

7 September 2020

New regulations came into effect on 4 April 2020 to allow Councils to hold meetings remotely via electronic means. As such, Council and Committee meetings will occur with appropriate Councillors participating via a remote video link, and public access via a live stream video through the [Mid Sussex District Council's YouTube channel](#).

Dear Councillor,

A meeting of **AUDIT COMMITTEE** will be held **VIA REMOTE VIDEO LINK** on **TUESDAY, 15TH SEPTEMBER, 2020 at 6.00 pm** when your attendance is requested.

Yours sincerely,
KATHRYN HALL
Chief Executive

A G E N D A

	Pages
1. Roll Call and Virtual Meetings Explanation.	
2. To receive apologies for absence.	
3. To receive Declarations of Interest from Members in respect of any matter on the Agenda.	
4. To confirm the Minutes of the previous meeting held on 3 March 2020.	3 - 8
5. To consider any items that the Chairman agrees to take as urgent business.	
6. Audit Progress Report 2019/20.	9 - 18
7. Internal Audit Annual Report 2019/20.	19 - 24
8. Internal Audit - Monitoring Report 31st August 2020	25 - 28
9. Review of Treasury Management Activity 2019/20.	29 - 42
10. Committee Work Programme.	43 - 44

11. Questions pursuant to Council Procedure Rule 10.2 due notice of which has been given.

To: **Members of Audit Committee:** Councillors M Pulfer (Chair), R Cromie (Vice-Chair), A Boutrup, M Cornish, S Hicks and L Stockwell

**Minutes of a meeting of Audit Committee
held on Tuesday, 3rd March, 2020
from 7.00 pm - 7.50 pm**

Present: M Pulfer (Chair)
R Cromie (Vice-Chair)

A Boutrup
M Cornish

S Hicks
L Stockwell

Absent: Councillors P Budgen

Also Present:

1. TO RECEIVE APOLOGIES FOR ABSENCE.

Apologies were received from Councillor Budgen.

2. TO RECEIVE DECLARATIONS OF INTEREST FROM MEMBERS IN RESPECT OF ANY MATTER ON THE AGENDA.

None.

3. TO CONFIRM THE MINUTES OF THE PREVIOUS MEETING HELD ON 12 NOVEMBER 2019.

The Minutes of the meeting of the Committee held on 12 November 2019 were agreed as a correct record and signed by the Chairman.

4. TO CONSIDER ANY ITEMS THAT THE CHAIRMAN AGREES TO TAKE AS URGENT BUSINESS.

None.

5. INTERNAL AUDIT - MONITORING REPORT 21ST FEBRUARY 2020.

Chris Bower, Senior Auditor Crawley Borough Council introduced the report and he apologised for the absence of Gillian Edwards.

The Chairman asked for comments on the report.

Members discussed the monitoring report and expressed concern with the high priority findings of the payment made in error and the Council Tax credit balances. The Senior Auditor advised that the erroneous payment was human error with the new financial management system (FMS) and measures are now in place to prevent a reoccurrence. He noted that Council Tax credit balances occur when properties are revalued by the Valuation Office Agency and a new process will be in place from May to manage the credit balances. Kevin Stewart, Business Unit Leader for

Revenues and Benefits advised that some credit balances are created when residents move out of the area and the Revenues Team are working through the accounts in credit. He confirmed that new Council Tax bills include any credit and outstanding balances and provide a revised total. In response to a member's question he will provide by email a summary breakdown of the credit balances indicating the value for those who have moved out of the District.

Members discussed the rating system for audits and the Human Resources audit and had some concern with the Contracts Register finding. The Senior Auditor advised that the highest rating is 'substantial assurance' followed by 'satisfactory', 'limited' and the lowest is 'no assurance'. The Senior Auditor referred to the follow up HR audit and confirmed that all new staff have a right to work in the UK which is stated on a copy of their passport. Members were given a verbal update on the Contracts Register. A recent review of the register has shown that there had been no updates since November 2019. Business Unit Leaders have been reminded to update the register as this does not form part of the contract documentation created when contracts are finalised. The Committee will be updated on this work at the next meeting.

As there were no further questions the Chairman took Members to the recommendations in the report which were agreed unanimously.

RESOLVED

The Committee received and noted the report.

