Auditor's Annual Report on Rother District Council

2022/23

November 2023

Contents

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.

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 2022/23 is the third 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. Where we identify significant weaknesses in arrangements, we are required to make recommendations so that the Council may set out actions to make improvements. Our conclusions are summarised in the table below.

Criteria	2022/23 Risk assessment	2022/23 Auditor judgement on arrangements		2021/22 Auditor judgement on arrangements		Direction of travel
Financial sustainability	Risk of significant weakness identified in relation to the use of reserves planned within the Medium Term Financial Plan.	A	Following investigation into the risk no weakness in arrangements has been identified. Improvement recommendations have been made,.	A	No significant weaknesses in arrangements identified. Improvement recommendations were made which have been partially responded to.	↔
Governance	No risks of significant weakness identified	A	No significant weaknesses in arrangements identified, but improvement recommendations made to support the Council in improving arrangements.	A	No significant weaknesses in arrangements identified. Improvement recommendations were made which have been partially responded to.	↔
Improving economy, efficiency and effectiveness	No risks of significant weakness identified	A	No significant weaknesses in arrangements identified, but improvement recommendations made to support the Council in improving arrangements.	A	No significant weaknesses in arrangements identified. Improvement recommendations were made which have been partially responded to.	↔

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

Executive summary (continued)

Financial sustainability

The Council continues to operate in an increasingly uncertain financial environment. For 22/23 the Council set a budget that required the use of £3.2m of reserves to meet a breakeven position. At year end the Council produced a better than anticipated outturn position, breaking even with the use of £1.7m fewer reserves than planned for in the initial budget. Within this there were overspends resulting from the under-delivery of savings and cost pressures but these were offset by lower than anticipated finance costs due to slippage in the capital programme.

The Council continues to face financial challenges in terms of the medium term financial outlook and savings. This is predominantly due to being unsuccessful in its programme to transfer certain discretionary services to Bexhill Town Council and other town and parish councils.

Should the anticipated medium term financial gap materialise in totality, at the same time as continued non-delivery of the Financial Sustainability Programme in its current form in full, the Council's reserves would not be sufficient beyond the current medium term planning horizon. The Council is already taking steps to identify savings with budget holders, outside of the Financial Sustainability Programme, via the Service Planning Review, as well as continuing negotiations around the transfer of discretionary services. The Service Planning Review is currently in progress with schemes proposed in excess of the target set, these are currently being reviewed for robustness and will be mobilised from 24/25. As such the Council is taking steps to protect its reserves and ensure finances are sustainable in the longer term.

Based on the current assumptions of delivering £1.1m savings in 23/24 and recurrent savings of £1.9m in later years of the Medium Term Financial Plan the current budget gap forecast is affordable with the reserves held, and they would remain within the Council's minimum reserves usable reserves threshold of £5m for the life of the MTFP. We have made a multi-faceted improvement recommendation in relation to savings to highlight the importance of achieving savings to protect reserves going forwards. Should the Council be unsuccessful in addressing the medium term budget gap, **and** identifying additional savings in the Service Planning Review for 24/25 onwards, the worst case scenario in relation to reserves could be a reality and a weakness in arrangements may exist in future years. This will be assessed as part of the Value for Money Work in 23/24.

Another area of financial challenge is the Council's capital programme which continues to experience slippage. As a result the Council has taken the decision to pause the capital programme, with the exception of a few in progress projects, to undertake a fundamental review on a project by project basis of affordability. Option appraisal is expected to be presented to members on a project by project basis to aid decision making and update the programme as it currently stands. The Council has benefited from lower finance costs due to the slippage but to the disadvantage of residents who would benefit from the improved estate.

Overall we have not identified a weakness in arrangements based on the current financial forecasts and information available, however we have raised improvement recommendations and highlighted the potential future risk around the impact of savings on reserves which we will follow up in 23/24.

Executive summary (continued)

Governance

For the most part governance arrangements around risk management and financial governance have remained consistent with the prior year. The Council has undertaken an internal review of their governance arrangements against the Local Code of Corporate Governance to identify areas where improvements could be made to arrangements to achieve best practice. Many of our and Internal Audit's findings in the year concur with this internal review. The Council should now seek to take forward findings from each of these reviews and ensure effective monitoring of progress takes place. The Council historically has a poor track record of timely response to recommendations from such reviews, however we have noted improvement in addressing historic Internal audit recommendations in year. Prior year Value for Money improvement recommendations remain a work in progress (see our Follow Up section) and therefore these require ongoing attention.

Overall, we have made some improvement recommendations that represent actions that could be taken to achieve best practice, however none of these points represent a significant weakness in arrangements.

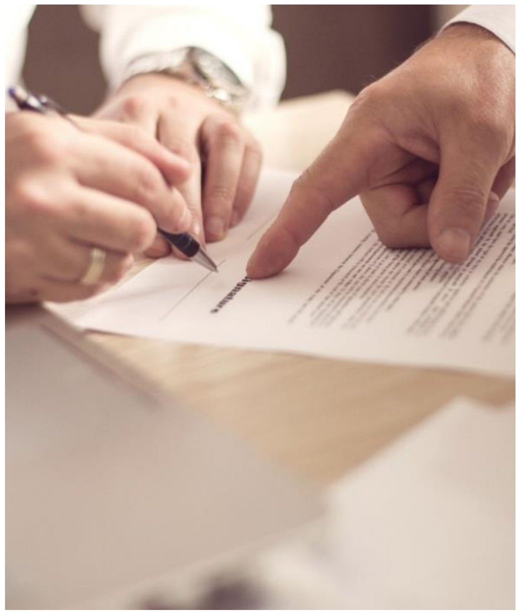
Improving economy, efficiency and effectiveness

In the prior year we highlighted potential opportunities for unit cost improvement in homelessness, street cleansing and waste collection. In 22/23 the Council has continued to take extensive action, in particular, in the homelessness service. This has yet to have an impact with the service being an area of overspend in 22/23 and pressure in the 23/24 budget. A time lag is expected between the actions taken and the impact observed but to date the response has been positive. Street cleansing and waste collection services were not highlighted as areas of significant overspend and pressure within the budget documentation.

Internal Audit reviews for the 22/23 year include 5 limited assurance reports compared to 3 in the prior year. Despite the increase the year end Internal Opinion confirms that arrangements are adequate and provides an opinion of positive assurance, however they have expressed the need to prioritise responses to the recommendations made in their reviews to ensure that the opinion in future years is not negatively impacted by further increases in the number of reviews with this rating. Most of the "limited" assurance ratings given in 2022/23 were a result of the number of smaller issues found rather than a complete failure of the internal control environment, there being only 2 high priority recommendations made.

In the prior year we reviewed the arrangements the Council made in setting up its Housing Company, Rother DC Housing Limited, with no significant issues identified but the opportunity for improvements to made. The Council has continued to review arrangements and has been able to formalise several policies, procedures and other governance arrangements. The Company is still in a transitional phase and so there continues to be iterative improvements that could, and are, being made. Notably, the Company Board membership reduced in year as a result of Council elections, leaving membership below quorate thresholds for decision making. No decisions were made during this period and recruitment of two new Non-Executive Directors has taken place to rectify this issue and provide some contingency going forward.

Overall, we have made some improvement recommendations that represent actions that could be taken to achieve best practice, however none of these points represent a significant weakness in arrangements.



Acknowledgements
We would like to take this opportunity to record our appreciation for the assistance provided by Council officers, Council Members and external stakeholders with whom we have engaged during the course of our review.

Use of auditor's powers

We bring the following matters to your attention:

	2022/23
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.	We did not make any written recommendations under Schedule 7 of the Local Audit and Accountability Act 2014.
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.	We did not issue a public interest report
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.	We did not make an application to the Court.
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.	We did not issue any advisory notices.
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.	We did not make an application for judicial review.

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 10 to 38

In addition to our financial statements audit work, we perform a range of procedures to inform our value for money commentary:

- Review of Council, Cabinet and committee reports
- Regular meetings with senior officers
- Interviews with other members and management
- Attendance at Audit Committee
- Considering the work of internal audit
- Reviewing reports from third parties including Ofsted
- Reviewing the Council's Annual Governance Statement and other publications

The current LG landscape

National context

Local government in England continues to face significant challenges as a sector. These include a high level of uncertainty over future levels of government funding, alongside delays to the Government's plans for reform of the local government finance system, impacting on medium-term financial planning. This is also a time of generationally significant levels of inflation – the UK inflation rate was 7.8% in April 2022, rising to a 41-year high of 11.1% in October 2022, then reducing to 10.1% in March 2023. Inflation levels put pressure on councils' revenue and capital expenditure, as well as the associated cost of living crisis impacting on local communities and businesses, leading to an increase in demand for council services such as debt advice, housing needs, and mental health, as well as impacting on some areas of council income such as car parking and the collection rates of council tax, business rates and rents. This follows a significant period of funding reductions by Government (2012 to 2017) and the impacts of Brexit and the COVID-19 pandemic which, for example, have contributed to workforce shortages in a number of council service areas, as well creating supply chain fragility risks.

The Government announced the Provisional Local Government Finance Settlement for 2023/24 in December 2022, with the Final Settlement confirmed in February 2023. The Settlement distributes a range of grants and business rate income allocations to local authorities, and these should be included in the annual budget. The Final Settlement for 2023/24 distributed £17.1bn of funding to local authorities, a 4.8% increase in cash terms from 2022/23. The Settlement also provides the Core Spending Power for local authorities, which is the level of resources assumed available to fund the net budget. Core Spending Power includes the levels of government grant for the coming year, for example revenue support grant and new homes bonus grant. It also includes assumed levels of business rate income.

Core Spending Power includes the assumption that local authorities will increase council tax up to the referendum limit, which for 2023/24 is 3% plus an additional 2% for upper tier authorities who provide adult social care services. District Councils can increase council tax by £5 or 3%, whichever is higher.

The Government will undertake Spending Reviews that set out government departmental budgets over a period of 3 years, including local government. These reviews are different to, but inform, the annual Local Government Finance Settlement.

The local government finance settlement for 2023/24 was better than many in the sector anticipated demonstrating an understanding by Government of the financial challenges being faced by the sector. However, the Local Government Association, in July 2023, estimated that the costs to councils of delivering their services will exceed their core funding by £2bn in 2023/24 and by £900m in 2024/25. This includes underlying cost pressures that pre-date and have been increased by the pandemic, such as demographic pressures increasing the demand for services such as social care and homelessness.

Over the past decade many councils have sought to increase commercial activity as a way to generate new sources of income which has increased the nature of financial risk, as well as the need to ensure there is appropriate skills and capacity in place to manage such activities.

Local government is coming under an increased spotlight in terms of how the sector responds to these external challenges, including the Government establishing the Office for Local Government (Oflog) and there has been an increase in the number of councils who have laid a Section 114 Notice, or are commenting on the likelihood of such an action, as well as continued Government intervention at a number of councils.

There has also been an increase in the use of auditors using their statutory powers, such as public interest reporting and statutory recommendations. The use of such auditor powers typically derive from Value for Money audit work, where weaknesses in arrangements have been identified. These include:

- a failure to understand and manage the risks associated with commercial investments and council owned companies
- a failure to address and resolve relationship difficulties between senior officers and members
- significant challenges associated with financial capability and capacity
- a lack of compliance with procurement and contract management processes and procedures
- ineffective leadership and decision-making.

Value for Money audit has an important role in providing assurance and supporting improvement in the sector.

The current LG landscape

National context

Cost of Living Crisis

The rising costs of fuel, food and other essentials are combining with existing disadvantage and vulnerability and putting many households at greater risk of both immediate hardship and reduced opportunity and wellbeing.

Councils and local partners continue to do what they can to protect people against higher costs, targeting help at those facing the most complex challenges.

Councils' range of front-line services play a vital role in protecting residents from rising costs; preventing the most vulnerable from falling into destitution and helping to build households long-term financial resilience.

The dramatic increase in inflation alongside increases to the National Living Wage, have added £2.4 billion in extra costs onto the budgets of Councils in 2022/23. In 2023/24 Councils are facing a funding gap of 3.4 billion, with a funding gap of £4.5 billion the following year.

To support its most vulnerable residents through the cost-of-living crisis, Councils face additional cost-pressures which will need to be addressed to avoid further cuts to vital frontline services.

Housing

Local Authorities work closely with registered providers for social housing to deliver England's social housing supply. Their work is regulated by the Regulator of Social Housing, using value for money as a key regulatory standard.

The housing sector faces significant economic challenge. In 2022, the Regulator estimated that half of housing providers' headline costs related to major repairs. Where Local Authorities have borrowed to finance housing, the margin for paying rising interest rates and setting aside repayment funds is becoming more difficult to achieve.

Managing trade-offs is difficult. Boards need to have a clear understanding of their organization's performance, and decisions need to be transparent for stakeholders. Local Authorities need to get the best out of the resources they have available for delivering safe, well-maintained homes. This means using effective procurement and contract management arrangements; adopting rolling plans of service reviews, supported by strong performance indicator reporting; recruiting and retaining staff with the right skills; and maintaining physical control over assets.

Workforce

Local government faces multiple workforce challenges including skill shortage in areas like social work and planning and the lessening attractiveness of local government as a career choice when staff can be paid more for less stressful work in other sectors.

The need for future workforce planning to ensure the Council has the appropriate staff, with the right skills, at the right time to deliver sustainable council services is therefore clear.

To achieve this aim, councils need to develop a workforce plan or strategy which not only sets out aims and aspirations but also a roadmap with numerical targets against which outcomes can be measured and assessed

The workforce strategy needs to be clearly linked with strategic objectives and financial planning.

Without a corporate workforce plan, Councils cannot take a strategic view of how the needs of the council in terms of human resources will develop over the medium term and appropriate development through training and recruitment may not be undertaken

Carbon reduction

The UK government has a target of 100% reduction in 1990 greenhouse gas emissions by 2050. Many of the carbon budgets set by the government are relevant to Local Authorities. By June 2022, more than 250 English Local Authorities in England had declared Climate Change Emergencies and set carbon reduction targets of their own.

