 review concluded that that “the Internal Audit Service of Rother District Council generally conforms with the Public Sector Internal Audit Standards (PSIAS) and general good practice for the profession”.
8. There was only one item in last year’s action plan, namely the need to arrange a further peer review. As stated in paragraph 6 above, this has now been addressed and an update to last year’s action plan is provided in Appendix B.

Conclusion

9. In summary, no new issues have been highlighted by the latest internal assessment and the one action point from last year’s review has now been addressed.
10. The results of this assessment, and the 2016/17 peer review, demonstrate the Internal Audit Service continues to achieve a good level of compliance with the Standards and none of the areas of partial compliance are significant in nature. On this basis, the Audit Manager concludes that **there is a high level of effectiveness overall**.
11. The Section 151 Officer and Monitoring Officer support the conclusion.

Other Implications	Applies?	Other Implications	Applies?
Human Rights	No	Equalities and Diversity	No
Crime and Disorder	No	External Consultation	No
Environmental	No	Access to Information	No
Risk Management	No	Exempt from publication	No

Chief Executive:	Malcolm Johnston
Report Contact Officer:	Gary Angell, Audit Manager
e-mail address:	gary.angell@rother.gov.uk
Appendices:	A – QAIP Summary Compliance Checklist 2022/23 B – QAIP Action Plans
Relevant Previous Minutes:	AS17/14 – Internal Audit - Peer Review AS21/47 – Review of Internal Audit 2021/22
Background Papers:	Review of Internal Audit 2022/23 (Full Checklist) – copy available on request.
Reference Documents:	None.

Ref	Public Sector Internal Audit Standards Compliance Check	Y	P	N	Comments
1.0	Definition of Internal Auditing				
1.1	Using evidence gained from assessing conformance with other Standards, is the Internal Audit activity: a) Independent? b) Objective?	✓ ✓			
1.2	Using evidence gained from assessing conformance with other Standards, does the Internal Audit activity use a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes within the organisation?	✓			
2.0	Code of Ethics				
2.1	Integrity Using evidence gained from assessing conformance with other Standards, do Internal Auditors: a) Perform their work with honesty, diligence and responsibility? b) Observe the law and make disclosures expected by the law and the profession? c) Not knowingly partake in any illegal activity nor engage in acts that are discreditable to the profession of Internal Auditing or to the organisation? d) Respect and contribute to the legitimate and ethical objectives of the organisation?	✓ ✓ ✓ ✓			
2.2	Objectivity Using evidence gained from assessing conformance with other Standards, do Internal Auditors display objectivity by not: a) Taking part in any activity or relationship that may impair or be presumed to impair their unbiased assessment? b) Accepting anything that may impair or be presumed to impair their professional judgement? c) Disclosing all material facts known to them that, if not disclosed, may distort the reporting of activities under review?	✓ ✓ ✓			

Ref	Public Sector Internal Audit Standards Compliance Check	Y	P	N	Comments
2.3	<p>Confidentiality</p> <p>Using evidence gained from assessing conformance with other Standards, do Internal Auditors display confidentiality by:</p> <ul style="list-style-type: none"> a) Acting prudently when using information acquired in the course of their duties and protecting information? ✓ b) Not using information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation? ✓ 				
2.4	<p>Competency</p> <p>Using evidence gained from assessing conformance with other Standards, do Internal Auditors display competency by:</p> <ul style="list-style-type: none"> a) Only carrying out services for which they have the necessary knowledge, skills and experience? ✓ b) Performing services in accordance with the Standards? ✓ c) Continually improving their proficiency and effectiveness and quality of their services, for example through Continuing Professional Development schemes? ✓ 				
Standards					
3.0	Attribute Standards				
3.1	1000 Purpose, Authority and Responsibility	✓			
3.1.1	1010 Recognising Mandatory Guidance in the Internal Audit Charter	✓			
3.2	1100 Independence and Objectivity	✓			
3.2.1	1110 Organisational Independence	✓			
3.2.2	1111 Direct Interaction with the Board	✓			
3.2.3	1112 Chief Audit Executive Roles Beyond Internal Auditing	✓			The Audit Manager took on the role of Risk Management Co-Ordinator in October 2021, but he has no responsibility for managing the risks identified. Members will be informed should this role impair his independence or objectivity.

Summary Compliance Checklist 2022/23

Appendix A

Ref	Public Sector Internal Audit Standards Compliance Check	Y	P	N	Comments
3.2.4	1120 Individual Objectivity	✓			
3.2.5	1130 Impairment to Independence or Objectivity	✓			This situation has not arisen in 2022/23.
3.3	1200 Proficiency and Due Professional Care	✓			
3.3.1	1210 Proficiency	✓			
3.3.2	1220 Due Professional Care	✓			
3.3.3	1230 Continuing Professional Development	✓			
3.4	1300 Quality Assurance and Improvement Programme (QAIP)	✓			
3.4.1	1310 Requirements of the Quality Assurance and Improvement Programme	✓			
3.4.2	1311 Internal Assessments	✓			
3.4.3	1312 External Assessments	✓			A new external peer review was underway at the time this self-assessment was completed.
3.4.4	1320 Reporting on the Quality Assurance and Improvement Programme	✓			
3.4.5	1321 Use of “Conforms with the Public Sector Internal Audit Standards”	✓			
3.4.6	1322 Disclosure of Non-conformance	✓			This situation has not arisen in 2022/23.
4.0	Performance Standards				
4.1	2000 Managing the Internal Audit Activity	✓			
4.1.1	2010 Planning	✓			
4.1.2	2020 Communication and Approval	✓			
4.1.3	2030 Resource Management	✓			
4.1.4	2040 Policies and Procedures	✓			
4.1.5	2050 Coordination	✓			
4.1.6	2060 Reporting to Senior Management and the Board	✓			
4.1.7	2070 External Service Provider and Organisational Responsibility for Internal Auditing	-	-	-	N/A - Service provided by in-house team.

Ref	Public Sector Internal Audit Standards Compliance Check	Y	P	N	Comments
4.2	2100 Nature of Work	✓			
4.2.1	2110 Governance		✓		Internal Audit has never specifically evaluated the design, implementation and effectiveness of the Council's ethics-related objectives, programmes and activities but any significant governance issues would be highlighted in other audit work. No further action is therefore required.
4.2.2	2120 Risk Management	✓			
4.2.3	2130 Control	✓			
4.3	2200 Engagement Planning	✓			
4.3.1	2201 Planning Considerations	✓			
4.3.2	2210 Engagement Objectives	✓			
4.3.3	2220 Engagement Scope	✓			
4.3.4	2230 Engagement Resource Allocation	✓			
4.3.5	2240 Engagement Work Programme	✓			
4.4	2300 Performing the Engagement	✓			
4.4.1	2310 Identifying Information	✓			
4.4.2	2320 Analysis and Evaluation	✓			
4.4.3	2330 Documenting Information	✓			
4.4.4	2340 Engagement Supervision	✓			
4.5	2400 Communicating Results	✓			
4.5.1	2410 Criteria for Communicating	✓			
4.5.2	2420 Quality of Communications	✓			
4.5.3	2421 Errors and Omissions	✓			

Summary Compliance Checklist 2022/23

Appendix A

Ref	Public Sector Internal Audit Standards Compliance Check	Y	P	N	Comments
4.5.4	2430 Use of "Conducted in Conformance with the Public Sector Internal Audit Standards"	✓			Conformance with the Standards is not something that is stated in individual audit reports but overall conformance with the Standards is confirmed each year in the Audit Manager's annual report.
4.5.5	2431 Engagement Disclosure of Non-conformance	✓			This situation has not arisen in 2022/23.
4.5.6	2440 Disseminating Results	✓			
4.5.7	2450 Overall Opinion	✓			
4.6	2500 Monitoring Progress	✓			
4.7	2600 Communicating Results	✓			

Key to level of compliance: Y (Yes - Compliant), **P** (Partial Compliance) or **N** (Not Compliant)

Action Plan for 2023/24

There is no action plan for 2023/24 as no issues were identified in the annual self-assessment. Some actions may however need to be added once the outcome of the latest peer review is known.

Previous Year’s Action Plan (2022/23) – Progress Update

Reference	Standard	Action Required	Officer Responsible For Delivery	Target Date	Status
3.4.3	1312 External Assessments	Liaise with the Sussex Audit Group to explore the possibility of a reciprocal arrangement with other local authorities in West Sussex. If that is not possible, investigate the cost of engaging an external provider and proceed if funds are available to do so.	Audit Manager	31 December 2022	Completed - The lead officers of the Internal Audit functions at Hastings Borough Council, Lewes District and Eastbourne Borough Councils, Rother District Council and Wealden District Council have agreed to carry out reciprocal external (peer) assessments of the Internal Audit functions. The Rother Internal Audit Service is being peer reviewed by the Chief Internal Auditor of Lewes District and Eastbourne Borough Councils. The review was still in progress at the time this self-assessment was completed.

Rother District Council

Report to:	Audit and Standards Committee
Date:	20 March 2023
Title:	Internal Audit Plan 2023/24
Report of:	Gary Angell, Audit Manager
Purpose of Report:	To report the proposed programme of Internal Audit work for the coming year.
Officer	
Recommendation(s):	It be RESOLVED : That the Internal Audit Plan 2023/24 be approved.

Introduction

1. The Accounts and Audit Regulations 2015 require the Council to “undertake an effective Internal Audit to evaluate the effectiveness of risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”. The proper practice for the Internal Audit Service is laid down in the Public Sector Internal Audit Standards (hereafter referred to as “the Standards”).
2. These standards are met by establishing a risk-based plan to determine the priorities of the Internal Audit Service, consistent with the Council’s goals. This plan must take into account the requirement to produce an annual Internal Audit opinion and the assurance framework. It must also incorporate or be linked to a strategic or high-level statement of how the Internal Audit Service will be delivered and developed in accordance with the Internal Audit Charter.
3. The Audit Manager is required to communicate the plan and resource requirements, including significant interim changes, to senior management and the Audit and Standards Committee for review and approval. In order to approve the Internal Audit Plan for 2023/24, Members must first be satisfied that it meets the above requirements.