6. THREE YEAR INTERNAL AUDIT PLAN.

Chris Bower, Senior Auditor, at Crawley Borough Council introduced the report. He confirmed most of the audits were complete.

As there were no questions the Chairman took Members to the recommendations in the report which were agreed unanimously.

RESOLVED

The Committee received and noted the report.

7. TREASURY MANAGEMENT COUNTERPARTY COMPARISON.

Peter Stuart, Head of Corporate Resources introduced the report which included a comparison of UK banks and building societies. He advised that the article was from a respected journal and there had been no significant changes since the article was written. The Committee were advised that there is no significant problem in using the building societies and these are more than adequate for the Council's financial business.

The Chairman suggested that having researched the Council's use of financial institutions due diligence is now complete.

Members conformed that the report provided reassurance. It was noted that even though the article was from 2015 and some banking systems have changed, it was still a good indicator from the Council's perspective.

It was agreed that the Head of Corporate Resources will check whether a more recent report has been commissioned and he will report back at the meeting on 15 September.

As there were no further questions the Chairman took Members to the recommendations in the report which were agreed unanimously.

RESOLVED

The Committee received and noted the report.

8. TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2020/21 TO 2022/23.

Peter Stuart, Head of Corporate Resources introduced the report. He highlighted that Halifax and HBOS have been removed as they are no longer on the suggested credit list and noted the amendment to the investment in the Local Authorities' Property Fund.

Members discussed the use of "green" and "ethical" investments and whether the financial institutions used by the Council have ethical investment practices. The Head of Corporate Resources advised that the service is provided by Adur and Worthing and he could ask what their plans are on this issue. The Chairman asked for a report to update the Committee on 15 September.

In response to a Member's question the Head of Corporate Resources noted that the treasury management strategy statement is not a balance sheet and only lists cash and cash equivalents.

As there were no further questions the Chairman took Members to the recommendations in the report which were agreed unanimously.

RESOLVED

The Committee agreed to recommend to Council:

- (i) the proposed Treasury Management Strategy Statement (TMSS) for 2020/21 and the following two years,
- (ii) the Annual Investment Strategy (AIS) and the Minimum Revenue Provision Statement (MRP) as contained in Sections 4 and 2.3 respectively of the report;
- (iii) the Prudential Indicators contained within this report.

9. EXTERNAL AUDIT PLAN.

Jack Dunkley, Manager Ernst and Young introduced the report. He noted the risks associated with the introduction of a new FMS (listed as a ledger system in the report), the valuation of land and pension liabilities. He highlighted a new area of focus, IFRS 16 leases which the Council must disclose the impact of now before the change in standards next year and which will be reported on in 2020/21. He concluded that there is no significant risk in the 'value for money' part of the plan.

Kevin Suter, Ernst & Young advised they are working through the procedures and will report back on any concerns with the Contracts Register at the meeting in July. He commented that guidance on the new directive is being released slowly. In response

to a question from the Chairman he confirmed that the valuation of the pension fund is underway, and the management team will report any concerns to the Committee.

As there were no further questions the Chairman took Members to the recommendations in the report which were agreed unanimously.

RESOLVED

The Committee received and noted the audit plan.

10. EXTERNAL AUDIT: HOUSING BENEFIT ASSURANCE REPORT.

Kevin Suter, Ernest & Young introduced the report. He noted the work to certify the Housing Benefit Subsidy claim for 2018/19 and the 11 sets of extending testing. He confirmed that there was no repayment of subsidy to the Department of Work and Pensions (DWP) for the year.

Kevin Stewart, Business Unit Leader for Revenues and Benefits highlighted the complexity of Housing Benefit Subsidy claims. He confirmed that measures were in place to retrain staff and to mitigate against mistakes going forwards. He explained the sensitivity historically of Housing Benefit Subsidy to the Council and noted that for three years there has been no repayment of the subsidy to DWP. He also stated that year on year testing is dependent on the errors found. The increase in fees was noted and so too the different way in which audit work is now procured through the DWP.

Members expressed concerns over the errors in processing claims and sought reassurance that progress was being made in terms of accuracy. The Business Unit Leader stated that the DWP had signed off the claim so that should provide some reassurance and he will feed back at a later meeting on the procedures and action plan now in place. He noted that he is also making a representation to the DWP as some cases are very complex, i.e. changes in income and the current inflexibility of the current subsidy audit.