To deliver value for money whilst also implementing carbon reduction, Local Authorities need strong processes. Carbon reduction costs need to be reflected within medium-term financial plans; funding needs to be consistent with other strategic priorities; costs need to be accurately recorded and monitored; and the relative costs of acting versus not acting need to be evaluated on an ongoing basis.

Climate change is often already reflected on Local Authority risk registers and where Local Authorities set themselves strategic goals around carbon reduction, effective processes for monitoring progress against those goals is needed. Training should be kept up to date both for executives and for members overseeing climate change and carbon reduction risk and performance. As legal requirements are evolving and new sources of funding and grants continue to come forward, horizon scanning for new duties and opportunities will also need to be vigilant.

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.

22/23 Financial Performance

Members approved the 22/23 budget and medium term financial plan (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 £3.2m reserves to produce a breakeven position. Therefore, an underlying deficit position which has been mitigated by reserves built up in prior years. Our work in the prior year confirmed this position was affordable in the short term.

The forecast outturn position is monitored by the Finance Team and reported to members quarterly. The year end outturn position for 22/23 demonstrates that the Council achieved its breakeven position with £1.7m less than planned from its reserves, utilising £1.5m of the planned use of £3.2m. Although this is positive in one respect, as it represents a better reserves position than planned, in another respect reserves have still been used to balance the budget. In the medium to long term this would be an unsustainable practice as reserves are finite and therefore once used require replenishment to be able to protect the Council against future financial uncertainties.

The driver of the better than anticipated performance was a £1.5m surplus in relation to financing costs predominantly as a result of lower than anticipated borrowing costs due to delays with the delivery of the capital programme and therefore those financing costs are likely to impact the budget in later years.

23/24 Budget and Assumptions

The Council's budget was finalised and approved by Full Council on 6 February 2023. The Council's spending power is predominantly determined by the Local Government Settlement, which is announced annually and provides funding to the Council on a one-year basis. The MTFP and budget was based on the provisional figures, with the final settlement announced after preparation of these. The Council's quarterly budget monitoring does allow for revisions to the budget should significant new information become available and no changes were made in the final settlement affecting the Council's budget.

The Council set a balanced budget for 23/24 which matched net expenditure of £16.7m to available funding. The Council's Medium-Term Financial Strategy and 23/24 budget continues to rely on the main sources of funding, commonplace across the sector, and also receives income for fees and charges for certain services which net off overall expenditure.

The Council continues to use a roll forward approach when setting its annual budget, using the prior year as a starting point. In the prior year we highlighted that the Council would need to review assumptions, particularly in relation to expenditure, when setting the 23/24 budget to ensure they remained realistic after identifying optimism in relation to expenditure assumptions.

In relation to expenditure a standard increase of 4.57% inflation was applied to non-pay budgets except for contracts where specific indices were applied. At the time of setting the initial MTFP inflation was 10.1% and remained relatively stable until the end of 22/23. Inflation has reduced in 23/24 and is currently at 6.7% (August 2023). The Bank of England expects inflation to be at 5% by the end of 2023 and to keep falling towards the target of 2% in 2024. The expenditure inflation assumed in the 23/24 budget is reasonable.

Pay inflation assumptions have been reviewed in the 23/24 budget setting process. Nationally Council staff generally have been offered a pay rise of at least £1,925 for 2023-24, equating to between 3.88% and 9.42% depending on their pay grade. The Council assumed 3% in the budget, and therefore could be deemed optimistic. A similar issue was highlighted in the prior year and therefore our prior year recommendation remains open (see 'Follow Up' section) .

Key assumptions in relation to sources of income have been reviewed as part of the budget and remain realistic - including the council tax threshold being set close to the maximum allowable before a referendum, collection rates on council tax and business rates being in line with prior year actuals and fees and charges being increased in line with 10% inflation on average which is in line with inflation rates at the various iterations of the budget.

Financial sustainability (continued)

Although council tax remains a stable form of income, uncertainty around government grants and retained business rates continues to be a challenge across the sector. As these are funding streams the Council is highly reliant on there is scope for the Council to explore ways to diversify the sources from which it generates income. This is not without its financial risks, including potential upfront investment and exposure to market volatility, and therefore should not be explored without a sound business case and expert advice.

Medium Term Financial Plan (MTFP)

The draft MTFP was initially updated in September 22 and presented to members in December 22. It continued to be updated alongside the setting of the detailed annual budget which was finalized in February 23. The budget and MTFP have been through a rigorous review process involving finance, senior leadership, members, residents and budget holders with multiple opportunities to challenge and refine.

The MTFP spans a 5 year period, including 23/24, and was developed prior to the 22/23 outturn position being known. It is therefore based on the 22/23 MTFP with updates to assumptions. The final draft determined a budget gap in 3 of the 5 years of the MTFP, with recovery and contribution to reserves forecast in 26/27 and 27/28. The total budget gap over the 5 year period totals £2.9m, some 3.7% of total net cost of services. Typically, based on our experience within the sector, we would consider a gap over and above 5% of total net cost of services to be indicative of a significant risk to financial sustainability. Updated information was provided to members in September 23 reflecting the emerging position in 23/24 which increases the total budget gap to £3.7m over the period, and recovery via contribution to reserves in only one of the years being forecast. The total budget gap over the entire medium term remains below 5% of net cost of services.

The budget gap is greater than 5% in 23/24 and 24/25. However given there are sufficient reserves available to support the full 5 year deficit (see reserves section); recovery is planned in latter years and the Service Planning Programme planned in 23/24 will fully review the cost effectiveness of services to identify how efficiencies, provides some assurance that actions are being taken to address the issue. We made a similar comment in the prior year, that the latter years of the MTFP showed recovery and contribution. The same is observed in the 23/24 MTFP – recovery in latter years but a budget gap over the totality of the MTFP. Therefore timeliness and pace of recovery remains an issue. This suggests that the medium term gap is ultimately not being addressed but being pushed on by a year each time the budget is set. See our comments on savings which are aimed at addressing this issue.

	23/24	24/25	25/26	26/27	27/28	Total
Final 23/24 Budget and MTFP February 23:						
Net Cost of Services	16.7	15.4	14.9	14.8	15.1	76.9
Funding Gap/(Contribution to Reserves)	2.0	0.9	0.3	(0.2)	(0.2)	2.9
Gap as % of NCS	12.18%	6.03%	1.80%	(1.09%)	(1.29%)	3.74%
Member Update September 23:						
Funding Gap/(Contribution to Reserves)	2.2	1.1	0.4	0.0	(0.1)	3.6
Gap as % of NCS	13.17%	7.14%	2.68%	0.00%	(0.66%)	4.68%

Savings

The Council established its Financial Sustainability Programme (FSP) in March 21 to deliver efficiencies in 21/22 to 23/24, assuming that recurrent savings of £2m would be made each year. The Council has had a challenging track record in delivering this programme and as a result the programme has not delivered in full within the 23/24 budget as anticipated.

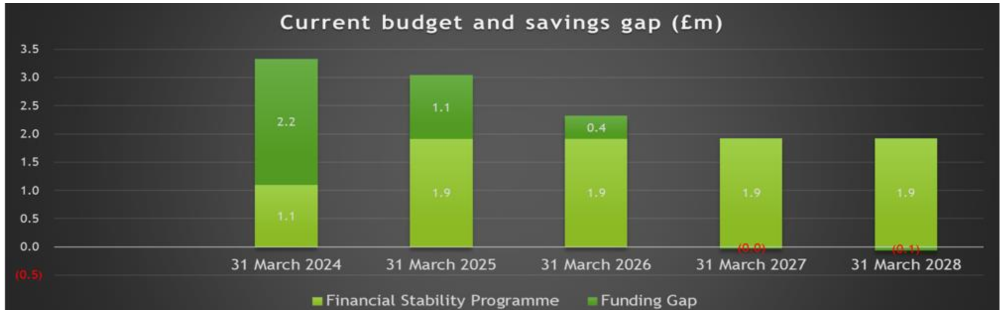
For 22/23 the programme delivered £91k savings compared to a £635k target, a significant under-delivery of 85% and a worsening position from 21/22 when 69% was under-delivered. Despite this under-delivery in 22/23 the Council was able to deliver a balanced budget with the use of £1.7m fewer reserves than initially planned due to underspends elsewhere in the budget. The Council is undertaking a full affordability review of the Capital Programme however development of housing via the Housing Company remains a medium term priority and therefore finance costs are unlikely to remain low in the medium term. Therefore the Council will need to ensure that it equally prioritises development of the Capital Programme and Savings Programme simultaneously at the same pace to avoid exposing itself to financial risk on both fronts **(Recommendation 1)**

The savings within the programme rely heavily on the Protection of Discretionary Services Strategy, devolving delivery of certain discretionary services and associated assets, to Bexhill Town Council and other local parish councils under a phased approach.

Financial sustainability (continued)

The savings under-delivery is driven by the fact that the Council has not yet been able to complete the first phase of this devolution process, which is the transfer of 14 public conveniences to Bexhill Town Council, originally aimed to complete by April 23. Phase Two would be the devolvement of all other identified services in the programme to the relevant town and parish councils following completion of Phase One, with an original target date of April 24.

Bexhill Town Council deferred the decision to take on services until after the May 2023 local elections meaning that any potential savings from devolving public conveniences couldn't be realised in the original timeframe of 1 April 2023. The budget and MTFP have been updated to reflect this with a new target date for Phase One of April 24 and as a result the expected 23/24 savings from the programme reduced from £2.1m to £1.1, with recurring savings expected from 24/25 onwards.



The Council continues to liaise with Bexhill Town Council and the transfer is a regular discussion point at their Asset Transfer Committee. The Town Council has requested a full and final deal in relation to the transfer of services and assets be presented to their committee in November 23. Achievement of the 23/24 savings target of £1.1m is dependent on the success of that meeting, should negotiations be unsuccessful Phase One of the programme will likely be unachievable. In order to minimse the impact of such an outcome the Council should seek to mobilise discussions in relation to Phase Two with the remaining town and parish councils alongside Phase One to bring forward the transfer of other discretionary services in the programme where possible **(Recommendation 1).**

In order to maximise the success of Phase Two, and any future savings programmes, the council should seek to do a deep dive exercise into Phase One to ensure that lessons can be learned to applied to these other programmes **(Recommendation 1).**

In Q1 of 23/24 to date the FSP is forecast to under-deliver by £906k due to the continuing negotiations with the Town Council in relation to Phase One of the devolution of discretionary services and anticipation of this phase of the programme being removed from the programme. Non-achievement of the FSP in full and the anticipated budget gap included in the 23/24 budget is a total gap of £3.3m that would be met from reserves.

This highlights how highly reliant the Council is on the Protecting Discretionary Services Programme and suggests that the Council may now need to diversify the type of savings it seeks to make **(Recommendation 1).**

We are aware from discussion with officers that a key response to this recommendation is the Service Planning Review which was initiated in December 22 by the previous Chief Finance Officer (CFO), with the aim of delivering savings from this from 24/25 onwards. This has been taken forwards by the current CFO in the 23/24 year with the aim of generating £700k of recurring savings. Proposals from budget holders have generated proposals in excess of this amount across 7 workstreams, which are currently being reviewed for achievability and affordability by the Finance Team and members. It is important that the nature of these schemes is considered in this review as the Council will need to focus on transformation projects which will generate multi year savings and efficiencies as opposed to one-off, non-recurrent, target percentage reduction of costs which can be challenging to sustain and replicate year on year **(Recommendation 1).**

Reserves

The Council's designated Section 151 Officer, the Chief Finance Officer, confirms in their Section 25 Statement to the approved 23/24 budget that they are satisfied with the adequacy of the Council's Reserves. The budget and MTFP were finalised prior to the confirmation of the 22/23 outturn position and balanced the revenue budget for 2023/24 by the planned use of £2.035 million from its usable general fund and earmarked reserves. Additional budget gaps in the medium term mean, pending alternative solutions being identified, there could be a further call on reserves in later years. The Council has a clear aim to keep its general fund and earmarked reserves above a minimum threshold of £5m as this is determined to be the appropriate level to protect the Council from future financial pressures. There is no formal definition as to what constitutes adequate reserves, but Grant Thornton's view in their publication 'Lessons Learned from Public Interest Reports' from 2022 is that reserves should be a minimum of 5% of net spending and preferably be somewhere between 5% and 10% of the nest cost of services (NCS).

Based on the available financial information at the time of setting the 23/24 budget and MTFP the Council anticipated that the use of £2.035m of reserves factored into the budget (this has since increased to £2.5m in Q1 of 23/24) would reduce these reserves to £5.3m and therefore within the Council's own threshold. However, in the medium term, the estimated budget gaps in the MTFP would reduce the available reserves below the Council's minimum threshold. This would therefore be an early signal of potential unsustainable use of reserves against the advice of the Chief Finance Officer should the gap require reserves to be used. This also increases the Council's vulnerability to being able to cope with unexpected cost increases.

Financial sustainability (continued)

Final 23/24 Budget and MTFP February 23:	23/24	24/25	25/26	26/27	27/28
Net Cost of Services	16.7	15.4	14.9	14.8	15.1
Reserves:					
Earmarked and GF Opening	7.5	5.3	4.2	3.8	3.8
Use/Contribution to Fund Capital	(0.2)	(0.2)	(0.1)	(0.1)	(0.1)
Use/Contribution to Balance Budget	(2.0)	(0.9)	(0.3)	0.2	0.2
Total	5.3	4.2	3.8	3.9	3.9
Within Council Threshold?	Yes	No	No	No	No
% of NCS	31.74%	27.27%	25.50%	26.35%	25.83%
Within GT Expectation?	Yes	Yes	Yes	Yes	Yes

In actuality, once the 22/23 outturn position was finalised, this produced a reserves position in excess of what was anticipated and therefore increasing the opening position for 23/24 and increases the expected balances in the medium term, ensuring that the Council's £5m threshold set internally is not breached.