Overview of Audit Planning Process

4. The preparation of the Audit Plan is a three-step process:

Step	Process	Description
1	Review the Assurance Map	Update the existing assurance map to identify any gaps in assurance requiring review.
2	Risk assessment	A list of all auditable activities is maintained by the Audit Manager and each area is risk assessed and scored by him based on multiple criteria such as the volume and value of

Step	Process	Description
		transactions, the results of previous audits, system complexity, strategic importance, and the frequency of change. This list is updated throughout the year as new audits are completed and information on new or emerging risks become known. The latest position is reviewed in February each year for audit planning purposes.
3	Draft the Audit Plan	The work plan for the coming year is then compiled reflecting the results of Steps 1 and 2 and available staff resources.

Assurance Map

- The Standards require that the Audit Manager considers other sources of assurance as part of the planning process. An 'assurance map' has therefore been developed to assess the level of assurance provided.
- An assurance map provides a visual representation of the various sources of assurance received by an organisation on its management of key service areas. Its purpose is to assist our understanding of the assurance received, to evaluate its adequacy and to highlight any potential gaps in coverage.
- To produce an assurance map for this Council, the main sources of assurance were first grouped based on the 'three lines model' shown below.

First Line	Second Line	Third Line
<p>Functions that own and manage risk.</p> <p><i>The business operations which contribute to internal control and the day to day management of risk.</i></p>	<p>Functions that oversee or specialise in risk management compliance.</p> <p><i>Oversight functions include the Senior Leadership Team and individual committees which set directions, define policy and provide assurance.</i></p>	<p>Functions that provide independent and objective assurance, and advice on all matters related to the achievement of objectives.</p> <p><i>These functions include Internal Audit, External Audit, and any other scrutiny or regulatory body that offer independent challenge to the levels of assurance provided by business operations and oversight functions.</i></p>

- The effectiveness of each type of assurance across a number of key services and processes is then assessed and scored, and a traffic light system is used to indicate the level of assurance obtained. Any significant gaps in assurance are highlighted in red.

9. The assurance map was last reported to this Committee in March 2022. This document has now been updated and the current position (as at February 2023) is shown in Appendix A. Our assessment methodology is set out in Appendix B.
10. This year, one area is highlighted as a high risk assurance gap (Financial Services). This is primarily due to four audits in this area having received limited assurance ratings in the period January 2021 to December 2022. The audits concerned are Creditors (2021/22), BACS/BACSTEL-IP Computer System (2021/22), Debtors (2021/22), and Capital Programme (2022/23). However, almost all of the issues raised at these audits have since been addressed, and Internal Audit review Financial Services each year anyway as part of the Governance audits.
11. In addition, four areas were identified as medium risk, namely Contract Compliance, the Housing Company, Planning and Procurement. The Housing Company's governance arrangements are due to be reviewed by Internal Audit in 2023/24 and a follow up review of the issues found at a recent Community Infrastructure Levy audit (Planning) will also be carried out. No specific audits are, however, planned on Procurement, as this area will be covered at other audits, or Contract Compliance, as several audits under this heading have been completed within the last 24 months.

Risk Assessment

12. A risk assessment exercise was carried out by the Audit Manager in February 2023 and includes all new and emerging risks identified in service plans produced by officers in the Corporate Management Team.
13. Most activities assessed to be high risk are included in the new Audit Plan. Those that are not have been excluded on this occasion because they have only recently been reviewed and the issues found will be covered/followed up elsewhere.
14. Medium risk activities are generally reviewed every two to three years, but low risk activities are ignored to make the best use of audit resources.

Audit Plan 2023/24

15. The Audit Plan for 2023/24 is attached in Appendix C.
16. Other high and medium risk activities that were also considered when compiling the new plan, but were not included in the final version, are listed in Appendix D for information. As indicated above, items are generally left out of the current plan where they have only recently been reviewed or where the issues found at the latest audit are being addressed elsewhere. The list also contains a few audits that are overdue a review, which have had to be deferred another year in order to prioritise the coverage of newer, more riskier activities.

17. The plan for 2023/24 has been compiled by the Audit Manager in accordance with the Internal Audit Charter approved by this Committee in December 2022 (Minute AS22/43 (2) refers). The Corporate Management Team have been consulted about its contents and the final version detailed in this report is supported by the Chief Executive.
18. The plan allows for 494 days of audit work on 21 separate audit reviews/consultancy activities, plus provisions for counter fraud work. It is important that the plan includes a broad range of activities as this allows the Audit Manager to obtain sufficient assurance from the audit work to enable him to present an annual Internal Audit opinion on the adequacy of the control environment.
19. The completion of the plan will be particularly challenging as it incorporates a number of new and complex audit areas (i.e. Corporate Project Management and Housing Company Governance) as well as a full programme of other high/medium risk activities, with very little scope to absorb audit overruns if any significant issues are found. In view of this, the Audit Manager may well need greater flexibility than usual to vary the plan during the year to cope with any additional work, including any new risk areas that emerge. The Audit and Standards Committee will however be informed of any major changes.
20. As in previous years, a significant portion of the plan will be spent on the Governance Audits. These audits are reviewed each year, as failures in these areas could have a negative impact on the External Auditor's overall opinion of the Council's financial statements. It should be noted, however, that the Main Accounting audit, which was a Governance Audits in previous years, no longer features in the Plan. This is because the value of this audit (which only ever provided assurance on a few aspects of the Council's accounting arrangements) has been reassessed and will now be discontinued in its current format. The audit was only reinstated in 2019/20, following an earlier period of cessation, in order to provide additional assurance after a major upgrade of the Council's financial system. That system is now well-established, and the Main Accounting audit seldom identifies any issues due to its limited scope. The Audit Manager has therefore decided to cease the audit once more, and the few areas in it that are still worthy of annual review, such as checks on system interfaces and suspense accounts, will now be incorporated elsewhere in the Governance Audits.
21. Members may note that the section of the plan listing the high and medium risk audits now includes several short, targeted reviews. This approach, which was first piloted during the COVID-19 pandemic, allows the auditor to provide assurance on single activities or known issues rather than carrying out a full audit of the whole system. These particular audits should therefore be concluded more quickly than would otherwise be the case.

Resources

22. Best practice dictates that the plan should meet the audit needs of the organisation, regardless of the level of resources available to deliver it. If the days required exceed the days available, then it is for senior management to decide whether additional resources should be made available or whether they are content to accept the risks involved of not carrying out some of the reviews, and state which reviews should be omitted. However, in practice, the Audit

Manager will always plan to undertake all essential work within existing resources, whenever possible.

23. The resources available for the work planned in 2023/24 are shown in Appendix E. From this it can be seen that it will be possible to meet the total resource requirement of the plan using existing resources.

Reporting Arrangements

24. Progress against the plan will be monitored by the Audit Manager and reported to the Audit and Standards Committee once a quarter. The content of the plan will also be kept under review by the Audit Manager in liaison with the Corporate Management Team and adjusted if required, to ensure that it continues to reflect the Council's needs and priorities.

Conclusion

25. The Audit Plan needs to provide sufficient coverage to meet the Council's statutory duty. Internal Audit aim to meet this requirement by focusing on high and medium risk activities across a broad range of services.
26. The Audit and Standards Committee should note the report, approve the Audit Plan for 2023/24, and make any comments considered appropriate to their governance role.

Risk Management

27. Failure to produce a risk-based audit plan could result in Internal Audit not providing management with independent assurance where it is most needed and could increase the risk of serious control weaknesses going undetected.

Other Implications	Applies?	Other Implications	Applies?
Human Rights	No	Equalities and Diversity	No
Crime and Disorder	No	External Consultation	No
Environmental	No	Access to Information	No
Risk Management	Yes	Exempt from publication	No

Chief Executive:	Malcolm Johnston
Report Contact Officer:	Gary Angell, Audit Manager
e-mail address:	gary.angell@rother.gov.uk
Appendices:	A – Rother Assurance Map (February 2023) B – Rother Assurance Map – Methodology C – Audit Plan 2023/24 D – Other audit areas considered but not included in the plan E – Resources for the Audit Plan 2023/24
Relevant Previous Minutes:	None.
Background Papers:	None.
Reference Documents:	None.

Service or Process	First Line				Second Line			Third Line			Gap Analysis - Cumulative Points	Internal Audit - Assurance Gap Risk Analysis
	Functions that own and manage risk				Functions that oversee or specialise in risk management compliance			Functions that provide independent and objective assurance, and advice				
	Management self assessments	Key Performance Indicators	Complaints Reporting	Strategy/Policy In Place	Senior Leadership Team	Risk Management	Reporting to Members	Internal Audit	External Audit	Third party assurance/advice		
Asset Management	0	0	0		0	0		0			0	Low
Contract Compliance	3		3		0	0		3			9	Medium
Data Protection	0		0	0	0	0		0			0	Low
Environmental Services	0		3	0	0	0	0	0			3	Low
Financial Services	5	3	0	0	0	0	0	5	0		13	High
Health and Safety	3		0	0	0	0		3		0	6	Low
Housing	0	3	3	0	0	0	0	0			6	Low
Housing Company	3		0	0	0	3	3	3			12	Medium
Human Resources & Payroll	0		0	3	0	0		0			3	Low
ICT Security	0		0	0	0	0		0		3	3	Low
Planning	3	3	3	0	0	0	0	3			12	Medium
Procurement	3		0	3	0	0		3			9	Medium
Property Investment	0		0	0	0	0	0	3		0	3	Low
Revenues & Benefits	0	0	0	0	0	0	0	0	0		0	Low
Risk Management	3		0	0	0		0	3		0	6	Low
Treasury Management	0		0	0	0	0	0	0	0	0	0	Low

Processes Assurance Key and Scoring

Good Assurance	0
Moderate Assurance	3
Inadequate Assurance	5
Not Applicable	

Changes to Assurance Gap Risk Analysis since Feb 2022

- The Housing Company has been added.
- Financial Services has moved from Low to High risk
- Contract Compliance, Planning and Procurement have all moved from Low to Medium risk.
- Risk Management has moved from Medium to Low risk.
- All other assessments remain unaltered.