In response to a question Kevin Suter confirmed that the DWP do take their assurance from the report by Ernst & Young and a standard methodology is used in preparing the report. He confirmed that cases are complex, and they do not consider the rounding of figures as errors but differences of 1p must be investigated given that there is no materiality floor.

The Head of Corporate Resources stated that a formal response will be given on the issue of quality assurance and training.

Kevin Suter highlighted the time constraints for auditors and that auditing housing benefit claims is a difficult and specialist area and that costs for the subsidy audit can now be fully recovered. It was noted that the audit for the Council has been signed off on time when other Local Authorities are experiencing difficulties with external audit resources, with other 100 Authorities not meeting the DWP deadline.

As there were no further questions the Chairman took Members to the recommendations in the report which were agreed unanimously.

RESOLVED

The Committee received and noted the report.

11. QUESTIONS PURSUANT TO COUNCIL PROCEDURE RULE 10.2 DUE NOTICE OF WHICH HAS BEEN GIVEN.

None.

The meeting finished at 7.50 pm

Chairman

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AUDIT PROGRESS REPORT 2019/20

REPORT OF: Head of Corporate Resources
Contact Officer: Peter Stuart
Email: peter.stuart@midsussex.gov.uk Tel: 01444 477315
Wards Affected: All
Key Decision: No
Report to: Audit Committee
15 September 2020

Purpose of Report

1. This report introduces the auditors' 'Audit Progress Report' and provides some context for Members' consideration.

Recommendations

- I. That the report be noted.
 - II. That the letter to EY from the Chair of the Committee be noted also.
-

Background

2. The Audit Progress Report (attached at Annex 1) sets out the auditor's progress on this year's audit. Unsurprisingly, timescales have been affected by the pandemic but there are two other issues which have led to a short delay. These are detailed within the report.
3. We expect to be able to bring the full Results Report to the next meeting of the Committee and expect that it will contain an unqualified opinion on the accounts.
4. The External Auditor will attend the virtual meeting to present his Progress Report and answer Member's questions.
5. As part of the audit, the Chairman of the Committee has prepared a response to the formal letter to 'those charged with Governance'. This is attached at Annex B for information.

Policy Context

6. These reports and letters form part of the governance framework, and regulations, within which the Council operates.

Other Options Considered

7. None.

Financial Implications

8. This report has no financial implications.

Risk Management Implications

9. None.

Equality and Customer Service Implications

10. This report has no such implications.

Other Material Implications

11. This report has no such implications.

Background Papers

None.

**Mid Sussex District
Council**
Audit progress update
Year ended 31 March 2020

September 2020



Building a better
working world

ANNEXE A



Private and Confidential

21 August 2020

Mid Sussex District Council
Oaklands Road
Haywards Heath
West Sussex
RH16 1SS

Dear Committee Members

Audit progress update

We are pleased to attach our audit progress update report for the forthcoming meeting of the Audit Committee. This report summarises our current status in relation to the audit of Mid Sussex District Council 2019/20. We plan to issue our final report at the Audit Committee meeting scheduled for November 2020.

We previously presented our 2019/20 Audit Plan to the March 2020 Committee meeting. In light of Covid-19, We have fully re-assessed our audit scope and strategy. In this progress report we have highlighted to you the key changes to the significant accounting and auditing matters, and audit approach outlined in the Audit Planning Report.

This update is intended solely for the information and use of the Audit Committee and management. It is not intended to be, and should not be, used by anyone other than these specified parties.

Kevin Suter
Associate Partner

For and on behalf of Ernst & Young LLP

Encl



Audit Status Update

Scope update

In our audit planning report tabled at the 03 March 2020 Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. Below we have highlighted the changes to that scope:

Changes to reporting timescales

As a result of COVID-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final, audited accounts from 31 July to 30 November 2020 for all local authority bodies.

Changes to our risk assessment as a result of Covid-19

- ▶ **Valuation of investment property** - The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Council's external valuer. We consider that the material uncertainties disclosed by the valuer gave rise to an additional risk relating to the valuation of the Council's investment property.
- ▶ **Disclosures on Going Concern** - Financial plans for 2020/21+ will need revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the Local Authority would not appropriately disclose the key factors relating to going concern, underpinned by management's assessment with particular reference to Covid-19 and the Local Authority's actual year end financial position and performance.
- ▶ **Adoption of IFRS16** - The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of Local Authority Financial Statements has been deferred until 1 April 2021. The Authority will therefore no longer be required to undertake an impact assessment, and disclosure of the impact of the standard in the financial statements does not now need to be financially quantified in 2019/20. We therefore no longer consider this to be an area of audit focus for 2019/20.