The current forecast outturn for the 23/24 financial year as at 30 June 2023 indicates a deficit position of £2.811m at 31 March 2024, against a budgeted deficit of £2.21m, a variance of £0.6m which would be met from reserves. The position is driven by the anticipated under-delivery of the FSP. Should the Council need to fund both non-delivery of the FSP and the medium term budget gap in full from reserves, which is a worst case scenario assumption., then reserves would fall below the Council's £5m minimum threshold in 25/26 and be fully depleted by 27/28. Therefore, in the short-term reserves are sufficient to support the forecast position. However, reliance on reserves is not a sustainable approach and it is imperative that the Council continues to deliver on key initiatives such as the Financial Stability Programme and the Service Planning Review, which are aimed at generating additional income and cost savings, to ensure that the medium term position is affordable. The Service Planning Review is underway with delivery expected from 24/25, £1m of savings have already been proposed against a target of £700k and are being reviewed by budget holder, finance and members for suitability. The MTFP currently assumes that savings of £1.1m in 23/24 and £1.9m in latter years is achievable, based on historic trends of less than 100% delivery it may be more realistic to include an adjustment or contingency for optimism bias (Recommendation 1).

Updated Position Following 22/23 Outturn	23/24	24/25	25/26	26/27	27/28
Reserves:					
Earmarked and GF Opening	12.8	10.0	8.9	8.5	8.6
Use/Contribution to Fund Capital	(0.3)	(0.2)	(0.1)	(0.1)	(0.1)
Use/Contribution to Balance Budget	(2.5)	(0.9)	(0.3)	0.2	0.2
Total	10.0	8.9	8.5	8.6	8.7
Within Council Threshold?	Yes	Yes	Yes	Yes	Yes
% of NCS	59.88%	57.79%	57.05%	58.11%	57.62%
Within GT Expectation?	Yes	Yes	Yes	Yes	Yes
Earmarked and GF Opening	12.8	8.9	5.9	3.6	1.8
Impact of Undelivered FSP	(1.1)	(1.9)	(1.9)	(1.9)	(1.9)
Use of Reserves for Capital and to Balance Budget	(2.8)	(1.1)	(0.4)	(0.1)	0.1
Total	8.9	5.9	3.6	1.8	0.0
Within Council Threshold?	Yes	Yes	No	No	No
% of NCS	53.29%	38.31%	24.16%	12.16%	0.00%
Within GT Expectation?	Yes	Yes	Yes	Yes	No

Capital Programme

The Council has a 5 year capital programme totalling £156m which was set during the 23/24 budget process. Following reprofiling at Q1 of 23/24 the Council is expecting to deliver £27m in 23/24 and £128m over the remaining life of the programme to 27/28.The budget was calculated on the assumption that the pace of the Council's capital programme would accelerate significantly once lockdown had finished, however this has not been the case, with the programme being reviewed and reprofiled within each budget and budget monitoring report and therefore shifting projects into the medium term.

Financial sustainability (continued)

In 22/23 the Council spent £23.4m on capital projects which is more than £150m lower than the revised budget for the year. We also noted an underspend in our 21/22 work. At Q1 of 23/24 £2.4m has been spent which is 8% of the revised 2023/24 capital budget. This pace of spend suggests that there is a risk of significant underspend against the annual programme. There is no information on the expected year end forecast against the £27m programme for the year and therefore this information could be improved (Recommendation 4 – linked to Financial Governance).

In addition within Q1 of 23/24 £8.2m of capital spend has already been reprofiled into the later years of the programme. Common causes of continual slippage are a lack of adequate underlying governance and project management arrangements including a project management framework, communication plan and monitoring framework for each project with clear roles and responsibilities established between project teams and finance. Internal Audit undertook a review of the Capital Programme in year and issued a limited assurance judgement. Their findings concur with these common causes and as such we recommend that a clear project management framework is developed as a key tool for managing all projects in the programme and training is delivered in relation to using this to ensure it embeds and is used consistently (Recommendation 2).

The Council has begun to respond to this recommendation and in April 23 a restructure has taken place resulting in the creation of a programme and project team with an experienced lead responsible for corporate governance and risk management of projects. The Council has specifically recognised a lack of consistency and standardized toolkit within project management. We note that the 23/24 Internal Audit Plan includes a 20 day audit of Corporate Project Management and 25 days in relation to a significant and specific project - Blackfriars Spine Road and therefore will assist in ongoing review and improvement in this area providing the Council engage with any recommendations made.

The Council has taken the decision to pause all capital projects that are not already in train, such as the infrastructure element of the Blackfriars Housing project, to undertake a full option appraisal of all projects in the programme. This will allow the Council time to develop appropriate governance arrangements for when the programme re-starts as well as to test specifically assumptions in the original business cases against the current external financial situation. This should be prioritised for completion in 23/24 to ensure that the programme remains viable and affordable with the aim of reducing further slippage in the medium term due to delays and reduce cost overruns **(Recommendation 2).**

We would expect that members are sighted on the outcome of this, we are aware this has taken place informally and via member away day presentations, and once complete formal option appraisal is expected to be presented via the Council committee structure.

The Council has a Capital Strategy covering 22/23 to 26/27. It is intended to provide a view of how the programme will be funded, the revenue and treasury implications and determine the affordability of the detailed five-year Capital Programme.

Both the Strategy and Capital Programme include significant investment in new housing (both market, affordable and temporary accommodation) which links directly to a key priority in the Council's Corporate Plan. Housing provided via the Rother Housing Company, in particular, is experiencing slippage. The supporting road infrastructure is in progress but planning permission for the housing element of the project is still pending approval due to redesign and resubmission.

The housing projects, including those via the housing company, will be included within the option appraisal of the capital programme and therefore multiple expected phases of the programme will be reviewed. Whilst acknowledging that housing is a key priority within the corporate plan, the Council will need to ensure when reviewing the programme it considers capital schemes that contribute to the achievement of a range of its corporate priorities **(Recommendation 2).**

Alongside the Capital Strategy and Programme the Council would benefit from an asset management plan as this will assist in planning disposals alongside new projects, will help identify funding from capital receipts and ensure that assets are not used for longer than their useful life by developing a replacement plan. This has been recognised by the Council and an early draft developed by the CFO with the assistance of the Head of Housing. It is currently pending review by the Senior Leadership Team (SLT) but was not in place in 22/23 (Recommendation 2).

Treasury Activity

The Council updates its Treasury Management Strategy Statement and Annual Investment Strategy annually in line with the budget setting timetable to ensure the revenue impact of borrowing and investments is considered within the budget and clear borrowing and investment limits, prudential indicators and criteria are set. The Council did not breach any of these in 22/23, nor have we been made aware of any potential breach in 23/24.

The 23/24 budget assumes income of £586k from treasury activities (£342k in 22/23). This assumes an average rate of return across the portfolio of 1.98% (a small increase of 0.34% from prior year) based on advice from its external treasury advisors. We have reviewed the strategy and have not noted any additional risk taken by the Council to achieve this planned position. The Council continues to balance risk and reward within its risk appetite.

Financial sustainability (continued)

Between January 22 and January 23 the Council reduced its investments in Call Accounts by £16m, of which £6m was invested via a loan to Thurrock Council and the remainder was simply removed from investments to liquify the assets. These actions, alongside an additional loan from Local Authorities for £5m, reduced the Council's treasury position substantially. This is still a net investment position overall at £8.6m (compared to £23m) and the Council has complied with its prudential indicator prohibiting gross debt exceeding the total of its Capital Financing Requirement (CFR) in the preceding year plus its estimated CFR for the following two financial years, despite the additional loan.

Thurrock Council declared an inability to manage its financial affairs in December 22 after running up a £500m deficit. It is now under special measures and being run by a government-appointed team of commissioners. Rother's investment in Thurrock Council matured in February 23 and was repaid.

Environmental Considerations

In 2019, the UK Government passed legislation to bring all greenhouse gas emissions to Net Zero by 2050. This was to align with the commitments in the Paris Agreement to limit global warming to 1.5 degrees. The Council declared a Climate Emergency in 2019, pledging to be Carbon Neutral by 2030. It has subsequently published an Environment Strategy 2020 – 2030 setting out how that pledge will be achieved. The strategy was adopted, following extensive public consultation, in September 2020. Although the priorities within the strategy would be considered operational they will ultimately have a financial impact on the Council.

The Climate Change Steering Group meet monthly to review progress against the strategy and progress is also periodically reported to members via the Overview and Scrutiny Committee, who receive updates approximately every 6 months. Progress to date has been focused on Council Emissions Baselining and tree planting based strategies in terms of completed actions. In progress actions include village halls energy projects, electric vehicle charging points and a bio diversity audit. The Council has begun embedding sustainable practices within operational processes at the Town Hall, as well as some services and are working with partners and its communities to explore opportunities and implement projects that will help to achieve Net Zero as a District by 2030.

Actions are being taken to respond to this priority area, however at this stage these are not transformative in nature, with the exception of charging points. This is within expectations as the Council is 2 years into a 10 year strategy and so is in its infancy. Review of the MTFP and Capital Programme does not note any specific reserves, capital projects, cost pressure or budget growth related to carbon, net zero, climate or environmental strategy projects.

We would expect larger scale changes to take place in the latter years of the strategy and the Council will need to ensure they are factored into the MTFP and Capital Programme going forwards to ensure the environmental strategy is affordable across the medium and long term.

Following recommendation by Cabinet in June 23, members approved the Council's membership of the UK100 which is a network of local authorities who have pledged to get to Net Zero by 2030 for council operations and 2045, at the latest, for area-wide emissions. Membership is free and benefits include support, guidance and knowledge sharing and therefore increases the Council's pool of resources to achieve its strategy. Membership also signals the Council's intent to do its fair share and influence district-wide emission reduction and reaffirms its commitment to Net Zero.

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 significant weakness in current arrangements. The Council's financial arrangements remain appropriate.

Financial Governance

Budget monitoring

There has been limited change in the frequency, format and process of budget monitoring since 21/22, this is appropriate since we did not identify any weaknesses in arrangements or a significant number of improvements required. Liaison between finance and budget holders continues to occurs monthly to prepare and provide financial information to the Senior Leadership Team (SLT) and ensures there is regular accountability of budget holders, with support from the CFO. This monthly review process ensures that variances are picked up promptly as the quarterly Cabinet schedule alone would not support this.

The format of the revenue monitoring reports is such that a variance is provided on an in quarter basis and the full estimated impact on the year end outturn. This is an important distinction to allow budget holders and decision makers to assess the full potential impact of the current variance and take action accordingly, prior to year end. Each variance, whether positive or negative, is explained and therefore there are no gaps in information and therefore budgetary control is deemed to be effective. In 22/23 actions and next steps in relation to negative variances were not included, however we note in Q1 23/24 monitoring that the most significant deficits do have some information to this effect and therefore efforts in the right direction have been made to respond to our improvement recommendation in the prior year.

Capital monitoring

As in the prior year the Council monitors the Capital Programme quarterly alongside the Revenue Monitoring. The reporting is at individual scheme level so decision makers can clearly identify and challenge specific projects and take targeted action. In addition the fact that the reporting is within the same report as revenue allows the Council to monitor the revenue impact of capital performance on finance costs.

Monitoring reporting in 22/23 includes actual monthly performance and forecast outturn, as well as the variance, so members are clearly sighted on the impact of in year performance on the year end outturn. We note that the Q1 23/24 monitoring, although it includes greater information on reprofiling of the programme, only includes actual spend to date and variance and not the forecast position. Although at Q1 there is scope for much movement later in the year this forecast position is useful for aid in forward looking decisions and useful given that the Council is looking to review affordability of the programme. Most capital schemes have been paused currently, once the review of the programme is complete and schemes mobilised again we would recommend reinstating the forecast position in the monitoring reports (Recommendation 3).

Quarterly reporting is sufficient provided the capital programme has limited risk, at the end of 22/23 the programme is significantly behind plan by £150m and schemes paused while a full affordability review is undertaken. Therefore more frequent reporting and monitoring of the capital programme would be beneficial once the programme is re-mobilised to ensure that slippage can be addressed in a timely manner, and would be reflective of the risk being demonstrated in the programme to date (Recommendation 3).

Rother DC Housing Company was incorporated in December 2019, when the Council approved the establishment of a Local Authority Housing Company, with the initial aim to complete 1,000 new homes by 2035. Still in its infancy, the Company has taken on its first major project at the Blackfriars site in Battle. Construction on the Blackfriars site began in Spring 2022 on the road infrastructure element of the project. This element needs to reach a trigger point, expected in September 24, before the housing element of the development can take place. A submission for planning permission has been entered and is waiting approval which will also determine when work can start on the housing element. The project as a whole is considered to be behind plan for a number of factors including delays in the delivery of the infrastructure element and changes in key personnel. This ambitious project is being assessed along with others within the Capital Programme to identify the best way forward in challenging economic circumstances. The project has raised several member questions and a paper to Cabinet in July 23 was required to provide background, clarifications and updates on the project. There was only one paper prior to this in relation to the project in the 22/23 year. As such we would consider, for a significant project attracting member attention, that a regular stand alone agenda item on Blackfriars specifically would be beneficial for members to be presented with - covering non-financial KPIs, financial KPIs and progress against key milestones in the project plan. We would expect that the same framework could then be applied to future phases of the project as it progresses **(Recommendation 3).**

Savings monitoring

Last year we noted that the Financial Sustainability Programme would be overseen by a newly created Financial Sustainability Board. In 22/23 this board was superseded and the savings programme monitored via the quarterly budget monitoring reports as an overall figure. Should the Council diversify its savings programme away from devolution of services, members should be presented with sufficient information with which to assess the progress of savings schemes at individual project level. This is consistent with our recommendation in the prior year (see Follow Up section), however we do note that the key source of under delivery for 22/23 is the delay on the devolution of discretionary services which is appropriately reported within the budget monitoring reports.

The Council plans to fundamentally change the approach to savings monitoring for the 2024/25 budget process which ensures that a detailed plan is produced supporting each scheme ensuring each is transparent, realistic and achievable and allowing managers to take ownership and accountability for them. The savings planning exercise for 24/25 has already begun with recent CFO led sessions focusing on savings with Senior Leadership Team, Corporate Management Team and members via the Member Away Day.