Assurance Gap Risk Analysis Key

Low Risk (0-6)	Low
Medium Risk (7-12)	Medium
High Risk (13+)	High

Rother Assurance Map – Methodology

First Line

Management Self-Assessments

Ideally an exercise should be carried out by management to determine the levels of assurance they consider to be in place for the services/processes under their control. This should be based on their opinion of the quality of internal controls, the quality of operational management, the experience and knowledge of staff etc. However, in order to complete this section of the map, we have mirrored the Internal Audit assurance ratings. We have done this on the basis that management agree the Internal Audit reports and have an opportunity to challenge areas where they disagree. On the whole, Internal Audit reports are accepted by management without dispute. The only area of disagreement was the rating of the Property Investment audit for which management consider there to be good rather than moderate assurance.

Key Performance Indicators

Note – This section is based solely on the Key Performance Indicators (KPIs) that have been reported to the Overview and Scrutiny Committee for the first six months of 2022/23.

The Council has a number of KPIs that are reported to Members at the Overview and Scrutiny Committee. However, these do not cover all the services/processes identified in the assurance map, and only five areas have relevant KPIs. These are set out in the table below.

Assurance Map Service or Process	Key Performance Indicators
Asset Management	<ul style="list-style-type: none"> • Net income from all investment assets
Financial Services	<ul style="list-style-type: none"> • Additional Income Generation
Housing	<ul style="list-style-type: none"> • Number of all households in Temporary Accommodation • Number of households on the Housing Register • Number of affordable homes delivered (gross) • Homelessness Prevented/Relieved • Cost of Temporary Accommodation
Planning	<ul style="list-style-type: none"> • Major applications processing times • Minor applications processing times
Revenues & Benefits	<ul style="list-style-type: none"> • Number of Council Tax Reduction Claimants • Council Tax Collection Rates • Business Rates Collection Rates

The Performance Report for the Second Quarter 2022/23 submitted to the Committee in November 2022 was examined. This showed that, whilst the Asset Management KPI, Revenues & Benefits KPIs and some Housing KPIs are performing well, the other KPIs are all behind target.

The assurance level for Asset Management and Revenues & Benefits are therefore rated as “green” and the three other areas are rated as “amber”.

Complaints Reporting

Details of all official complaints received by the Customer Services team between 1 January 2022 and 31 December 2022 were reviewed. A total of 143 complaints were received in this period but the vast majority were resolved.

A total of seven complaints were upheld. These were all Stage 1 complaints in respect of Contract Compliance – Refuse Collection (4), Environmental Services (1), Housing (1) and Planning (1). All of these areas are therefore rated as “amber”. No Stage 2 complaints were fully upheld in this period.

Strategy/Policy in Place

Any services/processes where an up-to-date strategy or policy is in place are rated “green”. Strategies and policies which are overdue a review are rated “amber”.

Second Line

Senior Leadership Team

The level of assurance in this section is based on the amount of senior management oversight and awareness of current issues in the listed areas. The scores shown were shared with and agreed by the Senior Leadership Team.

Risk Management

All strategic risks are recorded in the Corporate Risk Register. The risk register was reported to the Audit and Standards Committee in March 2022 and again in September 2022.

Separate risk registers are required to be kept for all corporate projects.

All Heads of Service/Service Managers must also record and monitor operational risks in Service Risk Registers as part of a new Service Plan process.

The latest Corporate Risk Register and Service Risk Registers were reviewed to ascertain what risks have been identified and addressed. These risk registers covered all areas in the assurance map apart from the Housing Company. All areas covered by a risk register are therefore rated “green” and the Housing Company rated as “amber”.

Reporting to Members

All service/processes which are regularly reported to Members are rated “green”. The Housing Company is rated as “amber” because the governance arrangements are yet to be finalised.

Third LineInternal Audit

Assurance ratings are based on Internal Audit findings on engagements carried out in the last two years. Any services/processes where there has been at least one minimal overall audit assurance rating, or two limited audit assurance ratings are marked as “red”. Any services/processes which have had one limited audit assurance rating are marked as “amber”. Services/processes where all audits undertaken in the last two years have had a good or substantial audit assurance rating are marked as “green”.

Those services/processes that are either yet to be reviewed by Internal Audit (Health & Safety and the Housing Company) or where no routine audit engagements have been completed in the last two years (Risk Management), are all marked as “amber” for the purposes of this exercise.

External Audit

The External Auditors give assurance on the final accounts and the Housing Benefit subsidy claims. As no significant issues have been reported in the past 12 months, the relevant services/processes have all been marked as “green”.

Third Party Assurance/Advice

The three main areas where this is applicable are Health and Safety, Property Investment and Treasury Management.

Health and Safety – The Health and Safety Executive (HSE) carry out spot checks and no issues have been highlighted in the past 12 months. The Council also uses an external company that is registered with the Institution of Occupational Safety and Health (IOSH) for advice and training.

Property Investment – Professional and legal advice is obtained regarding the acquisition of land and property.

Treasury Management – Link Asset Services provide advice on Treasury Management issues.

All of these areas are therefore marked as “green”.

A review by Zurich Resilience Solutions on Enterprise Risk Management, Business Continuity and Disaster Recovery dated January 2022 includes recommendations for improvement pertinent to ICT Security and Risk Management. The ICT Security issue (i.e. the need to update the disaster recovery plan) is yet to be resolved and is therefore marked as “amber”. However, recent improvements have been made to the Risk Management process and this marked as “green” accordingly.

Scoring System and AnalysisProcesses Assurance Key and Scoring

This is set out in the yellow box at the bottom of the assurance map. Points are awarded based on whether the assurance function provides good, moderate or

inadequate assurance. These scores enable us to quantify the level of assurance received and identify those areas of higher risk where control may need to be improved.

Gap Analysis – Cumulative Points

This column records the cumulate scores after all sources of assurance have been taken into consideration.

Internal Audit - Assurance Gap Risk Analysis

This column is aimed at prioritising areas for future Internal Audit assurance and consultancy exercises.

The Gap Analysis scores are banded into three assurance categories; low, medium and high risk in accordance with the parameters shown in the blue box at the bottom of the assurance map.

AUDIT PLAN 2023/24

GOVERNANCE AUDITS	DAYS
Benefits	25
Business Rates	17
Council Tax	22
Creditors	25
Debtors	15
ICT Governance	15
Payroll	25
Treasury Management	20
TOTAL	164

HIGH & MEDIUM RISK AUDITS	DAYS
Blackfriars Spine Road Project	25
Car Park Income	20
Community Infrastructure Levy (CIL) - Follow-Up *	5
Corporate Project Management	20
Destin (Property Management) System *	10
Housing Company Governance	10
ICT Asset Management *	10
Licensing	15
Risk Management	10
Section 106 Agreements - Income Collection *	15
Temporary Accommodation Investment	15
TOTAL	155

* Short, targeted reviews

CONSULTANCY WORK	DAYS
New Initiatives - General Provision	15
Grant Receipts	5
TOTAL	20

COUNTER FRAUD WORK	DAYS
Fraud Analysis & Referrals	60
NFI Coordination & Review	10
TOTAL	70

AUDIT PLAN 2023/24 (Continued)

OTHER WORK	DAYS
2022/23 Audit Plan Overruns	6
Audit Advice/Special Investigations	42
Committee Representation and Training	25
Liaison with External Audit	2
Recommendation Follow Up	10
TOTAL	85

TOTAL CHARGEABLE DAYS	494
NUMBER OF AUDITS AND CONSULTANCY WORK	21

Notes

Risk Management – The Audit Manager will not be able to take part in this audit review because of his role as Risk Management Co-ordinator. The Senior Auditor will therefore oversee the whole process instead.

Other audit areas considered but not included in the plan

Audit Title	Last Review	Notes
High Risk Areas		
Capital Programme	Jun-22	Only recently reviewed but significant issues found. Recommendations being followed up by Audit Manager.
Procurement	Jun-22	Only recently reviewed. Compliance with Procurement Rules is also tested throughout the year at other audits.
Property Investment	Oct-22	Recent audit identified the need to review financial viability. This point will be picked up at Corporate Project Management Audit.
Medium Risk Areas		
Asset Management	Jun-18	Looking to replace ePIMS with in-house solution. Defer next audit to 2024/25
BACS/BACSTEL-IP Computer System	Feb-22	Only recently reviewed. Next audit 2024/25
Building Maintenance	Sep-22	Only recently reviewed. Next audit 2025/26
Climate Change	Never	Defer first review until 2024/25 to allow time for progress
Cyber Security	Dec-22	Only recently reviewed. Next audit scheduled for 2024/25. Basic security already checked each year at ICT Governance audit.
Data Protection	Jun-21	Assessed substantial at 2021/22 review but Audit Manager is still following-up actions outstanding. Next audit 2024/25
Disabled Facilities Grants	Jun-19	Last reviewed 2019/20. Historically, a well controlled system. Still managed by same officer so next audit deferred to 2024/25
Estates Income	Jun-21	Few issues found at 2021/22 review. Next audit 2024/25
Food Safety	Jun-18	Next audit rescheduled to 2024/25
Grounds Maintenance Contract – Client Control	Oct-21	Contract size likely to reduce soon due to devolvement - Next audit 2025/26
Homelessness Prevention Initiatives	Oct-22	Only recently reviewed. Next audit 2025/26
Housing Temporary Accommodation	Sep-21	Reviewed 2021/22. Next audit 2024/25
Idox Cloud Computer System (recently replaced the M3 system)	Never	Idox Cloud only went live on 17/02/23. Allow time to bed-in and review 2024/25
Income Management	Nov-21	Last reviewed 2021/22. Review again in 2024/25 once new income manager system in place.
Income Tax	Sep-16	Long-established processes in place with few changes. CIS monitoring now picked up each year at Creditors audit
Land Charges	Jun-21	Reviewed 2021/22. Next audit 2024/25
Legal Services	Aug-11	Revisit VFM audit after new service provision is agreed.
Planning Income	Jul-17	Reduced risk as most fees now paid online. Next audit rescheduled to 2024/25
Pollution Control	Dec-21	Only minor issues found at 2021/22 review. Next audit 2024/25
Public Conveniences Cleaning Contract - Client Control	Dec-22	Only recently reviewed. Contract size likely to reduce soon due to devolvement. Next audit 2025/26
Value Added Tax (VAT)	Jan-22	Reviewed 2022/23. Next audit 2025/26
Waste Contract - RDC Client Control	Aug-21	Reviewed 2021/22. Next audit 2024/25