Changes in materiality

We updated our planning materiality assessment using the draft results and have also reconsidered our risk assessment. Based on our materiality measure of gross expenditure on provision of services, we have updated our overall materiality assessment to £1.48m (Audit Planning Report – £1.54m). This results in updated performance materiality, at 75% of overall materiality, of £1.1m, and an updated threshold for reporting uncorrected misstatements of £74,000. We have considered whether any change to our materiality is required in light of Covid-19. Following this consideration we remain satisfied that the values for planning materiality, performance materiality and our audit threshold for reporting differences reported to you in our Audit Planning Report remain appropriate.

We also identified areas where misstatement at a lower level than our overall materiality level might influence the reader and developed an audit strategy specific to these areas, including:

- ▶ Remuneration disclosures including any severance payments, exit packages and termination benefits. We audit these fully given their inherent sensitive nature.
- ▶ Related party transactions. We consider any related parties in terms of the underlying relationship and potential influence, and not simply the overall values disclosed.



Executive Summary

Status of the audit

We have completed a substantial amount of our audit of Mid Sussex District Council's financial statements for the year ended 31 March 2020. As noted in the section below from the work performed we have not identified any significant amendments which require your attention. However until work is complete, further amendments may arise. At the time of writing, the following remains outstanding:

- ▶ Property valuation - we instructed our valuation team (EY Real Estate) to review a sample of the Council property valuations. EY Real Estate are yet to conclude on the sample;
- ▶ Pension Fund auditor's report - we instructed the auditors of West Sussex Pension Fund to perform procedures over the pension information the pension fund provided to the actuary. The procedures helps us gain sufficient assurance over Mid Sussex District Council's net pension liability. The pension fund auditors are yet to conclude on this work;
- ▶ Going Concern Disclosure - Officers have produced an updated going concern assessment which we are currently in the process of reviewing;
- ▶ Completion of subsequent events review;
- ▶ Review of the final statements;
- ▶ Final review of the file by the Associate Partner; and
- ▶ Receipt of the signed management representation letter

We would expect to issue the audit certificate at the same time as the audit opinion.

Audit differences

There are no unadjusted audit differences arising from our audit at the time of writing this report.

Control observations

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements and which is unknown to you.

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties.

We have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.



01 Update on audit risks



Update on audit risks

The following 'dashboard' summarises the significant accounting and auditing matters identified as a result of Covid-19. It seeks to provide the Audit Committee with an overview of any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from 19/20 audit plan	Details
Going concern and Covid-19 disclosures	Inherent risk	New risk	<p>Covid-19 has created a number of financial pressures throughout Local Government. There is currently not a clear statement of financial support from MHCLG that covers all financial consequences of Covid-19.</p> <p>There have been a number of media stories in both the national press and trade publications raising the possibilities of an increase in Chief Financial Officers using their s114 powers. This could be under s114(3), insufficient resources to fund likely expenditure.</p> <p>CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 sets out that organisations that can only be discontinued under statutory prescription shall prepare their accounts on a going concern basis.</p> <p>However, International Auditing Standard 570 Going Concern, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report. We are obliged to report on such matters within the section of our audit report 'Conclusions relating to Going Concern'.</p> <p>To do this, the auditor must review management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements.</p>
Valuation of Investment property	Significant	Increase from inherent risk to significant risk	<p>The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Council's external valuer. We consider that the material uncertainties disclosed by the valuer gave rise to an additional risk relating to the valuation of the Council's Investment Property.</p>

ANNEXE B

Contact:

Mr Mike Pulfer Tel: 01444 458166
Michael.pulfer@midsussex.gov.uk

Your Ref:

Our Ref: MP/PS

Date:

10 August 2020

To Kevin Suter
Ernst and Young LLP
UK

Dear Kevin,

Understanding how the Audit Committee gains assurance from management

I am writing to you to provide the responses to the specific points raised in your letter of 3 April 2020.