Financial Governance (continued)

Budget setting

The budget setting process for 23/24 has remained stable since the prior year where no weaknesses were identified. Improvement recommendations were made and these have been followed up at our 'Follow Up' section.

The potential financial risks which the Council could face in the coming year are addressed implicitly within the 23/24 budget as opposed to being separately identified as a stand alone section in the budget for member discussion. Good practice would be to separately recognise the potential future risks to aid discussion on how they can be mitigated ahead of the financial year. Risks are tracked over the year through the variance analysis within the budget monitoring reports to help members to understand how they are emerging, taking action as required. The budget focusses on cost pressures, as opposed to risks. Cost pressures are built into the budget and funded, where as risk is the potential future scenarios the Council may need to plan for that have not yet emerged. Considering the probability and potential financial impact of these risks would assist the Council taking mitigating actions in advance should the risks identified start to crystallise. The Council does not undertake scenario planning in the 23/24 budget setting process which would ensure consideration of the impact of these factor, we have noted that this has taken place in the early update for the 24/24 MTFP (see 'Follow Up' section)

Risks recognised within the budget relate to uncertainty in relation to business rates reform in the medium term, the under delivery of the Financial Stability Programme in recent years and the need to increase delivery to reduce pressure on reserves and in relation to slippage in the capital programme (including the revenue impact of this in future years). There is limited evidence of consideration of some common risks in the sector, as well as those specifically to Rother. Examples are the costs of climate change plans, risks associated with the housing company performance which may financially impact the Council, inflation over and above that planned for and the cost of living crisis. Therefore the Council should review the budget setting process for 24/25 to ensure that future risks, and their financial impact, are clearly understood by members. This could be incorporated into scenario planning within the budget **(Recommendation 4)**.

Conclusion

Overall, although we have identified areas for improvement in arrangements, these represent actions to be taken to achieve best practice in ensuring finances are governed effectively and do not represent a weakness in current arrangements. The Council's financial arrangements remain fit for purpose.

Improvement recommendations – Financial Sustainability

Improvement Recommendation 1	The Council should develop a savings programme which goes beyond the current Financial Sustainability Programme (FSP) to ensure that the Medium Term Financial Plan (MTFP) is achievable without an additional call on reserves. In doing so it should consider: • Prioritising the development of the Capital Programme and Savings Programme simultaneously and at the same pace to avoid exposing itself to financial risk on both fronts • Mobilising discussions in relation to Phase Two of the devolution of discretionary services with the remaining town and parish councils, alongside Phase One, to bring forward the transfer of these services, where possible, and ensure they can deliver savings as soon as possible • Undertaking a deep dive exercise into Phase One of the FSP to ensure that lessons can be learnt to apply to Phase Two and future savings schemes • Diversifying the savings programme away from transfer of discretionary services • Identifying transformation projects which will generate multi-year savings and efficiencies • Including an adjustment or contingency for optimism bias within the future savings programme
Summary findings	In 22/23 and 23/24 to date the impact of under-delivery of the FSP has been offset by lower than expected finance costs due to slippage in the capital programme, and therefore reduced the full impact on the deficit position being funded from reserves. But once affordability of the capital programme is completed and schemes mobilised again finance costs would be expected to increase and no longer offset any savings under-delivery. Bexhill Town Council has requested a full and final deal in relation to the transfer of services and assets within Phase One of the FSP be presented to their Asset Transfer Committee in November 2023. Achievement of the 23/24 savings target of £1.1m is dependent on the success of that meeting, should negotiations be unsuccessful Phase One of the programme will likely be unachievable and Phase Two, which involves the transfer of other services and other Town and Parish Councils, has yet to be mobilised. Phase One of the FSP is significantly delayed. The Council has been, and continues to be, highly reliant on the FSP, particularly in the transfer of discretionary services. The Council will need to ensure there are sufficient other savings outside of the FSP so that savings can continue to be delivered to support the MTFP. The Council is undertaking a Service Planning Review process to identify savings outside of the FSP for delivery from 24/25 onwards. One-off, non-recurrent, target percentage reduction of costs can be challenging to sustain and replicate year on year and therefore to be beneficial to the future financial sustainability of the Council it is important this process identifies more transformative projects. The MTFP currently assumes that savings of £1.1m in 23/24 and £1.9m in latter years is achievable, based on historic trends of less than 100% delivery it may be more realistic to include contingency to respond to this.
Management comments	As part of the 2024/25 Medium Term Financial Strategy (MTFS) the Council has taken a new approach to savings with the 'Fit for the Future' financial resilience programme and the previous FSP has been discontinued. Based on the new savings approach the current forecasts see reserves being replenished from 2026/27 onwards. In response to the specific bullet points: • The Council is already in the process of undertaking a fundamental review of the affordability and deliverability of the capital programme alongside development of the new savings programme; • The Council has entered phase 2 of the devolution programme and is in discussions with various organisations and town and parish councils regarding devolution of areas such as grounds maintenance and toilets; • A review of phase 1 of the FSP has already been undertaken which has informed the Fit for the Future programme as follows; • Transfer of discretionary services is now the last thing in terms of priority areas for delivery of savings and efficiencies as opposed to the fundamental pillar; • The programme is diversified across several different workstreams including 1. Operational efficiencies 2. Increased focus on treasury management activities 3. Review of grants and contributions 4. Review of contracts 5. Income generation through areas such as fees and charges 6. Shared services 7. Devolution of services; • Most of the savings proposals have been phased for delivery over the next 3 years to counter the effect of optimism bias, with the savings anticipated to come from shared services for example being based on delivery of 50% of the target in 2024/25, 75% in 2025/26 and then full delivery in 2026/27; and • The Council is in the process of developing a Digital and Customer Strategy which is due to be adopted in May 2024 which will support the identification and prioritisation of transformation projects to help further support the Council's medium-term financial position.

Improvement recommendations – Financial Sustainability

Improvement Recommendation 2	Greater attention needs to be focussed on ensuring the capital programme delivers as planned as this has experienced significant slippage in 22/23 and has now been paused pending a review of the entire programme. In order to improve deliverability the Council should prioritise the below during this review: • Development of a clear project management framework as a key tool for managing all projects in the capital programme. Train staff in relation to using this framework to ensure it embeds and is used consistently • Prirotising the full affordability review and option appraisal of the capital programme for completion in 23/24 to ensure that the programme remains viable, with the aim of reducing further slippage in the medium term due to delays and reduce cost overruns • Whilst acknowledging that housing is a key priority within the corporate plan, the Council will need to ensure, when reviewing the programme, that it considers capital schemes that contribute to the achievement of a range of its corporate priorities • Alongside the Capital Strategy and Programme the Council would benefit from an asset management plan as this will assist in planning disposals alongside new projects, will help identify funding from capital receipts and ensure that assets are not used for longer than their useful life by developing a replacement plan.
Summary findings	At Q1 of 23/24 £2.4m has been spent on capital projects to date which is 8% of revised 2023/24 capital budget within the first 3 months, this would suggest that slippage of the programme continues given this 25% of the way through the year. Common causes of continual slippage of this kind are a lack of adequate underlying governance and project management arrangements including a project management framework, communication plan and monitoring framework for each project for which there are clear roles and responsibilities established between project teams and finance. Internal Audit undertook a review of the Capital Programme in year and it received limited assurance, the findings concur with these common causes. The Council has taken the decision to pause all Capital projects that are not already in train, such as the infrastructure element of the Blackfriars Housing project, in order to undertake a full option appraisal of all projects in the programme. This will allow the Council time to develop appropriate governance arrangements for when the programme re-starts as well as to test specifically assumptions in the original business cases against the current external financial situation. Both the Strategy and Capital Programme include significant investment in new housing (both market, affordable and temporary accommodation) which links directly to a key priority in the Council's Corporate Plan. There is currently no Asset Management Plan in place, this has been recognised by the Council and early draft developed by the CFO with the assistance of the Head of Housing, it is currently pending review by the Senior Leadership Team (SLT) but was not in place in 22/23.
Management comments	The Council is in the process of undertaking a fundamental review of the affordability and deliverability of the capital programme. In response to the specific bullet points: • A new project management framework has been developed and is being used for projects across the Council to ensure a consistent approach; • The Council has employed additional resource for a 6 month period to ensure that the review is progressed in a timely manner with reports anticipated to Committee for decision making regarding which schemes to progress and which to stop based on a full viability appraisal; • Schemes will be considered based on how they support the Council's corporate priorities as well as their viability; and • An initial framework has been produced within which the Council will develop a Strategic Asset Management Plan (SAMP).

Improvement recommendations – Financial Sustainability

Improvement Recommendation 3	The Council should review and update the capital programme monitoring process to ensure the information provided is sufficient to inform reliable decisions. The updates that should be considered, once the capital programme is mobilised following its ongoing affordability review, include: • Ensuring that the capital programme monitoring information presented to members includes the year end forecast position, and the impact of the in year performance on the forecast, consistently so that this is transparent and decisions can be made earlier in year to address below target performance • Considering more frequent reporting and monitoring of the capital programme than quarterly to reflect the increased risk that a track record of slippage in the programme demonstrates. This will ensure that slippage can be addressed in a timely manner. • A regular stand-alone agenda item on the Blackfriars Housing Project covering non-financial KPIs, financial KPIs and progress against key milestones in the project plan. We would expect that the same framework could then be applied to future phases of the project as it progresses
Summary findings	At Q1 of 23/24 £2.4m has been spent on capital projects to date which is 8% of revised 2023/24 capital budget within the first 3 months, this would suggest that slippage of the programme continues given this 25% of the way through the year. There is no information on the forecast position or the expected impact of in year performance on the year end forecast against the £27m programme for 23/24 and therefore this information could be improved. Quarterly reporting is sufficient provided the capital programme has limited risk, at the end of 22/23 the programme is significantly behind plan by £150m and schemes paused while a full affordability review is undertaken. The Blackfriars Housing Project has raised several member questions and required a paper to Cabinet in July 23 to provide background, clarifications and updates on the project due to lack of clarity around the costs to date of the project and its various elements. There was only one paper prior to this in relation to the project in the 22/23 year.
Management comments	Several improvements have been made to the capital budget monitoring during the 2023/24 financial year as follows: • The updated capital programme appendix included within the quarterly budget monitoring reports includes the forecast year end position and the body of the report has been expanded to include more detail regarding the progress of various schemes; • The capital programme is currently undergoing a fundamental review given the current economic position and increased cost of borrowing which will lead to further slippage. However this has been explained to Members on several occasions and they are aware that this review is taking place. Various updated reports are expected to come through to Committee and the Corporate Programme Board over the coming months with an update in relation to the key schemes; and • There have been two separate reports on the Blackfriars scheme which have gone through Cabinet between July and November 2023.

Improvement recommendations – Financial Sustainability

Improvement Recommendation 4	The Council should review the budget setting process for 24/25 to ensure that all future risks, and their financial impact, are clearly understood by members.
Summary findings	The potential financial risks which the Council could face in the coming year are implicit within the 23/24 budget, as opposed to being separately identified as a stand-alone item for member discussion. Good practice would be to separately recognise the potential future risks so these can be tracked over the year to understand how they are emerging, taking action as required. The budget focusses on cost pressures, as opposed to risks. Cost pressures are built into the budget and funded, where as risk is the potential future scenarios the Council may need to plan for that have not yet emerged, and so the Council would benefit from additional analysis in this respect which considered probability and potential financial impact so that the Council can prepare in advance should the risks identified crystallise. Risks recognised within the budget relate to uncertainty in relation to business rates reform in the medium term, the under delivery of the Financial Stability Programme in recent years and the need to increase delivery to reduce pressure on reserves and in relation to slippage in the capital programme (including the revenue impact of this in future years). There is limited evidence of consideration of some common risks in the sector, as well as those specifically to Rother. Examples are the costs of climate change plans, risks associated with the housing company performance which may financially impact the Council, inflation over and above that planned for and the cost of living crisis.
Management comments	The 2024/25 Medium Term Financial Strategy (MTFS) includes a detailed risk assessment contained within appendix 5 of the report which can be accessed here. It also includes supporting sensitivity and scenario planning update (appendix 6).

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

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
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and member behaviour (such as gifts and hospitality or declaration of interests) and where it procures and commissions services.

Risk Management and Internal Audit

As noted in our report 21/22 reporting the Council fundamentally reviewed and finalised in September 2022, its risk management processes with support from Zurich. This included an updated Risk Management Policy which underpins how the Council identifies and monitors potential risks to achieving its objectives. Prior to September 2022, the policy was last updated in February 2020. This is an example of the Council ensuring key policies are regularly updated.

We reviewed the updated risk management processes as part of our work in 21/22 and made some improvement recommendations. The Council has made progress on addressing these (see 'Follow Up' section).

With effect from April 2023, the role of Risk Management Co-ordination passed to the Corporate Programme and Improvement Manager, from the Internal Audit Manager. The change does ensure that Internal Audit can more readily maintain its independence from Council processes which it ultimately reviews. The responsibility for identifying and managing risks remains, rightly, with Senior Management.

Internal Audit remains consistent from the prior year and is provided inhouse, headed by an Internal Audit Manager. The results of Internal Audit reviews provide useful information about how effectively the Council meets quality standards in various services, and the effectiveness of the system of internal control across the Council. For the 22/23 year the results of reviews carried out include 5 limited assurance reports compared to 3 in the prior year and therefore is suggestive of a potential decline in quality and controls. These were in Capital Programme, Procurement, Community Infrastructure Levy, Property Investment and Public Conveniences Cleaning Contract. Therefore there is a commonality that issues sit within Capital which is also an area we have raised improvement recommendations elsewhere in this report. The vast majority of the expected controls are in place (only four of the 64 control objectives examined during the period had not been "met" at least in part) and most of the "limited" assurance ratings given in 22/23 were a result of the number of smaller issues found rather than a complete failure of the internal control environment, there being only 2 high priority recommendations made.

The limited assurance reports have not caused Internal Audit to modify their year end overall opinion of the Council, as such we do not believe there to be a failure of standards.