RESOURCES FOR THE AUDIT PLAN 2023/24

	TOTALS	Audit Manager	Senior Auditor	Internal Auditor
FTE POSTS	3.0	1.0	1.0	1.0
DAYS AVAILABLE	780	260	260	260
PLANNED AUDIT WORK	Days			
Governance Audits	164			
High & Medium Risk Audits	155			
Consultancy Work	20			
Counter Fraud Work	70			
Other Work	85			
TOTAL CHARGEABLE DAYS	494			
NON-CHARGEABLE TIME	Days			
Management & Supervision	18	18	0	0
Team Meetings	36	12	12	12
Data Analytics	22	2	20	0
Training/CPD	15	5	5	5
Planning & Business Development	12	10	2	0
Performance Appraisals	4	2	1	1
Plan/Review Audit Coverage	19	2	15	2
Annual Leave (Inc. Days Carried Over)	91	33	32	26
Public Holidays	30	10	10	10
Sickness	12	4	4	4
Maternity/Paternity Leave	0	0	0	0
Vacancies/Recruitment	0	0	0	0
Income Generation - Explore Options	10	10	0	0
Non-Audit Work - Elections	3	1	1	1
Non-Audit Work - RM Coordination	14	14	0	0
TOTAL NON-CHARGEABLE DAYS	286	123	102	61
TOTAL RESOURCE REQUIREMENT	780			
TOTAL AVAILABLE DAYS	780			

Rother District Council

Report to:	Audit and Standards Committee
Date:	20 March 2023
Title:	Risk Management Update
Report of:	Gary Angell, Audit Manager
Purpose of Report:	To consider the updated Corporate Risk Register and other developments since the last update.
Officer	
Recommendation(s):	It be RESOLVED : That the report be noted.

Introduction

1. This report provides a position update on Risk Management processes and the key strategic risks currently facing the Council.
2. Risk refers to the uncertainty that surrounds future events and outcomes. It is essential that the Council adopts a strong approach to risk management to ensure good governance, especially given the current backdrop of significant financial pressures.
3. The Audit Manager, in his role as Risk Management Coordinator, is currently responsible for facilitating all strategic risk management activity including maintaining the Risk Management Policy and collating and reporting on updates to the Corporate Risk Register. The responsibility for identifying and managing risks, however, remains with Senior Management.

Risk Management Policy

4. A new Risk Management Policy was approved by this Committee in September 2022 (Minute AS22/27 refers).
5. This policy will be reviewed on an annual basis and the risk appetite statements within it will also need to be revisited and amended each year (where appropriate) to ensure that they continue to meet the Council's requirements.

Corporate Risk Register

6. The Corporate Risk Register (CRR) [Appendix A] has been reviewed and updated by the Corporate Management Team.
7. The format of the risk register has been modified slightly since the last iteration to improve transparency. The changes made include adding columns to record the dates of the current and next review, and a column showing the target score – i.e. the maximum risk appetite score for the specific category of risk. Where the mitigated risk score exceeds the target score then further mitigation should be considered to bring the risk score down to an acceptable level.

8. The issues raised about the content of the CRR at the last Risk Management Update in September 2022 were fed back to officers prior to the latest review. However, no new risks have been added on this occasion, and the risk scores have remained largely unaltered. It should also be noted that there are a few risks which currently exceed their target scores, although some of these may be due to factors beyond the Council's control.

Service Based Risk Registers

9. New Service Plan templates have recently been introduced which require all Heads of Service/Service Managers to record and monitor their operational risks in a risk register. Hopefully, this move will help improve the identification and mitigation of the day to day risks in the different service areas.

Conclusion

10. The CRR has been reviewed and the latest version is included for Members' consideration.

Risk Management

11. The failure to adequately monitor and respond to an ever-changing risk environment could have serious negative consequences for the Council.

Other Implications	Applies?	Other Implications	Applies?
Human Rights	No	Equalities and Diversity	No
Crime and Disorder	No	Consultation	No
Environmental	No	Access to Information	No
Sustainability	No	Exempt from publication	No
Risk Management	Yes		

Chief Executive:	Malcolm Johnston		
Report Contact Officer:	Gary Angell, Audit Manager		
e-mail address:	gary.angell@rother.gov.uk		
Appendices:	A – Corporate Risk Register		
Relevant Previous Minutes:	AS22/27	Risk Management Update	
Background Papers:	None.		
Reference Documents:	None.		

No.	Category	Risk Description	Effect	Resulting In	Caused By	Mitigations and Controls	Mitigated Risk			This Review	Actions/Comments	Target Score	Next Review	Owner
							Likelihood	Impact	Score					
#	Risk category	Situation or event (real or perceived) that exposes us to risk	The negative impact. How big? How bad? How much? Consider worst likely scenario	What wider impacts may the risk effect have?	Circumstances that could lead to the risk being realised	Controls and other mitigations already in place	1-5 (refer to Risk Scoring Matrix)	1-5 (refer to Risk Scoring Matrix)	Likelihood x Impact	Date	Further action required to reduce risk	Max. risk appetite score	Date	Person managing risk
1	Political	Political changes impact delivery of Council services	Negative impact on finances and increased demand for services such as housing benefits	Less money to deliver services and lessening quality of services	<ul style="list-style-type: none"> Changing government policy Government spending review Business Rate reset 	<ul style="list-style-type: none"> Medium term financial plan well developed and regularly reviewed Use of reserves as short term financial support Regular budget/financial updates to Members Senior officer involvement with national bodies (e.g. LGA, Rural Services Network, Solace) Regular meetings with/lobbying of MPs 	4	4	16	17-Feb-23	<ul style="list-style-type: none"> Ongoing focus on delivery of Financial Stability Programme to ensure delivery of programme objectives Ensure 'horizon scanning' continues through involvement in national bodies The support of the LGA/Rural Services Network can play an important role in lobbying the government on behalf of district.councils. 	10	17-May-23	MJ
2	Social	The Council cannot meet its housing objectives: 1) supply of affordable houses 2) housing list reduction 3) five-year housing supply	<ul style="list-style-type: none"> Increased levels of homelessness Increased TA cost Pressure from partner agencies to provide housing 	<ul style="list-style-type: none"> Significant revenue costs in TA Reputational damage 	<ul style="list-style-type: none"> Rising cost of living, house prices & rent costs National & local planning policy Southern Housing (LSVT) failing to build new housing locally, relative to neighbouring areas AONB and lack of viable land for development Local resistance to development Lack of resources to effectively prevent homelessness <p>NB - Many of the causes of this risk are outside LA control and we may have to accept some increase in costs.</p>	<ul style="list-style-type: none"> Rother Tenant Finder (RTF) TA investment and Temporary Accommodation Support Scheme (TASS) Housing First and RSI CIL review Competent managers 	4	4	16	19-Jan-23	<ul style="list-style-type: none"> Prepare an ITS business case to expand the-TASS Deliver expanded RTF following authorised investment from SLT Continue service improvement through delivery of the Service Plan 	10	19-Apr-23	JP
3	Technology	IT Failure	Failure to deliver (all) services	<ul style="list-style-type: none"> Long term failure Significant financial loss Rebuilding due to successful attack 	<ul style="list-style-type: none"> Successful cyber attack - user error/lapse - failure of defences Infrastructure failure - power outage - flooding - fire - hardware issues Understaffing IT department 	<ul style="list-style-type: none"> Key services now managed in the cloud Active antivirus protection Secure configuration, threat monitoring and vulnerability testing Data backups are maintained Robust patching schedule 	3	5	15	7-Feb-23	<ul style="list-style-type: none"> Regular phishing awareness training Confirm budget arrangements for emergency expenditure 	10	7-May-23	GM
4	Economic/ Financial	Failure to operate within a sustainable budget	Failure to deliver corporate objectives	<ul style="list-style-type: none"> Service cuts Compulsory redundancies Reputational damage Section 114 Notice (if all else fails) 	<ul style="list-style-type: none"> Failure to achieve savings/income targets Reduction in business rates income Budgets being exceeded and inadequate reserves 	<ul style="list-style-type: none"> Strong partnership between Members and Officers Regular monitoring of the Medium Term Financial Plan (MTFP) Reporting on performance against targets Dedicated resources to lead delivery of targets Quarterly budget monitoring 	3	4	12	18-Jan-23	<ul style="list-style-type: none"> Actively manage and monitor delivery of the Financial Stability Programme (FSP) Continue regular monitoring reports to SLT/CMT Quarterly budget monitoring reports Respond to central government re Settlement consultation 	16	18-Jul-23	DE
5	Project/ Programme	Project delivery compromised	<ul style="list-style-type: none"> Project failures or inadequate delivery to budget, deadlines or specifications Failure to secure external funding to make project financially viable 	<ul style="list-style-type: none"> Significant financial loss Reputational damage Loss of, or inadequate return on, investment 	<ul style="list-style-type: none"> Strain on resources from competing priorities Staff turnover/loss of knowledge Lessons not learned from previous projects Scope creep Inadequate project governance High risk appetite within Corporate Plan 	<ul style="list-style-type: none"> Adequate project resources Capable project managers Training and support Robust risk management practices 	2	4	8	6-Mar-23	Continue to ensure that the business case for each project is robust prior to approval	16	6-Sep-23	BH
6	Partnership/ Contractual	Significant service contract falls to RDC - e.g. Waste and Street Sweeping, Grounds Maintenance, Leisure Centres, toilet cleaning etc.	<ul style="list-style-type: none"> Pressure on staff to manage the transition Lack of staff to do the work in-house Lack of skills & knowledge Lack of equipment/vehicles Poor quality of service 	<ul style="list-style-type: none"> Financial Implications Major service disruption Reputational damage Inability to meet regulatory & statutory requirements 	<ul style="list-style-type: none"> Contractor failure due to financial issues and lack of staff Changes in government regulatory requirements Lack of BCP Lack of contract partnership management and support (Waste Contract & Grounds Maintenance) 	<ul style="list-style-type: none"> Close working relationship with contractor and regular operational meetings Rehearsed BCP Action Card with this scenario Three authority BCP for Waste Collection contract Separate Waste Contract Risk Register (MG) 	2	5	10	3-Feb-23	<ul style="list-style-type: none"> Review legal aspects Create waste and street sweeping response plan Consider other response plans Three authority review needed -budget arrangements for managing financial cost? Open book accounting review? Service risk register in place for each contractor? 	10	3-Aug-23	DK
7	Legal/ Compliance	Breach of Data Protection	<ul style="list-style-type: none"> Reputational damage/legal Financial damage Resources drained Leakage/theft 	Wider issue of Data Protection and consequences of data theft	<ul style="list-style-type: none"> Cyber attack/Ransomware Internal breach 	<ul style="list-style-type: none"> Regular training for staff Learning from incidents IT security measures Data Risk log 	3	3	9	7-Feb-23	Targeted training	10	7-Aug-23	GM
8	Legal/ Compliance	Significant legal case against the Council	<ul style="list-style-type: none"> Resources drained Project delays Corporate objectives not met 	<ul style="list-style-type: none"> Financial damage Reputational damage 	<ul style="list-style-type: none"> Failure to follow process and procedures Failure to update policy to reflect legislative changes 	<ul style="list-style-type: none"> Early Legal Service plan & advice Budget arrangements for managing this Horizon Scanning and training to understand new duties and requirements 	2	3	6	2-Feb-23	<ul style="list-style-type: none"> Work to Identify where service failure is in a legal case Take steps to mitigate. Is it covered by liability insurances? 	10	2-Aug-23	LF