1. The oversight of management processes relies on the audit plan agreed by the Council's Management Team with the Internal Audit service and by yourselves being the External Auditor.
 - The plan is designed to encompass all the fundamental systems in use at the authority and check the controls within these each year, whilst also examining controls in other key systems on a rotating basis of at least every three years. The risk that the financial statements could be misstated is therefore mitigated.
 - The Committee relies on the professional opinion of the Head of Corporate Resources and the Management Team in assessing these risks. Where appropriate, further audit work would be commissioned if it was felt that there was a risk of matters being inadequately dealt with. However, the Head of Corporate Resources does advise that his assessment of these risks of fraud as outlined in your letter 3rd April, is low given that the Council has no housing stock, no direct works and has outsourced many elements of its operations including its Indoor Leisure business. This year, unusually, the Council has administered the Covid grant scheme and distributed circa £26m to businesses and other bodies, to a very tight timescale. Inevitably this has increased the risk of fraud but is to be the subject of its own assurance regime, separate from the EY contract.
 - Communication to the employees regarding standards of business practice and conduct is generally left to the Management Team. Were this to prove inadequate, the Audit Committee would have to consider its role in this regard, but this is not an area of concern at present. There is merit in ensuring that conduct and professionalism is evidenced, and the Head of Corporate Resources has been asked to introduce such a scheme such that every employee understand their responsibility in that regard.
 - Staff can raise their concerns about any aspect of the council's work, or individual behaviour, under the Whistleblowing Policy; where Paragraph 2.2 covers the scope of the

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concerns that could be raised. The policy is advertised at every pay day and appears on the intranet.

- This is much as points 1 and 2 above. Given the size of the authority, communication between the Audit Committee and the Management Team presents little problem were these issues to arise.
2. The Committee is aware that it can influence the work of Internal Audit and that if any Member has concerns, the plan can be adapted to cover specific areas. Oversight of management processes is largely achieved via the Internal Audit coverage, directed by the S151 officer and influenced by the Audit Committee. In this way we remain satisfied that we are addressing any issues that may arise in a timely and appropriate fashion.
 3. I am aware of a breach of internal control during 2018/19 in the operation of a bank account related to the Council's activities but not directly controlled by it. The Committee was briefed on the occurrence and the actions that have been taken subsequent to the discovery of the breach. I now understand that a criminal prosecution has been pursued and the perpetrator sentenced. I have also made enquiry of the Head of Corporate Resources and he of the management team and he confirms he is not aware of any breaches as set out in Paragraph 3
 4. No, none that would have any bearing on fraud or financial misstatement. As stated earlier, the Covid grant scheme was implemented at pace, but is to be subject to separate assurance.
 5. The Audit Committee relies on the overall control framework as implemented by the Head of Corporate Resources and audited by the Internal and external auditors to ensure that all relevant laws and regulations have been complied with.
 6. No, having made enquires of the Head of Corporate Resources as to question 6.
 7. I am aware that this is topical given the current pandemic and significant reduction in income in the form of sales, fees and charges for all tiers of local government. The 'income protection' scheme recently launched will greatly assist with the issue in the current financial year and the Mid Sussex District Council has robust plans to reshape the organisation in future years, and is to shortly to publish a revised Corporate Plan that will set this out in detail. The new Corporate Plan will be agreed by the Mid Sussex District Council Cabinet and ratified by full Council. On this basis, I have no hesitation in adopting the going concern basis.
 8. I am not aware of any significant related party or associated transactions that affect the Statements or should be reported as of any concern. We have one Member that has made a disclosure that covers part of the year, but this is of limited significance.
 9. No, none. See Q 8

I trust that this provides the information requested to inform your audit.

Yours sincerely

Councillor Mike Pulfer
Chairman of the Audit Committee

INTERNAL AUDIT ANNUAL REPORT 2019/2020

Report from: Audit Manager
Contact Officer: Gillian Edwards
Email: Gillian.edwards@midsussex.gov.uk/gillian.edwards@crawley.gov.uk
Tel: (01444) 477241/01293 438384
Wards Affected: All
Key Decision No
Date of Meeting 15th September 2020

EXECUTIVE SUMMARY AND RECOMMENDATIONS

1. Purpose of Report

This is the annual report of the Audit and Risk Manager of Mid Sussex District Council for 2019/2020.