However, Internal Audit have stated that although arrangements are adequate and effective overall they have expressed concern this opinion may change in future years if the number of limited/minimal assurance ratings continue to rise and therefore serves as an early warning sign that response to the recommendations raised within the reports should be prioritized. This is taking place, led by the Chief Executive and Senior Leadership Team, and as a result Internal Audit have confirmed many of the issues raised in the limited assurance reports have been addressed in year.

The Public Sector Internal Audit Standards require the Audit Manager to undertake periodic self-assessments of the effectiveness of Internal Audit to provide assurance to the Council. In March 23 the Internal Audit Manager reported this assessment to the Audit and Standards Committee. The review identified no new action points for 23/24 and concluded that there is a high level of effectiveness overall.

In addition to 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 and a review was required in 22/23.

This has since been arranged, in 23/24, and undertaken by the Chief Internal Auditor at Lewes DC and Eastbourne BC and was reported to the Committee in June 23. The overall finding is that "Rother's Internal Audit function "generally conforms" with the standards" and therefore is a positive result with no significant issues identified. Although this was completed after the year end it is a retrospective review and so does provide assurances over the 22/23 arrangements.

The peer review makes a total of six recommendations (referred to as 'remedial actions' in the report). All of these are relatively minor in nature, but they provide some useful ideas as to how the Internal Audit Service can work towards full conformance with the Public Sector Internal Audit Standards. With the exception of one recommendation, all of the points made in the report have been accepted and will be implemented. Moreover, two of the recommendations had already been addressed prior to the report being issued. A revised Quality Assurance and Improvement Programme action plan has been produced to incorporate actions to be taken following the peer review. We recommend this is monitored via the 23/24 Internal Audit progress reports so members are aware of the progress being made by Internal Audit and can hold the function to account as required.

Governance (continued)

Internal audit progress continues to be reported to the Audit and Standards Committee quarterly. The frequency is sufficient and appropriate detail is provided within each progress report to allow members to understand the key findings within each review. The progress reports are summarised and audit recommendations are not included in full. Where there are recommendations that are high rated or relating to limited assurance reports the Committee would benefit from receiving a tracker to allow it to assess progress against them and hold relevant services to account. Only two high risk recommendations were made in 22/23, which is a relatively low number, but there was an increase in the number of limited assurance rated reports.

Progress reporting confirms that only 73.6% of the 22/23 Audit Plan was completed due to challenges faced by the Internal Audit Team during the year. This included a higher than usual volume of audits with serious control issues and long-term absences both inside and outside of the Team, which led to audit overruns.

Three planned audits did not take place and two governance audits (Debtors and ICT Governance) were still in progress at the end of the financial year. Of those not yet started 2 were included in the 23/24 plan and one was assessed as no longer required in its current form. Although Internal Audit had a challenging year the overall results of its work in 22/23 enabled the Audit Manager to give a positive opinion on the Council's control environment and there was sufficient coverage to do so. We note that audits completed covered a range of operations and services and so no significant gaps were apparent in the assurances provided.

In 21/22 we raised an improvement recommendation that the Council needed to explore ways to foster better engagement from audit teams in relation to long standing internal audit recommendations. There are 2 recommendations raised in 18/19 and 5 raised in 21/22 outstanding. All audit recommendations made in 2019/20 and 2020/21 have been resolved. Of the 7 recommendations from prior years that are outstanding 6 are in progress and only 1 not started. In line with Members' wishes, those officers with longstanding recommendations which showed little or no signs of movement in the last nine months were asked to give reasons for the delay. The act of escalating the matter, first to the Senior Leadership Team and then to Members, appears to have had the desired effect of motivating officers to take action where no progress had previously been made resulting in the positive progress reported at year end.

The Council continues to recognise the need to clear old recommendations as an action within its own Local Code of Corporate Governance review, which it undertook against its own internal governance arrangements in the year, and therefore should continue to monitor progress via that action plan. Discussions with officers has confirmed that the Senior Leadership Team (SLT) are now taking ownership of the recommendations and liaising directly with Internal Audit to ensure all recommendations are dealt with in a timely manner going forward.

Alongside reviews of processes and controls the Internal Audit function also monitor whistleblowing incidents and provide counter fraud services. A total of 13 whistleblowing cases were reported to the Audit Manager in 22/23.

As in previous years, the vast majority of these focused on either Benefit/Council Tax Fraud or Housing Issue/Tenancy Fraud. All cases were initially reviewed by the Audit Manager and then either referred to the relevant Council officer for further investigation or reported to the appropriate authority. The number is half of that of 21/22 (which was already a reduction on 20/21) and therefore shows positive improvement.

Counter fraud investigations have primarily focuses on council tax, business rates and the Community Infrastructure Levy (CIL) cases. However, before any savings/additional income can be realised Internal Audit are reliant on colleagues in Revenues and Benefits and Planning to follow up the cases referred to them. A total of 20 cases were referred for further investigation in 22/23 but this has only generated £5,588 worth of additional income to date as the majority of the cases are yet to be pursued. None of the council tax and business rates cases referred were concluded during the year due to a combination of resourcing issues (now resolved) and a marked increase in the time taken by the Valuation Office Agency (VOA) to band/rate properties. The need to take action on CIL referrals has also been an issue for some time but the Planning Service are now beginning to take action. Internal Audit are therefore hopeful that the savings/additional income generated in the next financial year will be far greater as a result of the referrals in the pipeline. Given the financial benefits, the Council should explore ways to prioritise concluding these investigations in a timely manner in 23/24 **(Recommendation 5).**

Reviewing Arrangements

In 21/22 the Council engaged with the Local Government Association (LGA) Peer Review to review their governance arrangements and standards. This resulted in several recommendations, which the Council continues to work towards. The recommendations did not highlight weaknesses in arrangements, rather improvements that could be made to achieve best practice. Progress was presented to new members in September 23, following elections in May 23. The Council expects to revisit the recommendations in 23/24 with the aim of responding to all in full as well as engaging with LGA to return and review whether the response has been satisfactory. The LGA re-review will provide evidence as to the effectiveness of the Council's response.

Within the 22/23 year the Council has undertaken an internal review of how it meet the principles of good governance against the Local Code of Corporate Governance 22/23.

Governance (continued)

This was presented to the Audit and Standards Committee alongside the Annual Governable Statement (AGS) for challenge. It focussed on circa 85 behaviours and how the Council is meeting them, along with sources of evidence. The review is comprehensive and a key source of assurance that the Council is well run and is demonstrating the behaviours associated with good governance.

The review identified 12 actions across the 85 behaviours reviewed. Within each behaviour, even where there are recommendations, there is evidence that the Council is at least partially complying with each behaviour and the recommendations are aimed at achieving best practice rather than correcting poor governance.

The recommendations identified by the Council concur with our recommendations in 21/22 or our findings in 22/23. Monitoring the implementation of the recommendations made by the Council's own review is important (Recommendation 6).

We reported our VFM work in 21/22 in January 23. Whilst we have seen some progress in responding to recommendations, many are currently outstanding. Furthermore, some recommendation from 20/21 are still unaddressed. Timeliness of response by the Council could be improved. Discussion with officers confirm this is a timeliness issue, rather than a lack of acceptance or engagement, due to challenges related to savings and capital being prioritized (Recommendation 7).

Standards and Behaviours

The Council has had a Member Training and Development Strategy in place since 2007 as part of its commitment to ensure appropriate standards are upheld at the Council. The Strategy sets out how the Council will support its elected Members in the pursuit of good governance. The strategy is updated every 4 years with the latest update being in May 2022.

Member training is timely. Following the local elections in May 23, member training took place in July 23. Training has covered many elements of the role to ensure individuals have skills in the relevant services they will preside over. Within the training modules viewed there is a clear focus on the behaviourial aspect of the role, setting the correct one and expectation from the outset.

The Monitoring Officer and Deputy Monitoring Officer take a lead in ensuring that appropriate training/ awareness briefings are delivered to members and Parish Councillors.

The Monitoring Officer and Deputy Monitoring Officer provided two on-line training sessions based on the Local Government Association's (LGA) Model Code of Conduct with the Parish and Town Council across the district, however it was noted that attendance was only 8% and therefore to ensure maximum effectiveness the Council should explore ways to foster greater engagement in training and other communications from Parish Councillors (Recommendation 8).

A new requirement has been included in the Constitution, to report a summary of the ethical standards matters considered by the Audit and Standards Committee during the preceding 12 months, to Full Council. The intention is to raise the profile of such matters, predominantly focusing on members and Parish Councillor complaints. At June 23 the number of complaints was 24 of which 4 have been dismissed and 16 resolved locally. Of the 4 requiring further investigation 1 has been dismissed and another has resigned with 2 still under investigation. The number under investigation is deemed minimal and therefore not evidence of a pervasive issue and shows the Council's own arrangements are effective in dealing with issue of a more minor nature. In monitoring the complaints, the Committee considers whether there are any emerging patterns and whether there are any specific training needs that can be met to address the common issues. The issues range across several themes such as disclosure of confidential information, bullying and harassment, lack of respect, misuse of position, non-declaration of interests and bias and disrepute.

We do note that the complaints monitoring in these reports focusses on negative feedback, however the Council could equally learn from positive feedback and how that could be extended to benefit the Council more widely. The Council may wish to explore ways to obtain and report such feedback. The Council's own review against the behaviours in the Local Code of Corporate Governance concurs with this sentiment and includes an action to consider implementing procedures to capture and share positive feedback and compliments alongside the complaints process.

Decision Making

Council staff and members are bound by the Constitution which clearly sets out roles, responsibilities and the process by which decisions should be made. With the capital programme experiencing slippage, overspends and an ultimate pausing of the full programme while affordability is reviewed we investigated whether decision making in relation to overspends had been upheld. Specifically, as questions were raised in Council meetings, we looked at the Town Hall Renaissance Project and the Blackfriars Road Infrastructure Project.

Governance (continued)

The Constitution requires the Chief Finance Officer (CFO) to obtain authorisation from Council for individual schemes where the estimated expenditure exceeds the capital programme provision. It also requires that if at any time it is believed that the cost of any capital scheme is likely to exceed the estimate as shown in the approved capital expenditure programme by more than £25,000 of the approved amount, the Chief Finance Officer shall report the anticipated overspend to Cabinet.

In February 2021 Cabinet recommended to Full Council, which was subsequently approved, a budget of £460k to fund the detailed designs for the future of the Town Hall at the Bexhill site to allow a planning application to be submitted. To date the expected total cost is £857k and therefore an overspend of £417k. The Council has been presented with revised budgets in relation to the Capital Programme at individual scheme level, including this project, through the budget setting process and budget monitoring process, each time these are presented approval has been recommended by Cabinet and duly approved at Full Council. The February 23 budget setting report included an updated budget for the project of £775k and the Q1 23/24 budget monitoring subsequently updated this to £856k with another £1k anticipated in year. There is no departure from the Constitution as the Constitution currently requires **all** revisions to forecast spend to be authorised by Council. This is being met via the budget monitoring and budget setting documentation which includes the budget, spend and extensions to budgets for all projects and is approved by Full Council.

Although there is no breach of the Constitution members may benefit from greater oversight and transparency, where schemes are significantly overspending, or significant extensions to originally approved budgets are required. This could be achieved if these projects were highlighted for separate consideration in existing reporting or presented within a stand-alone paper. Officers and members would need to liaise to determine what they would determine to be 'significant' in terms of a forecast budget revision threshold or overspend. In doing so the Council may wish to consider whether the current constitutional requirement to approve all forecast budget revisions is appropriate or whether a suitable percentage tolerance threshold should be applied. This would require a review and update of the Constitution (Recommendation 9).

Blackfriars Infrastructure Project

Rother Housing Company, the Council's wholly owned subsidiary, is responsible for delivering 1000 homes by 2037. The first site identified for development is the Blackfriars site in Battle. Prior to any housing development taking place, for which planning permission is pending, works to build a supporting road infrastructure is required and is currently in progress. In late 2019, Homes England's Panel approved Homes Infrastructure Funding (HIF) grant funding of £8.7m for the project and at this point the total cost of the infrastructure scheme was valued at £11.5m, consisting of the HIF funding and £2.8m in land acquisition costs to be funded by borrowing.

Members approved a budget of £11.5m and this has been included in the Council Capital Strategy since 19/20 and performance has been reported via the budget monitoring and outturn reporting framework.

Due to delays and complexities with the project it has been reprofiled within the capital programme. Reports confirm that £6.4m of the budget has been spent to date and due to reprofiling £5.1m is expected to be spent in 23/24, with no further expenditure in later years. As such at this stage there is no evidence of overspends on the project. The HIF funding is covering a key contract of £4.75m with a civil engineering contractor, as well as other smaller contracts to complete the scheme, up to the total available funding. The scope of the civil engineering contract has been altered with additional elements, such as utilities being added. It is our understanding that although this increases the cost of this individual contract it is being managed within the overall HIF funding envelope.

The road is approximately 30% complete at the time of writing and expected to be fully complete in September 24, therefore there may be further reprofiling of the project within the Capital Programme. The housing element of the project is monitored separately within the capital programme which is appropriate as this is different element that is yet to start as planning permission is pending.

The project has generated much member interest and several member questions seeking clarification at Council meetings. At times the information provided has lacked clarity and consistency, especially in relation to costs of the project to date, where several contradictory figures have been discussed. This lack of clarity has been borne out of the fact that, other than the capital programme monitoring, there is limited reporting to Council or Cabinet on the project specifically, making it difficult to monitor. We have raised a recommendation to this effect within the Financial Sustainability section of the report.

In order to respond and rectify the lack of clarity around the project, and respond to member questions, the CFO took a detailed paper to Cabinet in July 23. This included the accurate figures in relation to the project and has been useful in confirming that the Council has not overspent on the agreed budget to date. Discussions with officers have confirmed that a further update on the project is expected to be presented to members in November 23. There was not adequate transparency in 22/23 in relation to this project but this is expected to be rectified in 23/24 and our improvement recommendation in Financial Sustainability responds to this.