9	People	Lack of quality/quantity of staff to deliver services	<ul style="list-style-type: none"> Difficulties in recruiting key posts Lack of professional skills Financial impact - recruiting is expensive 	<ul style="list-style-type: none"> Service failure or lower quality Higher cost Legal liability Stress on existing/remaining staff Reduction in staff wellbeing Loss of knowledge 	<ul style="list-style-type: none"> Skills shortage Staff turnover - competing on both salary and wider location within LA sector and private sector Lack of workforce plan 	<ul style="list-style-type: none"> Allow staff greater flexibility where possible Remote working facilities Use of agencies/outsourcing companies Exit process to include full role analysis and capture of unique duties/knowledge 	3	3	9	22-Feb-22	<ul style="list-style-type: none"> Produce workforce plan Regular review of well being policies Regular attendance at HR Officers countywide group Participation in surveys with SEEMP and LGA Participation in local data capture events Investment in training, both professional and general 	10	22-Aug-23	MB
10	People	Significant loss of staff due to pandemic	<ul style="list-style-type: none"> 30%+ Flu etc. Across all services Particular note of cover for significant posts 	<ul style="list-style-type: none"> Unavailability of staff Reduction in service provision 	<ul style="list-style-type: none"> Staff absence through illness Travel/access restrictions 	<ul style="list-style-type: none"> Contacts with local, national & professional agencies Homeworking facilities Immediate medical prevention supplies available Priority list for staff vaccinations Priority Grid for Service staffing Local Authority duty to cooperate 	3	3	9	17-Feb-23	<ul style="list-style-type: none"> Guidance to staff on precautions Minimise travel of travelling officers Hand cleansers at entrances to Council buildings Close receptions Comms plan Move to online meetings only (subject to legislation for committees). 	10	17-Aug-23	MJ
11	Political	National fuel shortage	<ul style="list-style-type: none"> Loss of main services Staff committed to emergency Travel problems 	<ul style="list-style-type: none"> Staff unable to travel to work Contractors unable to provide key services (e.g. refuse collection) 	<ul style="list-style-type: none"> Fuel distribution problems Conflicts abroad 	<ul style="list-style-type: none"> Fuel priority grid including key staff & contractors Homeworking facilities Priority grid for Service staffing 	2	3 Was 4	6 Was 8	6-Mar-23	<ul style="list-style-type: none"> Communications Plan needed Recent work on Brexit plans helps inform actions required of RDC 	10	6-Sep-23	BH
12	Environmental/Climate Change	Coastal/river flooding	<ul style="list-style-type: none"> Loss of office accommodation Major issues with transport Staff diverted to emergency Staff committed to recovery programme 	<ul style="list-style-type: none"> BCP issue for services such as waste, car parking and coastal management (beach management) Cessation of visiting officers travel Could have an impact on transport 	Extreme weather	<ul style="list-style-type: none"> RDC Emergency Plan Local Authority duty to cooperate Existing flood plans Flood network to cascade information BCP plan for affected services. Membership of East Sussex Emergency Planning Partnership and Sussex Resilience Forum 	2	3	6	6-Mar-23	<ul style="list-style-type: none"> Social media alerts Communication - PR implicit Manage impact of staff reallocation to rest facilities 	4	6-Sep-23	BH
13	Environmental/Climate Change	The intended outcomes from the RDC 2030 net zero target will not be achieved.	Reputation damage (part of bigger issue of not doing our part)	<ul style="list-style-type: none"> Lack of trust in Council Disenfranchisement Lower community morale 	<ul style="list-style-type: none"> Lack of plan with achievable, measurable outcomes. Current outcomes are unachievable - in part because of unclear goals and pathway forward 	Corporate Plan milestones	3 Was 2	3	9 Was 6	6-Mar-23	Ensure regular reporting of Corporate Plan and other milestones to Members	4	6-Sep-23	BH
14	Partnership/Contractual	Failure of a neighbouring authority or other partner	<ul style="list-style-type: none"> Impact on RDC services including shared services Financial loss Service failure - shared services Reputational damage 	<ul style="list-style-type: none"> Inability to provide services Reduction in service quality 	<ul style="list-style-type: none"> Inability of residents to access advice services Reduced availability of specialist advice to the Council 	<ul style="list-style-type: none"> SLAs to set out process in the event of partner failure Quantify the impact on individual shared services Access to software and assets 	2	3	6	17-Feb-23	<ul style="list-style-type: none"> The Council has a number of key partnerships including shared services. For shared services where the Council is not the lead authority need to ensure the inter-authority agreement sets out the process/deliverables in the event of a partner failure. This would need to include access to software and assets as well as staffing. 	10	17-Aug-23	MJ
15	Partnership/Contractual	Failure of a significant system supplier	<ul style="list-style-type: none"> Service Specific Unit4 Business World, Ocella, Academy, CRM, Whitespace Customer Service 	<ul style="list-style-type: none"> Impact on business continuity Reduction in service quality 	<ul style="list-style-type: none"> Poor relationship management with suppliers Essential system improvements delayed/not possible Supplier goes out of business 	<ul style="list-style-type: none"> Contingency for simple alternative e.g. Excel ESCROW agreements 	2	3	6	2-Feb-23	<ul style="list-style-type: none"> Consider neighbour council back up system or data transfer Rights of user software Contingency for alternatives Web based systems need checking System to be replaced if supplier no longer exists Corporate direction - similar to Link data and voice, encourage use of county wide systems for the future/future purchase, which will reduce risk ESCROW agreements will reduce short term impact 	10	2-Aug-23	LF
16	Economic/Financial	Financial shutdown of RDC	<ul style="list-style-type: none"> Bank shutdown Loss of Income stream/assets Build up of backlog 	<ul style="list-style-type: none"> Impact on payments to suppliers and residents Increase in the amount needed to be drawn down from Reserves to fund costs 	<ul style="list-style-type: none"> Adverse weather conditions Software failures Hackers 	<ul style="list-style-type: none"> Rehearsed BCP Action Card with this scenario Budget arrangements for managing this Three authority BCP for Waste 	1	3	3	18-Jan-23	<ul style="list-style-type: none"> Consider neighbour council back up Hastings are able to provide back up and support so that cheques can be produced Customer advice and information to be put on website and telephone systems 	4	18-Jul-23	DE

Risk Scoring Matrix

Likelihood	Impact				
	Minimal (1)	Minor (2)	Moderate (3)	Major (4)	Catastrophic (5)
Almost Certain (5)	5	10	15	20	25
Likely (4)	4	8	12	16	20
Possible (3)	3	6	9	12	15
Unlikely (2)	2	4	6	8	10
Rare (1)	1	2	3	4	5

Rother District Council

Report to:	Audit and Standards Committee
Date:	20 March 2023
Title:	Property Investment Strategy Update
Report of:	Ben Hook
Purpose of Report:	To update the Committee on the delivery of the Property Investment Strategy
Officer	
Recommendation(s):	It be RESOLVED : That the report be noted.

Introduction

1. This report is to update the Committee on the Council's activity in delivery of the Property Investment Strategy (PIS), and commitments against the £35m budget approved in February 2018.
2. Since the previous report to Audit and Standards Committee in April 2022 (Minute AS21/58 refers), the Council has completed further acquisitions in pursuance of the PIS and the Council's Corporate Plan.
3. This report should be read in conjunction with earlier reports as much of the background information remains substantially the same.

The Property Investment Strategy

4. The current PIS was adopted by the Council in June 2020 (Minute CB20/05 refers) and is attached as Appendix 1. This has remained unchanged therefore since the previous report. The objective of the PIS is to support and safeguard the economy of the Rother area through the long-term protection of existing and the creation of new employment space, through investment in land and property in the Rother economic area.
5. The PIS sets out the types of property that the Council will seek to acquire and the factors that will be considered when assessing the suitability of potential acquisitions. It also describes how purchases may be funded and how the Council will manage risk.
6. Since the previous report, the Council has acquired three further properties and the £35m allocation is therefore either fully spent or committed.

The Property Investment Panel

7. The Property Investment Panel (PIP) is made up of six Members and is chaired by the Leader of the Council. Current members of the PIP are Councillors Bayliss, Curtis, Dixon, Jeeawon, Mier and Oliver. The Terms of Reference for

the PIP were revised and approved by Cabinet in June 2020 (Minute CB20/05 refers) and are attached as Appendix 2.

The Process for Identifying Investments

8. The process for identifying investments remains the same as outlined in previous reports. Once opportunities are identified, they are recorded by officers and are subject to the seven stage acquisition process outlined in Appendix 3. Progress in each case is monitored by close liaison with the Council's Legal Services team. The timescales indicated in Appendix 3 are indicative and may vary considerably from property to property, depending on circumstances.
9. The processes and procedures identified as a result of the earlier Internal Audit review (as reported previously) are in place and continue to be actioned as part of the acquisition process. A training session was held with members of the PIP in December 2020, hosted by CIPFA.
10. As the approved fund has now been fully committed, the PIP currently has no further purchases to consider under the PIS; however, it will continue to have a role in approving the purchase of commercial premises ancillary to residential properties being acquired under the Temporary Accommodation Investment Strategy (TAIS) [see below].

Acquisitions to date

11. At that time of the previous report in April 2022 the following properties have been acquired:

14 Terminus Road, Bexhill	£850,000
16 Beeching Road, Bexhill	£825,000
18-40 Beeching Road, Bexhill	£825,000
1-7 Wainwright Road, Bexhill	£1
Glovers House, Bexhill	£7,450,000
Land at Barnhorn Green, Bexhill	£600,000
Market Square, Battle	£3,075,000
Land at Mount View Street, Bexhill	£4,250,000
35 Beeching Road, Bexhill (headlease)	£675,000
64 Ninfield Road, Sidley	£100,000 *
Total	£18, 650,001

* Commercial element only of mixed-use property acquired primarily for Temporary Accommodation.

Since then the following further properties have been acquired:

Sainsburys Foodstore, Buckhurst Place, Bexhill	£9,650,000
16 Beeching Park Estate (long leasehold)	£217,500
18 Beeching Park Estate (long leasehold)	£217,500
Total	£10,085,000

12. Once these further transactions are taken into account, this takes the total value of purchases and commitments to £30,347,001 against the original £35m budget. A further commitment remains against the fund yet to be completed, details are set out in Confidential Appendix 4.
13. The above tables show the purchase prices only, net of costs. Acquisition costs such as stamp duty and professional fees, and the total cost of demolition works at 1-7, Wainwright Road amount to a further £3,225,222 also met from the original £35m budget, leaving a balance of £1,427,777.
14. In addition, the Council has approved the sum of £10m borrowing for the development of the site at Barnhorn Green. This was originally also intended to be met from the initial £35m PIS budget, however as this is now fully committed, further budget approvals will be needed in order to bring this project forward. This will be the subject of reports to Cabinet and full Council in due course, which will also include the acquisitions referred to in Confidential Appendix 4.

Risks and Challenges

15. The Treasury has in recent years implemented tighter regulation on the use of the Public Works Loan Board (PWLB) for property acquisitions, explicitly requiring that a direct local social or economic benefit be demonstrated, rather than acquisition for purely financial gain. The penalties for non-observance are strict, including withdrawal of access to all PWLB funding.
16. Whilst this removes the risk of public borrowing being used for speculative investments, it does push councils towards regeneration led acquisitions where there is either already market failure or risk of market failure, where the private sector may be less likely to invest. These are by their nature higher risk or require additional investment in order to realise a benefit in the longer term.
17. As stated in previous reports, the Council's PIS is explicit in referencing local economic benefit as the basis for acquiring properties, which points towards properties within the district where the case for local economic benefit can be made. However, Rother does not have a significant commercial property market and in general transactions are small-scale. Whilst in theory, the Council could acquire large numbers of small properties, the acquisition process is heavily resource intensive and the ongoing management of such properties would also require significant resourcing. The opportunities locally for further acquisitions that will make a significant contribution to meeting the Council's income targets are few and far between.
18. The Council's focus for property acquisitions has recently shifted towards buying residential properties to accommodate temporary housing needs, and this activity is conducted under the TAIS. This is therefore a separate approval and funding framework to the PIS. The Council recently approved an amendment to the TAIS to allow the inclusion of commercial elements (such as ground floor shops) with these housing purchases where it made sense to do so (Minutes CB22/60 and C22/72 refer). This requires that the commercial element be considered by the PIP for approval.
19. Whilst the approved funding under the PIS has been fully committed, the Council's interest in acquiring residential properties is now well established and

the recent approval to include commercial elements provides further opportunities for rental income from that source, on top of the savings made to the Council's Temporary Accommodation budget.

Conclusion

20. Members are asked to note this report and consider the work of officers and the PIP in the delivery of the PIS and the TAIS. Officers and the PIP will continue to assess each opportunity coming forward on its own merits.

Other Implications

21. Appendix 4 is marked as confidential as these transactions have yet to be completed and remain Subject to Contract and to further Council approval.

Other Implications	Applies?	Other Implications	Applies?
Human Rights	No	Equalities and Diversity	No
Crime and Disorder	No	External Consultation	No
Environmental	No	Access to Information	No
Risk Management	No	Exempt from publication	Yes

Report Contact Officer:	Ben Hook
e-mail address:	Ben.hook@rother.gov.uk
Appendices:	Appendix 1: Property Investment Strategy Appendix 2: Property Investment Panel Terms of Reference Appendix 3: Stages for Acquisition of Commercial Property Appendix 4: (Confidential) Transactions pending completion
Relevant Previous Minutes:	AS19/52, CB20/05, CB22/60 and C22/72
Background Papers:	N/A
Reference Documents:	N/A

PROPERTY INVESTMENT STRATEGY

June 2020

Objective of the Strategy

1. The Council is committed to supporting and safeguarding the economy of the Rother area through the long-term protection of existing and the creation of new employment space. This objective will in part be achieved through the investment in land and property in the Rother economic area. For this strategy to be sustainable the investments must make a net positive return for the Council. For new developments this may not occur in the early period but must by the medium term be making a positive return. The Council will review this strategy as the portfolio develops and as the Council's business needs evolve.
2. In addition, the Council will acquire land and properties for the prudent management of the Council's financial affairs under its Commercial Investment Strategy. Properties acquired for this purpose may not necessarily be situated in the Rother economic area.

What will the Council invest in –

3. The Council will seek to maintain a diversified and balanced portfolio of property assets, having regard to the considerations set out below. The general principle is that properties will be acquired in order to protect their current or desired use and/or generate a stable revenue income for the Council.
4. Established property investment practice has evolved based on long standing markets for assets in mainstream sectors such as offices, retail, industrial and residential. Investing in these traditional asset categories in a balanced fashion, allows for a lower risk investment when compared to emerging markets such as Student Accommodation, Nursing Homes and Medical Centres. However, opportunities will be considered on their respective merits.
5. Where a case can be made on the basis of local benefit the Council will consider opportunities within the Rother District or within its immediate environs.
6. Where the acquisition is not linked to local benefit the Council will consider opportunities within Rother District or within an approximate 40-mile radius.
7. Freehold tenure is preferred to leasehold. Freehold provides for greater levels of security than a leasehold asset that would effectively decrease in value over time. However, the Council may also buy back ground leases on assets where the Council is already the freeholder, in order to gain control over future development and benefit from increased rental income.
8. Properties should preferably be let to a single tenant on a full repairing lease, in order to minimise management input. Properties with more than one tenant may be considered however if the management requirements are considered to be acceptable. Whilst properties let to only one tenant may present a level of risk of a void in the event of tenant failure or at the end of the lease, detailed financial due diligence would be undertaken to ascertain their financial stability.

9. The Council will balance investments that are already producing an income, with existing tenants in place, with properties with vacant accommodation or development sites where the return on investment is expected in the medium term particularly where there are strategic reasons for doing so. The interim funding implications will be considered as part of the business case for investment.

Size of Investment Lots and investment criteria

10. Due to the nature of the local property market the Council will be flexible on lot size and consider investment opportunities on their individual merit; however, the ideal suggested lot size is between £1m and £10m. This will be flexible if there is an overriding strategic reason to acquire a property.
11. Opportunities may be sought that lend themselves to a potential to increase rental income than is currently being realised.
12. The following guiding criteria will be applied:
- A target average annual yield of 2% net of borrowing costs over the expected lifetime of the asset
 - Individual Properties or Portfolios.
 - Flexible lot size but £1m – £10m expected. Larger lot sizes will be considered on their merits, having regard to financial due diligence.
 - Freehold preferred.
 - Single tenanted preferred, or multi tenanted where management input required is at an acceptable level.
 - Asset categories: likely to focus on Industrial, Office, Retail, Leisure, Trade Counter; but others may be considered.
 - Geographically located within Rother District, or immediately nearby where a case can be made on the basis of local benefit.
 - Geographically located within an approximate 40-mile radius of Rother District, where the case is made for investment purposes.

Land and Property Disposals

13. The Council's land and property holdings will be reviewed regularly to assess their contribution to the objectives of this strategy and where there is a shortfall may consider disposal. In addition, where there is significant capital appreciation of an asset, disposal may be considered where the capital receipt enables reinvestment in the Rother area.

Funding the Investments

14. Funding for the acquisition of assets will be reviewed on a case-by-case basis from a number of sources:
- Receipts from previous property disposals.
 - Receipts from proposed land / property disposals in future years.
 - Reallocation of some of the funds currently held in reserves.
 - Borrowing from external lenders – Bank Real Estate Finance, Annuity Funds, Pension Funds.
 - Borrowing from the Public Works Loan Board.

- Municipal Bonds Agency.

Expert Support and Guidance

15. External specialist property investment advisors will be retained as necessary on each transaction, advising on suitability having undertaken detailed pre purchase due diligence, including valuation, risk analysis and lease / title reviews; including the appointment of introductory agents where appropriate.

Managing Risk

16. The risks of each potential investment will be considered by carrying out due diligence to include the following:
 - Valuation.
 - Market Conditions.
 - Covenant strength of tenants.
 - Terms of leases.
 - Structural surveys.
 - Funding options.
 - Future costs.
17. The subsequent management of the portfolio will be delivered from existing resources within the Council's Estates team, supplemented by specialist external advice as needed. A specific budget provision will be made available to meet these costs. This approach will be reviewed regularly by the Property Investment Panel, including on-going resource requirements, as the portfolio grows.