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

Improvement recommendations – Governance

Improvement Recommendation 5	Given the financial benefits, the Council should explore ways to prioritise concluding ongoing investigations, resulting from Internal Audit's counter fraud work, in a timely manner in 23/24.
Summary findings	A total of 20 cases were referred for further investigation in 22/23, as a result of Internal Audit's counter fraud work, but this has only generated £5,588 worth of additional income to date as the majority of the cases are yet to be pursued. None of the council tax and business rates cases referred were concluded during the year due to a combination of resourcing issues (now resolved) and a marked increase in the time taken by the Valuation Office Agency (VOA) to band/rate properties. The need to take action on CIL referrals has also been an issue for some time but the Planning Service are now beginning to take action. Internal Audit are therefore hopeful that the savings/additional income generated in the next financial year will be far greater as a result of the referrals in the pipeline.
Management comments	At present the teams are struggling for capacity to progress this work, discussions will however be held with the relevant service managers to try and ensure these areas receives increased priority wherever possible.

Improvement Recommendation 6	The Council should develop a formal action plan resulting from the findings of their internal review of governance arrangements including target dates, owners for each action and report progress to the Audit & Standards Committee in a tracker so that progress can be monitored, assurances gained and owners held to account as required.
Summary findings	Within the 22/23 year the Council has undertaken an internal review of how it meet the principles of good governance against the Local Code of Corporate Governance 22/23. The review identifies 12 actions across the 85 behaviours being reviewed. Many of the findings concur with findings as a result of the our VFM work and Internal Audit reviews.
Management comments	The Council will develop an action plan and tracker to support the monitoring of the actions arising from the Annual Governance Statement and Local Code of Corporate Governance review. This will be monitored by the Senior Leadership Team. A named officer (the Corporate Programme, Risk and Improvement Manager) will be responsible for the plan and ensuring actions are delivered within set timescales; they will report to Audit and Standards Committee.

Improvement recommendations – Governance

Improvement Recommendation 7	The Council should identify ways to increase its response rate to outstanding Value for Money recommendations from prior year reports in 23/24.
Summary findings	Many of the improvement recommendations raised in 21/22 through our VFM work are still unaddressed in 22/23, these are aimed at supporting the Council in achieving best practice in its arrangements. Although we have seen some progress, timeliness of response could be improved. A consideration is the timing of the recommendations being made in January 23 and therefore limited opportunity to respond in the 22/23 year as this was the final quarter. However, there are still some recommendations from 20/21 where we also made this observation and remain outstanding. Discussion with officers confirms this is a timeliness issue, rather than a lack of acceptance or engagement, due to challenges related to savings and capital being prioritized. However we would recommend that the Council seek to increase its response rate to these recommendations in 23/24
Management comments	The Council is introducing a tracker to monitor progress against these actions which will include a named officer with responsibility for delivering within set timescales (see response to recommendation 7 above).

Improvement Recommendation 8	The Council should explore ways to foster greater engagement in training and other communications from Parish Councillors to ensure that maximum effectiveness of these communications is achieved and consistency of training between the Council and affiliated Parish and Town Councils.
Summary findings	The Monitoring Officer and Deputy Monitoring Officer provided two on-line training sessions based on the Local Government Association's (LGA) Model Code of Conduct with the Parish and Town Council across the district, however it was noted that attendance was only 8%.
Management comments	The Council will advertise and engage widely when appropriate on-line training sessions are provided, ultimately the Council cannot force town or parish Councillors to attend these events. This year, being an election year for Rother District Council (RDC) has meant the focus has very much been on our own induction processes. However, now the initial induction programme has concluded all town and parish Councillors have been invited to a session on planning issues in December; the session will be recorded and forwarded to all town and parish Councillors. Moving forward we will however ensure that any appropriate on-line briefings / training delivered to elected RDC Members is offered to parish and town councils if this is at no additional cost to RDC in an attempt to further increase participation. Elected Members will be reminded to promote this opportunity when they attend the relevant parish and town council meetings within their Wards and officers likewise when attending the Rother Association of Local Council meetings.

Improvement recommendations – Governance

Improvement Recommendation 9	To ensure greater transparency in approving significant overspends, or increases in budgets, for capital projects members may benefit from greater oversight by highlighting these projects for separate consideration in existing reporting or presented within a stand-alone paper. Officers and members would need to liaise to determine what they would determine to be 'significant' in terms of an overspend or forecast budget revision threshold. In doing so the Council may wish to consider whether the current constitutional requirement to approve all budget revisions is appropriate and whether a balance of good governance and use of member time could be focused on approving changes to the most financially unsustainable schemes, with less significant amount approvals delegated to appropriate officers. This would require a review and update of the Constitution.
Summary findings	The Constitution currently asks that **all** forecast budget revisions on capital projects are authorised by Council and this is achieved via the budget monitoring and budget setting documentation which includes the budget, spend and extensions to budgets for all projects and these are approved by Full Council annually, Cabinet have sight of budget monitoring quarterly also. However member questions have at times highlighted a lack of transparency and clarity regarding the budget and actual spend of some projects which could be addressed via changes to current reporting.
Management comments	Several improvements have been made to the capital budget monitoring during the 2023/24 financial year (see recommendation 3 above). Where capital budgets require amendments there is now greater focus on these, and their approval, within the budget monitoring reports which will address this recommendation. There is already ability with on the Constitution to make amendments within certain tolerances but where this is undertaken updates will be provided to Committee as part of the next budget monitoring report.

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 Reporting

The Council continues to monitor operational performance via Key Performance Indicator (KPI) reporting to Cabinet and Overview and Scrutiny Committee. The format of these reports has not changed since the prior year. As such our recommendation to include additional information in this reporting to help members understand what is being done in response to below target metrics and identify who is accountable remains relevant for 22/23 (see 'Follow Up' section for prior year recommendations).

The current KPIs have been criticized by Members as being more reflective of performance of the district than the performance of the Council itself and matters that are within the Council's direct control. The Council undertakes a refresh of its KPIs annually ahead of the financial year but has the opportunity through the monitoring process to update these throughout the year as required. To address the criticism the Council plans to update the performance reporting via a wholesale shift back towards corporate operations and service delivery. Therefore there is evidence that KPIs are updated to ensure they are reflective of the Council's operations and of benefit to its decision makers, they have taken on board the work of the Overview and Scrutiny Committee demonstrating their role is effective.

The proposed indicators for 23/24 are greater in number than previous monitoring years - 26 KPIs are being proposed and are broken down into eight service areas compared to 14 in the previous year. All KPIs remain aligned to the Corporate Plan and so work towards achieving the objectives of the Council. In addition it has been proposed for 23/24 that an annual State of the District report is provided to the Overview and Scrutiny Committee so that the shift in the KPI reporting does not hinder the ability of members to understand performance in the context of its locality. This should ensure a full suite of information is being provided to decision makers to enable informed decisions about individual services.

KPI reporting is supposed to be reviewed by Cabinet and Overview and Scrutiny quarterly, although evidence shows this took place for 3 of the 4 quarters of 22/23, with Q1 not being reviewed in 22/23 or 23/24. At the end of 22/23 6 of the 14 metrics were red rated and not performing on target. 5 of these were red rated at Q2, with improvement observed at Q3 where only 2 were red rated.

As such actions being taken are having a positive impact and will need to embed to ensure this is felt consistently. To allow actions to be taken at the earliest opportunity, and maximising the time they have to embed, the Council should ensure that KPI monitoring takes place each quarter, as planned, would be beneficial to allow action to be taken earlier in the year and impact performance prior to year end. This is consistent with a recommendation made in the prior year (see 'Follow Up' section for prior year recommendations).

Benchmarking

In 21/22 we made use of the annual RA return forms (budgeting costs) for 22/23 sent by each council nationally to Department for Levelling Up, Homes and Communities (DLUHC), to compare unit costs of Council services with all other district councils. The tool highlighted three services which had very high comparative unit costs which was driving an overall directorate level high unit cost – Homelessness, Street Cleansing and Waste Collection. Due to the timeframe with which DLUCH operates in publishing data the RA data for 22/23 continues to be the latest available, with the RO (Outturn) data expected later in the year. As such the budget data for 22/23 continue to be relevant and so we have followed up whether the Council's response to targeting these high cost services continues to be effective.

Homelessness:

The Council has continued to take action in the area of homelessness, particularly temporary accommodation, in order to tackle the overspend on an ongoing basis. In January 23 the Council approved the update of the Temporary Accommodation Investment Strategy (TAIS) which determines the approximate number and types of property the Council will target for use as temporary accommodation alongside how these properties will be purchased, managed, repaired and maintained. The strategy focusses on the purchasing, refurbishing and providing accommodation in-house which reduces reliance on private sector provision which tends to be more expensive and over which, the Council has no control on quality.

Improving economy, efficiency and effectiveness (continued)

The Council has struggled to secure sufficient numbers of freehold tenure flats to accommodate single people and smaller families with children and observes that there is a market surplus of residential property that has a commercial retail element as part of the freehold. The Strategy has been updated to allow the purchase of such properties. The potential risk of re-sale or re-let and exit from these has been recognised and as an alternative would seek commercial residents, charities and other voluntary organisations in this situation. These actions demonstrate the Council tackling both the supply of accommodation and the cost of accommodation simultaneously.

The 22/23 outturn confirms that homelessness and temporary accommodation continues to be a cost pressure from a capital and revenue perspective. Temporary Accommodation purchases were £7.5m under budget although the team have been active and spent £2.7m on improving over 20 properties. The Council has continued seeking additional sources of funding to expand its supply of this type of accommodation via the DLUCH Local Authority Housing Fund and have already secured and occupied one 3-bedroom house and are due to complete on at least 3 additional properties in July with this funding.

As well as focusing on the Council's own supply via the above and a housing focused capital programme, officers have sought approval from members to increase rates paid to private landlord in light of market rates,. This is backed by detailed analysis which shows that this would create a net annual saving of £169,125 based on 15 properties.

The Council continues to include homelessness and TA metrics in its non-financial reporting and so these are closely monitored. There was an increase of 52% over the period in terms of preventions and reliefs of homelessness which is a positive result and demonstrates the quality of the team and their ability to bring in new prevention measures despite the increase in demand. The Council is committed to targeting resources at this area and has recruited several new dedicated homelessness prevention officers whom they are confident will improve prevention performance further. Metrics continue to be included in the 23/24 KPIs for continued monitoring.

Members are specifically updated on the Council's progress towards the Homelessness and Rough Sleeper Strategy, this has been separated from the Housing element of the strategy and this ensures it gains the specific focus required for an area of pressure for the Council. This does demonstrate progress towards achieving more affordable housing provision as well as quality of the private sector housing used but does note that due to high finance and inflationary pressures coupled with materials price increases, the delivery of affordable housing on smaller sites continue to be very challenging.

Overall positive and extensive measures continue to be focused on the increase of supply and reduction of costs within temporary accommodation and housing more generally, as well as working to prevent homelessness where possible. Given the nature of the issue the Council is limited in the actions it can take to prevent the causes of homelessness. However, prevention is deemed a cost-effective solution to homelessness in the longer term and therefore research into the specific causes locally may assist in more targeted prevention strategies and balanced with increasing the supply of accommodation, liaising with partners or other authorities who have experienced success in this are may be of benefit (Recommendation 10).

Street Cleansing:

The Council has updated its KPIs for 23/24 and no metrics on street cleansing have been included and as such the prior year recommendation to consider monitoring this service via this route remains. The service is not highlighted within the 22/23 outturn or the 23/24 budget monitoring to date, which focusses on services with significant variances. This suggests that based on total cost the service is being managed within the available budget. Street cleansing is undertaken via a contractor and therefore there are more limited opportunities for the Council to address costs directly.

Waste Collection:

The 22/23 outturn notes an overspend in Housing and Communities of £216k which was slightly offset due to reductions in operational costs of the Council's waste contract and therefore suggests an improvement, financially, since the RA data was provided. 22/23 non-financial performance was not on target within the KPI reporting for this service but has shown improvement and movement towards target over the year, as such the trajectory is more positive than when the RA data was produced and our recommendations to target this area in the service planning review has been addressed via work already undertaken.

Improving economy, efficiency and effectiveness (continued)

Service Quality

At the end of 22/23 6 of the Council's 14 KPI's were rated as 'Performance not on target and getting worse', of these 4 have worsened since both the last quarter and the same quarter last year. They predominantly relate to housing:

- number of people in temporary accommodation

- number of people on the housing register

- cost of temporary accommodation

As noted earlier, extensive measures have been taken to respond to homelessness and temporary accommodation. We do expect a time lag between these actions and the impact on performance but do note that the initiatives being undertaken do seem to be receiving positive feedback with the 22/23 Internal Audit review on Homelessness Prevention Initiatives receiving Substantial Assurance. The issues are commonplace across the sector and are not a product of any poor service standards or delivery specifically by Rother but a result of rising demand.

Housing Company – Rother DC Housing Ltd

Governance Updates:

When the Company was established in 2020 a business plan was set up covering 2020 to 2023. Full Council approved an updated Business Plan for 2022-2025 in February 2022 ensuring a relevant plan continues to be in place. Limited changes were made in this updated plan as the ambitions of the company have not changed.

In 21/22 we noted that many arrangements to monitor the company were informal in nature and therefore the opportunity to formalize these and ensure performance monitoring was more transparent, existed.

There is now a clear Company structure in place which has been formalised and is an improvement from 21/22. This structure ensures that the Board is well supported by a suite of officers including a Chief Operating Officer (COO), a Housing Development Manager and a Blackfriars Project Team as well as operational support from external providers and Council staff under Service Level Agreements (SLA) as required. The structure also incorporates clear lines of reporting and communication between the various levels of the Company structure and ultimately up to the Council as the sole shareholder of the Company. Two Officers of the company are employed by the Council, this includes the Housing Development Manager (HDM) who joined the company in 22/23.

The HDM works across both the Council and Company on the Blackfriars Project (Programme Manager). This is a positive change which ensures a link and ability to knowledge share between the two organisations.

The Council has appointed a Shareholder Representative who is the Chief Executive of the Council who has now created a Shareholder Representative Oversight Group to ensure the Housing Company's activity is governed effectively by the Shareholder. The terms of reference for this group were approved in January 23 and so have been put in place towards the end of the period.

The Company is still considered to be in a transition phase, with governance arrangements being updated and improved iteratively. In 22/23 this has been focused on developing and implementing a series of policies and strategies which were not in place in 21/22 and provides guidance on key areas such as financial instructions and risk management. A governance checklist is in place which is monitored weekly by company officers to track progress against milestones set, such as when each policy is expected to be developed by. Considering the Company was set up in October 2020, and the Blackfriars infrastructure element of the project is underway, the tracker to date is predominantly red or amber rated and therefore more progress is needed in 23/24.

Greater progress could be facilitated by sharing more regular updates on the progress of governance arrangements with the Council as the Shareholder to allow challenge and hold Company Representatives to account (Recommendation 11).

Two reports were presented to the Audit and Standards Committee in July 22 and December 22. This is an appropriate forum given that the reports focus on what had been achieved, risks and still to achieve around governance challenges which is within the remit of the Committee. However this Committee does not include all Shareholder Representatives and so sharing of progress of these arrangements could be more transparent. There is no evidence beyond December 22 of any further reporting on governance arrangements of the company to the Council which would be useful given the ongoing development of these. We note from discussion with officers that the CFO has agreed to bring an annual report on the company to members of the Committee each March in liaison with the Housing Development Manager. It would be useful for this to be shared wider than the Audit and Standards Committee to ensure all members have oversight (Recommendation 11).

Senior Leadership of the Council and Company are aware that governance of the company can still be improved and in October 22 the Counties and Capital Consulting (C&CC) were commissioned by the Board of Directors to provide a Critical Review of Rother DC's Housing Company.

Improving economy, efficiency and effectiveness (continued)

The outcome of this review will be used to help shape the strategic direction of the Company, as well as provide recommendations for the implementation of the Blackfriars scheme. This will provide a plan for ongoing improvement of the governance of the Company.

Board of Directors

Between the start of 22/23 and the time of writing there have been several changes to the Company's board of directors. The Board included 4 directors at the outset of the financial year. The Articles of Association for the Company require 3 Directors for decisions to be quorate, including one Member of the Council. Councillor Thomas has remained the Company Chairman throughout the period to present day and therefore there has been adequate member representation, which has also provided a consistent and retained knowledge of the endeavour during a transitional period.

Between June 23 and October 23 there were a maximum of 2 directors on the Company Board. The reason for the reduction was a result of Council elections, with some members not standing and therefore resigning from the Company in line with the Articles of Association requirements.

The Council was aware there was a risk of a change in membership impacting the Company structure, particularly from members choosing not to stand for re-election. We have not become aware of any decisions being taken while the company Board was not quorate with the Blackfriars infrastructure project being a work in progress. Improvements are already underway in 23/24 to improve the resilience of the Board as the Council has now approved the appointment of 2 new Non-Executive Directors (NEDs) to join the 2 existing Executive Directors on the company Board. The appointments are beneficial in terms of adding skills to the Board with consultancy, directorship and business development management skills in the housing sector amongst their experience.

Performance Monitoring

To review financial performance informal meetings take place between Company representatives and the Council Capital Strategic Partner weekly. At these meetings the Council has the opportunity to scrutinise the company cashflow, balance sheet and profit and loss statements. These outputs are formalised and shared with the Company Board and the Shareholder Representative Group quarterly. Cabinet and Overview and Scrutiny Committee through the Council's Capital Programme Monitoring review the key projects being managed by the Company.

This is high level reporting, but it does provide sufficient information for members to gauge progress, slippage, reprofiling and raise challenge as required. Overall, for the scale of the project, monitoring is relatively summarized and as such we recommend that as the housing development project progresses and the money being spent increases, that more granular monitoring of finances would be beneficial to the Company Board, Shareholder Representative Group and Council members. Each element of the project should be underpinned by a robust project plan dictated by a project framework of which financial planning is central, this should form a good basis of reporting at individual project element level.

The Company has recently recruited an external accountant in 23/24 to strengthen arrangements further and ensure that financial information being shared via the existing arrangements is robust.

In relation to non-financial performance the key formal meeting where this is shared is the quarterly Shareholder Representative Group. They receive a position statement, which is intended to update on all housing company matters, including key priority updates for the reporting period, issues requiring Shareholder direction and decisions, updates on the top 5 current risks to the project and progress against the timeline for Blackfriars Redesign Programme. This is useful information and will need to be replicated for each element of the project as it progresses. Currently the report focuses on the road aspect as that is the only element being undertaken.

There are several other informal meetings that take place between layers of the Company Structure and between Company and the Council. These take place more frequently, between weekly and monthly. However, although these structures are in place, there is no evidence of a formal set of KPIs with which to monitor operational performance against within the Company or by the Council. We recommend this is prioritised in the next Business Plan update to ensure that the Council can assess the effectiveness of the Company activities in meeting its objective to deliver 1000 homes by 2037 (Recommendation 11).

Improving economy, efficiency and effectiveness (continued)

The Council has recognised, from reviewing its own governance arrangements, that no formal Partnership Framework or guidance is in place for officers to support the process of working with partners. The purpose of the framework would be to provide guidance for identifying partnerships, as opposed to managing them once entered into. We would suggest the framework could be extended to encapsulate provisions for managing partnerships once they are entered into, such as the Town Council and Company. This would effectively formalise monitoring of performance and ensure that there are clear roles and responsibilities for monitoring effectiveness of those partnerships (Recommendation 12).

Financial Performance

Upon setting up the Company the Council agreed to extend a loan facility of £80m to the Company to fund the housing project. The project is expected to take place in several tranches with a phased draw down of the facility. The loan facility of £80m was approved by Cabinet in September 2021. The agreement requires that separate loan agreements be entered into for each residential scheme that the Company delivers, with the terms and conditions approved to the satisfaction of the finance manager. Approval of each loan has been delegated to the Chief Executive and Finance Manager, in consultation with the Portfolio Holder for Finance and Performance Management.

In 22/23 the Council provided the Company with a working capital loan of £3.06m to facilitate the initial phase of the project - building the road infrastructure for the housing development that will eventually take place at the Blackfriars site. All billed services to the Company to date are £2.9m and therefore within the facility provided.

The Company is not expecting to attract income until the project progresses further in 2025 and therefore at this stage expenditure within each agreed tranche of the loan facility is taken as positive financial performance.

The loan advanced to date is a sunk cost and has been used for professional advice and support, company overheads, staffing costs and work to date on the road infrastructure element of the Blackfriars site development. Building work has not commenced on the housing element of the project, as planning permission is pending approval.

To date contrary to the requirements of the loan facility, there has been no formal loan agreement signed by the parties to cover the initial £3.06m loan advance. The loan was, instead, released via the allowable delegations in the agreement for the overarching £80m facility. A request for a further £5m to cover costs to the end of the financial year has been requested by the Company. This has yet to be advanced to the Company and officers have confirmed that this and further loan requests will not be made until the working capital/loan agreement has been finalized, which is currently in progress.

To ensure that the Council and Company are complying with the terms of the overall loan facility it is important that a formal loan agreement for the total £8m (being the initial £3.06m in working capital and the further £5m requested to date) is drawn up. The Council should liaise with the company to understand further requests needed in the coming years so agreements can be drawn up in advance, rather than retrospectively, to ensure compliance with the loan facility terms. In addition, the Council needs to clearly track the requests for loan advances being made by the Company against a detailed budget for the project so that draw downs can be matched to key phases or activities and ensure robust control over the funding being provided (Recommendation 13).

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

Improvement Recommendation 10	The Council should undertake research into the specific causes of homelessness locally to assist in more targeted prevention strategies. Balancing this approach with increasing the supply of accommodation and liaising with partners or other authorities who have experienced success in this area may be of benefit.
Summary findings	Overall positive and extensive measures continue to be focused on the increase of supply and reduction of costs within temporary accommodation, and housing more generally, as well as working to prevent homelessness where possible. Given the nature of the issue the Council is limited in the actions it can take to prevent the causes of homelessness. However, prevention is deemed a cost-effective solution to homelessness in the longer term.
Management comments	The Council has an established multi-agency partnership in the East Sussex Housing Partnership (ESHP) where shared challenges, constraints and opportunities are routinely discussed. The ESHP Executive Board has recently commissioned a jointly funded ESHP Lead Officer (in partnership with East Sussex Public Health) who is developing a joint Housing, Homelessness and Rough Sleeping Strategy for the whole of East Sussex, that will complement and enhance our local strategic approaches. The Council is currently undergoing a Service Review being undertaken by Shelter, following a successful application to DLUHC, the findings of which will inform the new Homelessness and Rough Sleeping Strategy for 2025. In addition, the Council, along with neighbouring authority Hastings, are also working with the central government Levelling Up team to undertake a 'deep dive' into this area, with the initial meeting being undertaken in November 2023. The purpose of the sessions will be to help central government better understand the challenges being faced and to share and learn from best practice. The Council has also invested in its own stock to use for provision of temporary and to help better manage costs and now has more than 30 units to use for this purpose and this investment is continuing.

Improvement recommendations – Improving economy, efficiency and effectiveness

Improvement Recommendation 11	To ensure that the governance arrangements of the Housing Company remain robust we recommend that an ongoing review and update process takes place, specifically as a result of the changes in 22/23 to focus on: • Sharing more regular updates on the progress of governance arrangements against the existing governance checklist with the Council, as the Shareholder, to allow them to challenge and hold Company Representatives to account • Committing to sharing the newly agreed annual report on the company more widely than the Audit and Standards Committee to ensure all members have sight of this • Development of a set of KPIs which both the Company and Council can monitor performance of the Company. This should be prioritised in the next Business Plan update to ensure that the Council is able to assess the effectiveness of the Company activities in meeting its objective to deliver 1000 homes by 2037
Summary findings	A governance checklist is in place which is monitored weekly by company officers to track progress against milestones set, such as when each policy is expected to be developed by. Considering the Company was set up in October 2020, and the Blackfriars infrastructure element of the project is underway, the tracker to date is predominantly red or amber rated and therefore more progress is needed in 23/24. We note from discussion with officers that the CFO has agreed to bring an annual report on the company to members of the Audit and Standards Committee each March in liaison with the Housing Development Manager, to increase the frequency with which information is received on the Company. However not all members sit on this committee and the Council as a whole is the shareholder of the Company, as such this approach would mean not all Company shareholders are being updated equally. There is no evidence of a formalised set of KPIs with which to monitor operational performance of the Company by Company Officers or by the Council.
Management comments	An internal Council audit in relation to the Housing Company governance has been completed and is due to be considered by the Audit and Standards Committee in December 2023. As part of audit recommendations, the Company will be undertaking its own audit next year. A report including governance arrangements has also been considered by Cabinet in November and which will be further considered by Full Council in December. An annual report has been agreed to be provided to the Audit and Standards Committee in March of each year to update on the Company performance over the previous year. All reports to this Committee ultimately go through to Full Council thereby ensuring transparency will all Members. This has been supplemented by 2 Member briefings in July and October 2023. A revised Housing Company Business Plan is being drafted and will include greater detail on performance monitoring going forward to include an agreed set of KPI's. This will be routinely monitored via the quarterly Shareholder Representative Group meetings and performance reported via the annual Audit and Standards Committee in March

Improvement recommendations – Improving economy, efficiency and effectiveness

Improvement Recommendation 12	When developing its Partnership Framework the Council should ensure this includes provisions for regular and formalised monitoring of partnerships, such as the Town Council and Company, once they are 'on-boarded' to ensure that there are clear roles and responsibilities for monitoring effectiveness of those partnerships
Summary findings	The Council has recognised, in reviewing its own governance arrangements, that no formal Partnership Framework or guidance is in place at the Council for officers to support the process of working with partners. When developed this would be providing guidance aimed at identifying partnerships.
Management comments	This will be included when approving the final framework

Improvement Recommendation 13	In order to ensure that the Council and Company are complying with the terms of the overall loan facility provided to the Housing Company it is imperative that a formal loan agreement for the total £8m is drawn up with immediate effect. This will ensure that the working capital funding already released via allowable delegations (£3.06m) and a further request for £5m are covered by the required agreements. The Council should liaise with the company to understand further requests needed in the coming years so agreements can be drawn up in advance rather than retrospectively in future. In addition the Council needs to clearly track the requests against a detailed budget for the project so that draw downs can be matched to key phases or activities to ensure robust management of the funding being provided
Summary findings	Upon setting up the Company the Council agreed to extend a loan facility of £80m to the Company in order to fund the housing project. The loan was approved by Cabinet in September 2021 and agreement requires that separate loan agreements be entered into for each, to date there have been no such agreements drawn up yet £3.06m working capital loan has been provided to the company. The road infrastructure element of the project is progressing and the Company are requiring an additional £5m drawdown from their facility to continue to the project, however the formal agreements are not yet completed to allow this. The Council has yet to release this additional £5m loan advance pending completion of the required agreement.
Management comments	The Working Capital Agreement (WCA) is in the final stages of being agreed with the Housing Company, which will be further supported by an over-arching Development Loan Agreement. It is anticipated that the WCA will be in place by the end of the calendar year with the overarching agreement to follow. All drawdowns are tracked against the Company cashflow projections to ensure robust monitoring of the payments against projected activity and key milestones.

Follow-up of previous recommendations

	Recommendation	Date raised	Type of recommendation	Progress to date	Addressed?	Further action?
1	Financial Sustainability - The Council should review the assumptions in the budget and MTFP to ensure they are realistic	21/22	Improvement	A full review of assumptions has taken place as part of the 23/24 budget setting process and our work in the Financial Sustainability section has concluded that assumptions across income and non-pay expenditure are realistic. Pay inflation is considered to be optimistic in relation to the 23/24 pay award announcements, in percentage terms.	Partially	To be followed up in 23/24 in relation to the 24/25 budget setting process.
2	Financial Sustainability - The Council 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: 1. Greater oversight of the programme more frequently, at individual scheme level and by decision makers at the top tier of the organisation 2. Increased focus on identifying recurrent, rather non-recurrent one off, savings within the programme 3. Increasing the frequency, intensity and formality of liaison with Bexhill Town Council to progress transfer of discretionary services at a faster rate 4. Undertake post implementation reviews of savings schemes within the programme once they have been delivered (in full or partially)	21/22	Improvement	1. This remains unaddressed in 22/23, with the caveat that a key source of under delivery is the devolution of services which is well reported within the budget monitoring reports. 2. The Council does not report on the split of non-recurrent to recurrent savings within the target within its savings monitoring to Cabinet and so this is unaddressed in 22/23. 3. Although negotiations remain ongoing with the Town Council Phase One remains in complete and at risk of being ceased. 4. There is no evidence of post implementation reviews taking place	No	To be followed up in 23/24 in relation to the 24/25 budget setting process.