Monitoring the Strategy

18. Annual reports on activity and performance will be considered by the Council's Audit and Standards and Overview and Scrutiny Committees.

PROPERTY INVESTMENT PANEL TERMS OF REFERENCE

1. PURPOSE

The Property Investment Panel is set up by Cabinet to make recommendations to the Head of Paid Service on matters relating to the Property Investment Strategy under powers as set out in Rother District Council Constitution. These may be to further the aims and objectives of the Council to promote economic growth in the Rother area; or in pursuance of commercial investment objectives in accordance with a formally adopted Commercial Investment Strategy.

The Head of Paid Service has been given delegated powers to acquire properties for economic, regeneration and investment purposes subject to the recommendations of the Panel and as guided by the Property Investment Strategy.

The Panel will:

- i. receive investment prospectuses and evaluations of potential property acquisitions;
- ii. set the parameters, within the overall Property Investment Strategy parameters, for bidding on each property.
- iii. make recommendations to the Head of Paid Service on the acquisitions of properties; and
- iv. oversee the due diligence and acquisition process in accordance with the Property Investment Strategy.

2. CONSTITUTION, DUTIES AND POWERS

- i. The Panel shall comprise six elected Members nominated by the Leader of the Council, with one vote each:
 - three Executive Councillors, ~~one of whom must be the Portfolio Holder with responsibility for Finance~~; and
 - three other Councillors.
- ii. Council Officers attending will be the Executive Directors and Section 151 Officer. Other Council Officers and external advisors may attend the Group, in an advisory capacity (e.g. the Property Investment and Regeneration Manager).
- iii. The Section 151 Officer will attend in an advisory capacity. However, if he/she disagrees with the Panel's recommendation he/she can refer the decision to the next scheduled meeting of Cabinet for further consideration.
- iv. The Panel shall appoint the Leader of the Council ~~Portfolio Holder with responsibility for finance~~ as Chairman. In his/her absence, the Panel can appoint a chairman for that meeting.

- v. The quorum of the Panel shall be three. One Executive Director (who need not necessarily be the Head of Paid Service) and the Section 151 Officer (or his/her deputy) must be in attendance.
- vi. There will be no substitution arrangements.
- vii. Recommendations made to the Head of Paid Service will be made by majority vote of all those present and entitled to vote. In the event of an equal number of votes for and against a proposal, the matter will be referred to Cabinet.
- viii. The financial performance of the investments will be reported to the Audit and Standards Committee as part of its treasury management responsibilities. In addition, the Panel will report its activities through the Overview and Scrutiny Committee to Cabinet.
- ix. The frequency of the Panel meetings will be as and when required.

STAGES FOR ACQUISITION OF COMMERCIAL PROPERTY

Stage 1 – Properties identified and screened	Week 1
Regular review of relevant websites, local press and other media.	
Intelligence received from local agents, businesses, landowners.	
Initial discussion with internal Property Investment Group.	
Properties approved for further investigation or rejected.	
Stage 2 – Viewing & First Level Appraisal	Week 2
Potentially viable property viewed by officers. Photographic record taken.	
High level financial appraisal carried out.	
Discussion with internal Property Investment Group re: suitability, yield and purchase offer.	
Stage 3 – Negotiation	Weeks 2-3
Receipt of relevant documentation – leases, evidence of title, trading accounts (where relevant), plans, etc.	
Purchase price negotiated with vendor. All negotiations subject to contract, Property Investment Panel approval, survey and external valuation.	
Purchase price and other relevant Heads of Terms agreed in principle.	
Stage 4 – Report to Property Investment Panel	Week 3 onwards
Report to Property Investment Panel, including financial appraisal, risk assessment, planning commentary, recommendations.	
Stage 5 – Due Diligence	Week 3 onwards
Arms' length valuation commissioned to Royal Institution of Chartered Surveyors 'Red Book' standard.	
Condition survey commissioned.	
Legal team at Wealden District Council instructed - where insufficient capacity exists or unlikely to meet transaction timescales, Wealden will contract out but retain management of the case.	
Receipt of report on Title, Searches, Valuation and Survey reports. Review Heads of Terms or withdraw in the event of prejudicial information coming to light.	
Ongoing progress updates with internal Property Investment Group.	
Stage 6 – Exchange of contracts & completion	By Week 8
Completion Statement received and checked.	
Transfer documents signed and monies transferred.	
Internal administrative systems set up: Estates records updated, Finance briefed.	
Stage 7 – Exchange of contracts/completion	Week 8

Rother District Council

Report to:	Audit and Standards
Date:	20 March 2023
Title:	Treasury Management Update
Report of:	Duncan Ellis – Interim Chief Finance Officer
Purpose of Report:	To note the Council's treasury activities for the third financial quarter ending the 31 December 2022
Officer	
Recommendation(s):	It be RESOLVED: That the report be noted.

Introduction

1. The Council's Investment Strategy requires regular reports to be presented to this Committee on its treasury management activities. In managing these, the Council has implemented the Department of Levelling Up, Housing and Communities investment guidance and followed the Chartered Institute of Public Finance and Accountancy's Code of Practice on Treasury Management.
2. The investment activity to date conforms to the approved strategy and the Council has had no liquidity difficulties. Members are reminded that investment activity is also reported through the Members' Bulletin. This report focuses on the financial period ending the 31 December 2022 and is based on the latest available data.

Financial Investments review

3. As at the 31 December 2022, the Council's estimated total investments were just under £43m with £10m invested in short term call accounts (£38m and £10m qtr 2), £6m in a fixed term deposit with a local authority and £8m in Property Funds (£6m and £8m qtr 2). The remaining £19m (£14m qtr 2) is held in the General account but Members will note that a significant element of this balance relates to cash owed to public bodies, e.g. council tax precepts, shares of business rates.
4. The Council's investments are currently predicted to yield interest income of over £0.8m in 2022/23 but this may be affected by subsequent interest rate changes. As in previous years the Property Funds are predicted to yield a good return, with income currently predicted to be about £0.3m, which would yield returns of between 3% and 4%. Also, due to the recent increases in interest rates, higher than expected returns are also predicted to be gained from call accounts totalling an estimated £0.5m with a further £0.07m received following the maturity of a loan to a local authority in February 2023. The investment portfolio and Property Fund values are detailed in Appendix A.

Borrowing

5. The Council's Capital Financing Requirement (CFR) shows how much of its capital expenditure is financed by borrowing and is summarised in Appendix B. The pandemic continued to impact on the pace of programme delivery in 2021/22 however, it has accelerated again during 2022/23 although not to the extent that was originally forecast due to the complexity of several the proposed schemes and the rapidly changing financial landscape in terms of inflationary pressures, interest and borrowing rate changes. Members will also note that the Capital Programme continues to be reviewed for affordability as part of ongoing monitoring of the Capital Programme.
6. The value of outstanding loans as at the 31 December 2022 is £32.0m (£32.2m qtr 2) and the borrowing portfolio is also shown in Appendix B. This is now well below the Council's forecast CFR of £41.8m as shown in Appendix A although the difference will decrease as the programme delivery accelerates and the Council's borrowing requirement increases in future years.
7. Officers will continue to keep borrowing policy under review and use internal balances where possible to minimize borrowing costs.

Treasury and Prudential Indicators

8. The Council's Authorised and Operational external borrowing limits are shown in Appendix C and were approved by Cabinet on the 7 February 2022 as part of the Council's Capital Strategy. Members will note that the current borrowing levels shown in Appendix B remain comfortably within both limits.
9. The ratio of Net Financing Costs (NFC) to the Net Revenue Stream is predicted to be 2.05% (5.55% qtr 2) by the end of the financial year, which is 9.33% (5.83% qtr 2) lower than the original budget. This is due to the delays referred to above and the additional investment income received, which reduces the NFC. The Prudential Indicators are shown in Appendix C.

Non-Treasury Investments

10. The table below shows property rental income for the year against the approved budget and is split between existing assets and those purchased through the Property Investment Strategy (PIS):

Property Type	Budget 2022/23	Q3 Forecast Income	Variance	Return on Investment
	£000	£000	£000	%
Non-PIS	865	810	55	6.05
PIS	1,105	1,655	(550)	6.49
Total	1,970	2,464	495	

11. The additional PIS rent income is due to the purchase of Buckhurst Place, the lease for which was agreed after Council had approved its budget. Appendix D gives more detail on those properties purchased as part of the PIS.

Economic Update and Outlook

12. The ongoing impact on the UK from the war in Ukraine, together with higher inflation, higher interest rates, uncertain government policy, and a deteriorating economic outlook, continue to impact on current treasury management activities.
13. Inflation is significantly eroding the Council's spending power, the Bank of England's Monetary Policy Committee (MPC) has updated projections which show Consumer Price Index (CPI) inflation falling back sharply from its current very elevated level, of 10.5% in December, in large part owing to past increases in energy and other goods prices falling out of the calculation of the annual rate.
14. At the meeting of the Bank of England's Monetary Policy Committee (MPC) in February, it was agreed to increase the bank base rate by a further 0.5% to 4.0% to help control inflation.
15. Annual CPI inflation is expected to fall to around 4% towards the end of this year, alongside a much shallower projected decline in output than in the November Report forecast. In the latest forecast, the Bank Rate is projected to rise to around 4.5% in mid-2023, falling back to just over 3.25% in three years' time.
16. The UK economy contracted by 0.3% between July and September 2022 according to the Office for National Statistics, and the BoE forecasts Gross Domestic Product (GDP) will decline 0.75% in the second half of the calendar year due to the squeeze on household income from higher energy costs and goods prices. Growth is then expected to continue to fall throughout 2023 and the first half of 2024.
17. The weakening economic picture during 2022 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several local authorities and financial institutions, revising them to negative from stable.
18. The expectation is that 2023/24 will see a return to some sort of stability in the investment environment following the turbulences resulting from the post-pandemic economic climate, the ongoing war in Ukraine and the effects of the mini-budget.