Follow-up of previous recommendations

	Recommendation	Date raised	Type of recommendation	Progress to date	Addressed?	Further action?
3	Financial Sustainability - 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.	21/22	Improvement	A detailed information pack regarding finances was presented by the CFO at the recent member away day to clarify the medium term financial position and associated budget gap. It confirmed the impact on reserves should the budget gap not be reduced, as well as the FSP not being delivered. This will be a reduction in reserves below the Council's £5m threshold in 25/26. As such the Council has begun the Service Planning Review to identify savings and income generation for delivery in 24/25 and it is expected this will be reported through the budget monitoring once initiated.	No	To be followed up in 23/24 in relation to the 24/25 budget setting process.
4	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	20/21 and 21/22	Improvement	Initial steps have been taken but to date no plan is yet in place. The phased approach to introduce this is expected to be completed at the end of 23/24.	No	To be followed up in 23/24 in relation to the 24/25 budget setting process.

Follow-up of previous recommendations

	Recommendation	Date raised	Type of recommendation	Progress to date	Addressed?	Further action?
6	Governance - The Council should consider ways in which it can strengthen the annual budget setting process, including: 1. Exploring ways to foster greater collaboration with budget holders 2. Incorporating the use of scenario planning 3. Extending the use of sensitivity analysis beyond the Financial Stability Programme	21/22	Improvement	1. Initial budget proposals in January 23 for 23/24 confirm that Managers are completing service plans for their areas of budget responsibility. Plans include savings proposals, which were discussed with Members. Therefore there is evidence of a more collaborative approach. 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 a starting point for even greater collaboration and has already commenced. 2. Improvements have been implemented in the early draft of the 24/25 MTFS which includes Appendix 6: Sensitivity and Scenario Planning. 3. There is limited evidence of this within the budget as whole across a range of assumptions. In the prior year this was undertaken in relation to the Financial Stability Programme (FSP) to demonstrate the impact of under-delivery on reserves, this has not been continued and considering the FSP is under delivering would be beneficial for the members to understand.	Partially	Point 3 to be followed up in 23/24.

Follow-up of previous recommendations

	Recommendation	Date raised	Type of recommendation	Progress to date	Addressed?	Further action?
7	Governance - 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.	21/22	Improvement	For the most part actions and next steps are not included, however we note in the Q1 23/24 monitoring report that the most significant deficits (and one surplus but a result of capital slippage) do have information included. Therefore there is some improvement in the information for the most significant variances and we are happy to suggest the recommendation has been responded to.	Yes	No
8	Governance - To further enhance the risk management process the Council should consider: 1. Increasing the frequency with which the Audit & Standards Committee review the Corporate Risk Register 2. Ensuring that Cabinet receive the Corporate Risk Register at least annually 3. Ensuring that each service develops and maintains its own service level risk register 4. Continually reviewing the format of the risk register, following external consultation, to ensure it continues to remain fit for purpose	21/22	Improvement	1. The Council has no red rated risks in 22/23 and the frequency of review should reflect the risk profile. We suggested the frequency should increase in the prior year due to the fact that the number of red rated risks had increased in year, given the reduction in risk profile we would suggest the Council can continually assess if the regularity of review is sufficient but based on the current profile we accept twice a year as appropriate. 2. We have not noted the Risk Register being presented as a stand alone item in 22/23 or 23/24 to date to Cabinet and therefore this remains a recommendation as it was also raised last year. 3. 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. These help improve the identification and mitigation of the day to day risks in the different service areas. 4. Notable changes between the July 22 register and the January 23 register have been made 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 and ensuring that controls, as well as mitigations are noted so decision makers are aware of actions in place. We accept the improvements and highlight the need to link risks to corporate objectives and direction of travel remain.	Yes	No

Follow-up of previous recommendations

	Recommendation	Date raised	Type of recommendation	Progress to date	Addressed?	Further action?
9	Governance - 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.	21/22	Improvement	There are 2 recommendations raised in 18/19 and 5 raised in 21/22 outstanding. All audit recommendations made in 2019/20 and 2020/21 have been resolved. Of the 7 recommendations from prior years that are outstanding 6 are in progress and only 1 not started. In line with Members' wishes, those officers with longstanding recommendations which showed little or no signs of movement in the last nine months were asked to give reasons for the delay. However, the very act of escalating the matter, first to the Senior Leadership Team, and then to Members, appears to have had the desired effect of motivating some officers to take action where no progress had previously been made and this has resulted in the positive progress reported at year end. Therefore although the recommendations are not fully closed there has been sufficient movement and effective escalation to members via Internal Audit reporting, naming officers and actions taken to allow accountability. The Council continues to recognise the need to clear old recommendations as an action within its own Local Code of Corporate Governance review. Discussions with officers has confirmed that the Senior Leadership Team (SLT) are now taking ownership of the recommendations and liaising directly with Internal Audit to ensure all recommendations are dealt with in a timely manner going forwards. The last peer review was completed in 2016/17 so a further external assessment was overdue as at the end of 22/23. This has been arranged and undertaken by the Chief Internal Auditor at Lewes District and Eastbourne Borough Councils and was reported to the Committee in June 23. The overall finding is that "Rother's Internal Audit function "generally conforms" with the standards" and therefore is a positive result with no significant issues identified. Although this was completed after the year end it is a retrospective review and so does provide assurances over the 22/23 arrangements	Yes	No

Follow-up of previous recommendations

	Recommendation	Date raised	Type of recommendation	Progress to date	Addressed?	Further action?
10	Governance - The Council should consider implementing a rolling schedule of committee effectiveness reviews	21/22	Improvement	The Audit and Standards Committee has undertaken an effectiveness review of itself, this was presented in July 23 and used CIPFA tools to do so. As the Committee had not completed the self-assessment process before, a session was facilitated by the Interim Chief Finance Officer during April 2023 to allow the Committee Members to discuss and complete the first draft of the assessment template and supporting action plan. Whilst it was acknowledged that the timing was not ideal due to the impending elections in May, it was felt that the current Committee Members would be able to assess the previous year's performance, whereas new incoming Members would not. It is positive to note that several previous Committee Members have again gained seats on the Committee and that the same Chair is in place. The assessment has also been reviewed by the Audit Committee Independent Person and comments reflected where appropriate to ensure that it is not biased and is reflective of actual performance. We would recommend good practice would be to undertake this effectiveness review with sufficient regularity to capture significant changes in membership and to facilitate lessons learned in appropriate time for them to be implemented. The Council recognise that undertaking a regular review of its performance against best practice ensures that the Committee has properly assessed the way in which it discharges its duties and plan to re-review in March 24. This report is only reported to the Committee and may wish to be shared with Cabinet/Council to give them assurance of the effectiveness and work of the Committee. Review of other committees on a rolling basis would also be useful to provide the same assurance given the success of this review.	Yes	No

Follow-up of previous recommendations

	Recommendation	Date raised	Type of recommendation	Progress to date	Addressed?	Further action?
11	3E's - The Council should consider ways it can enhance the monitoring of non-financial performance. This could includes: 1. Adhering to a programme of at least quarterly reporting of performance against operational performance metrics to Cabinet 2. Including information on the actions to respond to and the responsible individual for underperforming metrics within the KPI reporting to Cabinet 3. Including within the KPI reporting, or as a separate exercise, a Council-wide approach to benchmarking performance with similar entities	21/22	Improvement	1. KPI reporting is supposed to be reviewed by Cabinet and Overview and Scrutiny Committee quarterly, 3 of the 4 quarters have been presented in 22/23 with Q1 not being received by members. No Q1 reporting is available for 23/24 either. 2. The KPIs included in the reporting includes summarised information to highlight target performance, actual performance and trends but there is limited information on the actions proposed to be taken and who is accountable. Given that at 21/22 Q4 performance has an alert status for the majority of KPIs this additional information would be useful to help members understand what is being done in response and by who to ensure that some action is actually taken. 3. We did not find evidence of this through our review of papers or within the performance reporting. KPIs were updated for 23/24 but there has been no inclusion of benchmarking as a result of this review or as a separate exercise. The Council has undertaken a review of their governance arrangements against Local Code of Corporate Governance behaviours and within this has recognised benchmarking as an area for improvement. It is recognised that while the Council has undertaken some service reviews and benchmarking, these aspects should be considered more corporately to provide additional management information in relation to decision making and performance.	No	To be followed up in 23/24
12	3E's - 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.	21/22	Improvement	Members were updated on progress at their Away day in September 23. Discussions with Officers confirm that the Council expects to revisit these recommendations in 23/24 to respond in full as well as engaging with LGA to return and review whether the response has been satisfactory by the Council. Therefore initial response is positive but actions need to embed, the LGA re-review will provide vital evidence as to the effectiveness of the response	Yes	No

Follow-up of previous recommendations

	Recommendation	Date raised	Type of recommendation	Progress to date	Addressed?	Further action?
13	3E's - 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.	21/22	Improvement	Street Cleansing: The Council has updated its KPIs for 23/24 and no metrics on street cleansing have been included and as such the prior year recommendation to consider monitoring this service via this route remains. The service is not highlighted within the 22/23 outturn or the 23/24 budget monitoring to date, which focusses on services with significant variances. This suggests that based on total cost the service is being managed within the available budget. Street cleansing is undertaken via a contractor and therefore there are more limited opportunities for the Council to address costs directly. However, liaising with the contractor to identify possible efficiencies within the terms of their contract would be beneficial. Waste Collection: 22/23 non-financial performance was not on target within the KPI reporting for this service but has shown improvement and movement towards target over the year, as such the trajectory is more positive than when the RA data was produced and our recommendations to target this area in the service planning review has been addressed via work already undertaken. Homelessness: Overall we can see positive and extensive measures continue to be focussed on the increase of supply and reduction of costs and working to prevent homelessness where possible, although given the nature of the issue the Council is limited in the actions it can take to prevent the causes of homelessness. However, prevention would seem to be the most cost effective method, and we have raised a recommendation to encourage this approach.	Partially	See Recommendation 11 in relation to homelessness.

Follow-up of previous recommendations

	Recommendation	Date raised	Type of recommendation	Progress to date	Addressed?	Further action?
14	3E's - 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.	21/22	Improvement	Transfer of services to the town councils has stalled and is being updated through budget monitoring as negotiations are still ongoing with a risk that the programme will cease, as such the recommendation from last year is superseded	Yes	No
15	3E's - 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.	21/22	Improvement	Several improvements noted in relation to the Housing Company governance arrangements as detailed on tab 'Housing Company' due to ongoing review of these and iterative changes and improvements. Review of how governance arrangements have changed and embedded has resulted in more specific recommendations for 22/23	Yes	See Recommendation 12 for 22/23 specific recommendations
16	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).	20/21 and 21/22	Improvement	The Service Planning Review is taking place supported by the CFO to identify cost savings and income generation opportunities in 23/24 with the aim of mobilising successful proposals in 24/25. This is currently in progress with proposals in excess of target being submitted by services for review by budget holder, members and finance which remains ongoing.	Yes	No

Opinion on the financial statements

Grant Thornton provides an independent opinion on whether the Council's financial statements:

- give a true and fair view of the financial position of the Council as at 31 March 2023 and of its expenditure and income for the year then ended, and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2022/23
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

We conducted our audit in accordance with:

- International Standards on Auditing (UK)
- the Code of Audit Practice (2020) published by the National Audit Office, and
- applicable law

We are independent of the Council in accordance with applicable ethical requirements, including the Financial Reporting Council's Ethical Standard.

Audit opinion on the financial statements

Based on the work undertaken to date, we anticipate issuing an unqualified opinion on the Council's financial statements.

Audit Findings Report

More detailed findings can be found in our AFR, which will be reported to the Council's Audit and Standards Committee early in 2024.

Whole of Government Accounts

To support the audit of the Whole of Government Accounts, we are required to examine and report on the consistency of the Council's consolidation schedules with their audited financial statements. 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.

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.

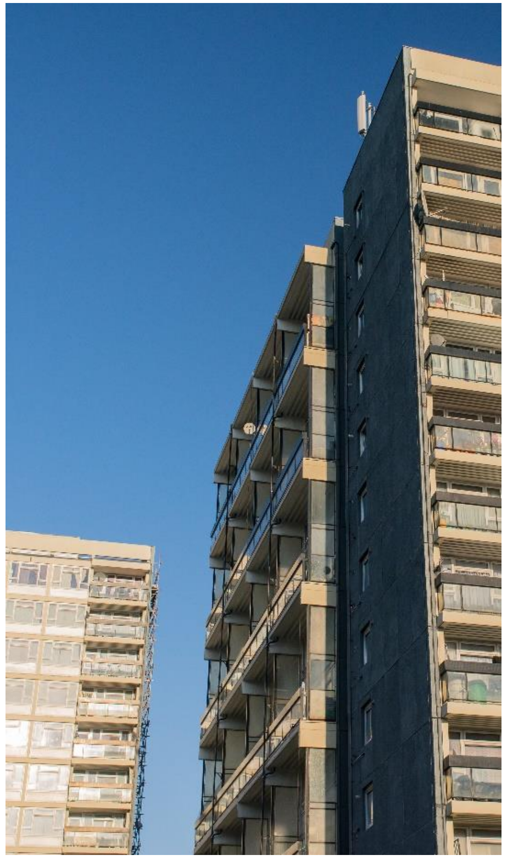
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records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

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

The 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) 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(s)
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 the Council's 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

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