Other issues

19. It was reported in the quarter 2 report that there was an ongoing government consultation being held regarding the future of IFRS9 statutory override. The current 5-year override was due to expire on 31 March 2023 and allowed councils to override fair value movements on pooled investments (like this council's CCLA and Hermes) in order to protect themselves from market volatility. Such movements were reversed from the General Fund and into unusable reserves and as such, they do not have an impact on budget setting. Without the override negative movements in their value would cause a budget deficit and require more funds to be withdrawn from Usable reserves. The consultation closed on the 6 October 2022 and it has subsequently been agreed to continue with the override for a further two years until 31 March 2025 and

while a permanent override would have been preferred this is still a beneficial position for the Council.

20. Although not strictly part of the quarter 3 figures Members will be reassured to note that the £6m loan to Thurrock contained within appendix A was returned on the maturity date of 16 February 2023 without any issues.

Corporate Management Team Comments

21. Audit and Standards Committee is recommended to note the report.

Conclusion

22. The investment activity conforms to the approved strategy and the Council has no liquidity difficulties.

Financial Implications

23. As detailed in the report.

Other Implications	Applies?	Other Implications	Applies?
Human Rights	No	Equalities and Diversity	No
Crime and Disorder	No	Consultation	No
Environmental	No	Access to Information	No
Sustainability	No	Exempt from publication	No
Risk Management	No		

Chief Executive:	Mr Malcolm Johnston
Report Contact Officer:	Duncan Ellis
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Appendices:	Appendix A – Investments Portfolio Appendix B – Capital Financing Requirement & Borrowing Portfolio Appendix C – Prudential Indicators Appendix D – Performance of PIS properties
Relevant Previous Minutes:	None
Background Papers:	Capital Strategy Report to Cabinet, 7 February 2022 Treasury Management and Annual Investment Strategies Report to Cabinet, 28 February 2022
Reference Documents:	None

INVESTMENTS PORTFOLIO

Deposit	Type of account	Maturity Date	Amount £	Interest Rate	Share %
Lloyds - General (RFB)	Call	N/A	18,550,782	3.4%	43.55%
Bank of Scotland (RFB)	Call	N/A	16	0.01%	0.00%
Barclays - Call Account (NRFB)	Call	N/A	5,046,272	3.20%	11.85%
Santander - Call Account	Call	N/A	2,999,214	2.38%	7.04%
Santander - 31 Day Notice Account	31 Day's Notice	N/A	2,000,000	2.65%	4.70%
Thurrock BC (LA)	Term deposit	16/02/2023	6,000,000	2.30%	14.09%
CCLA Local Authority Property Fund	Long Term	N/A	5,000,000	4.01%	11.74%
HERMES Property Fund	Long Term	N/A	2,999,998	3.1%	7.04%
Total			42,596,282		100.00%
Total managed in-house			34,596,284		
Total managed externally			7,999,998		
Total Treasury Investments			42,596,282		

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PROPERTY FUNDS

Name of Property Fund	Original Investment Value	Value as at 31st Mar 2022	Current valuation	Change since start of financial year
	£	£	£	£
CCLA Local Authority Property Fund	5,000,000	5,667,433	4,826,439	(840,994)
HERMES Property Fund	2,999,998	3,250,474	2,737,270	(513,204)
Total	7,999,998	8,917,907	7,563,709	(1,354,198)

CAPITAL FINANCING REQUIREMENT

Capital Financing Requirement (CFR)	2022/23 Original Budget £ (000)	2022/23 Quarter 2 Forecast £ (000)	2022/23 Quarter 3 Forecast £ (000)
Opening Balance	25,551	25,551	25,551
Add unfinanced capital expenditure	75,876	60,758	16,554
Less Minimum Revenue Provision (MRP)	(1,053)	(652)	(336)
Closing Balance	100,375	85,657	41,769

CURRENT BORROWING PORTFOLIO

Borrowing Position as at 31 December 2022					
Properties	Amount o/s	Interest Rate	Term	Type	Full Year Repayments
14, Terminus Road	£428,919	2.59%	50	Annuity	£16,102
14, Terminus Road	£428,861	2.58%	50	Annuity	£16,070
Beeching Road	£1,587,256	2.39%	50	Annuity	£56,729
Various	£1,000,000	2.24%	50	Maturity	£22,400
Glovers House & Barnhorn Road	£8,184,765	2.48%	50	Annuity	£297,572
Various	£6,220,986	1.78%	50	Annuity	£190,804
Various	£9,147,755	1.65%	50	Annuity	£273,881
Blackfriars	£5,000,000	1.70%	2	Maturity	£85,349
Total Borrowing	£31,998,543				£958,907

TREASURY INDICATORS (BORROWING LIMITS)

Treasury Indicators	31 December 2022 £ (000)
Authorised Limit for External Debt	169,012
Operational boundary for External Debt	160,012
Gross External Debt (actual)	31,999
Remaining Authorised Limit for External Debt	137,013

PRUDENTIAL INDICATORS

Prudential Indicators	2022/23 Original Budget £ (000)	2022/23 Quarter 2 Forecast £ (000)	2022/23 Quarter 3 Forecast £ (000)
Capital Financing Requirement (CFR)	100,375	85,657	41,769
Annual Change in CFR	74,823	60,106	16,218
In-Year Borrowing Requirements	75,876	60,758	16,554
Ratio of Financing costs to Net Revenue Stream (%)	11.38%	5.55%	2.05%

PROPERTIES PURCHASED THROUGH THE PROPERTY INVESTMENT STRATEGY

Property Investment strategy	Purchase Price £	Acquisition Costs £	Total cost of purchase £	Annual Rent Income (forecast for the year) £	Annual Net Running Costs (forecast for the year including cost recovery - Service charges) £	Net Surplus £
14 Terminus Road	850,000	37,485	887,485	(106,000)	2,050	(103,950)
16A Beeching Road	825,000	45,133	870,133	(32,750)	680	(32,070)
16B Beeching Road				(60,000)	(1,230)	(61,230)
18-40 Beeching Road	825,000	60,638	885,638	(90,300)	(585)	(90,885)
1-7, Wainwright Road	1	358,129	358,130		(170)	(170)
Glovers House, Bexhill	7,450,000	393,952	7,843,952	(475,000)	916	(474,084)
Land at Barnhorn Green, Bexhill	600,000	12,387	612,387			
Market Square, Battle	3,075,000	181,184	3,256,184	(195,000)	(237)	(195,237)
35, Beeching Road, Bexhill (headlease)	675,000		675,000	(100,000)	49	(99,951)
64, Ninfield Road, Sidley	100,000		100,000	(9,000)	43	(8,957)
Sainsburys, Buckhurst Place	9,650,000	539,500	10,189,500	(583,000)	143	(582,857)
Land at Mount View Street, Bexhill	4,250,000		4,250,000		1,880	1,880
16 Beeching park estate	435,000	19,950	454,950	(4,625)	875	(3,750)
18 Beeching park estate				(4,500)	875	(3,625)
Total	28,735,001	1,648,358	30,383,359	(1,660,175)	5,287	(1,654,888)

AUDIT AND STANDARDS COMMITTEE

WORK PROGRAMME 2022 – 2023	
DATE OF COMMITTEE	SUBJECT
Monday 20 March 2023	<p>Part A – Standards Reports</p> <ul style="list-style-type: none"> Proposed Code of Conduct <p>Part B – Audit Reports</p> <ul style="list-style-type: none"> Grant Thornton – Audit Findings Report 2021/22 Grant Thornton – Annual Audit Report 2021/22 Grant Thornton – Audit Progress Report and Sector Update Amendment to the Constitution – Delegations to Officers Homes England 2022/23 Compliance Audit Programme Internal Audit Report to 31 December 2022 Internal Audit Plan 2023/24 Review of Internal Audit 2022/23 Risk Management Update Property Investment Strategy Update Procurement and Capital Programme Audits Update and Management Responses Treasury Management Update
WORK PROGRAMME 2023 – 2024	
Monday 19 June 2023	<p>Part A – Standards Reports</p> <ul style="list-style-type: none"> Local Government and Social Care Ombudsman Complaints Monitoring Code of Conduct Complaints Monitoring and other Standards Matters <p>Part B – Audit Reports</p> <ul style="list-style-type: none"> Grant Thornton – External Audit Plan 2022/23 Internal Audit – Annual Report and Opinion 2022/23 2022/23 Statement of Accounts – Audit Planning Risk Assessment Treasury Management Update – 2022/23 Outturn
Wednesday 26 July 2023	<p>Part A – Standards Reports (none scheduled)</p> <p>Part B – Audit Reports</p> <ul style="list-style-type: none"> Statement of Accounts 2022/23 Annual Governance Statement 2022/23 Treasury Management Update
Monday 2 October 2023	<p>Part A – Standards Reports (none scheduled)</p> <p>Part B – Audit Reports</p> <ul style="list-style-type: none"> Grant Thornton – Audit Progress Report and Sector Update

	<ul style="list-style-type: none"> • Internal Audit Report to 30 June 2023 • Treasury Management Update • Risk Management Update
<p style="text-align: center;">Monday 4 December 2023</p>	<p>Part A – Standards Reports</p> <ul style="list-style-type: none"> • Local Government and Social Care Ombudsman Complaints Monitoring • Code of Conduct Complaints Monitoring and other Standards Matters • Self-Assessment of RDC Owned/Leased Accommodation Complaints Handling <p>Part B – Audit Reports</p> <ul style="list-style-type: none"> • Grant Thornton – Audit Findings Report 2022/23 • Internal Audit Report to 30 September 2023
<p style="text-align: center;">Monday 25 March 2024</p>	<p>Part A – Standards Reports (none scheduled)</p> <p>Part B – Audit Reports</p> <ul style="list-style-type: none"> • Grant Thornton – Audit Progress Report and Sector Update • Grant Thornton – Annual Audit Report 2022/23 • External Auditor - External Audit Plan 2023/24 • Internal Audit Report to 31 December 2023 • Internal Audit Plan 2024/25 • Review of Internal Audit 2023/24 • Risk Management Update • Property Investment Strategy Update • Treasury Management Update

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