2. Summary

- 2.1 The Internal Audit section completed the programme of audits for the year ended 31st March 2020 in accordance with the UK Public Sector Internal Audit Standards (PSIAS). In carrying out its work, the full cooperation of management and staff was gratefully received throughout the year.
- 2.2 All of the audits within the plan have now been completed and I can report that six high priority findings were identified during the financial year in question and that action to address these weaknesses was agreed and implemented by Management.
- 2.3 It is the opinion of Audit and Risk Manager that on the whole, the Council had an adequate, effective and reliable framework of internal control for the year 2019/2020.
- 2.4 We are grateful for the Audit Committee's role in monitoring the implementation of these recommendations.

3. Recommendation

The Committee is asked to receive the report.

INTERNAL AUDIT ANNUAL REPORT FOR 2019/2020

1 Introduction and Background

- 1.1 Internal Audit is a key part of the Council's internal control environment. Central to its role is assessing the adequacy and effectiveness of the systems and controls that have been put in place by management. To this end the work undertaken is designed to:
- inform the members and senior management to what extent they can rely on the internal controls;
 - to make recommendations to enhance controls where weaknesses are identified; and
 - advise individual managers on the reliability of the systems and associated controls for which they are responsible.
- 1.2 The internal control environment comprises the whole network of systems and controls established to ensure that the Council's objectives are met. It includes financial and other controls and also arrangements for ensuring that the Council is achieving value for money from its activities.
- 1.3 There have been no restrictions imposed on the scope of the internal audit function.

Specific requirements for Internal Audit

- 1.4 The Accounts and Audit Regulations 2015 require the Council to undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control. Proper practices as stated within the Regulations are now defined as the Public Sector Internal Audit Standards (PSIAS). The PSIAS replaced the CIPFA Code of Practice for Internal Audit in Local Government (2006) with effect from 1 April 2013.
- 1.5 The PSIAS apply to all internal audit service providers, whether in-house, shared services or outsourced. The PSIAS included an updated definition of internal auditing, further emphasising the role of internal audit in reviewing all systems of risk, governance and internal control. The definition also focuses on the role of Internal Audit in assisting the organisation to achieve its objectives.
- 1.6 The PSIAS require the purpose, authority and responsibility of the internal audit activity to be formally defined in an internal audit charter. Additionally, internal auditors must conform to a Code of Ethics: Integrity; Objectivity; Confidentiality; and Competency. The Code of Ethics includes two components:
- 1) Principles that are relevant to the profession and practice of internal auditing; and
 - 2) Rules of Conduct that describe behaviour norms expected of internal auditors. These rules are an aid to interpreting the Principles into practical applications and are intended to guide the ethical conduct of internal auditors.
- 1.7 The PSIAS are split into two groupings. The Attribute Standards address the characteristics of organisations and parties performing internal audit activities. The Performance Standards describe the nature of internal audit activities and provide quality criteria against which the performance of these services can be evaluated:

Attribute standards

- 1 Purpose, Authority and Responsibility;
- 2 Independence and Objectivity;
- 3 Proficiency and due professional care; and
- 4 Quality assurance and improvement programme.

Performance standards

- 5 Managing the internal audit activity;
 - 6 Nature of work;
 - 7 Engagement planning;
 - 8 Performing the engagement;
 - 9 Communicating results;
 - 10 Monitoring progress; and
 - 11 Communicating the acceptance of risks.
- 1.8 Section 1320 of the PSIAS - Reporting on the Quality Assurance and Improvement Programme – states that ‘the chief audit executive (Audit and Risk Manager) must communicate the results of the quality assurance and improvement programme to senior management and the board’.
- 1.9 These standards require the Audit and Risk Manager to undertake an annual self-assessment of the internal audit service against a Quality Assurance and Improvement Plan (QAIP) checklist and to outline the results as part of the Annual Audit Report. This has been undertaken as at 31st March 2020 and I can confirm that the Internal Audit Service was compliant for the period under review.

Annual Governance Statement

- 1.10 The Audit Committee receives the Annual Governance Statement annually in the Statement of Accounts. This report forms the basis for the Council’s Management Team and the Audit Committee to undertake their annual review of internal control and to approve the Annual Governance Statement for 2019/2020.

This report

- 1.11 This annual report has been produced in accordance with the requirements of the PSIAS. It covers the effectiveness of internal control for the period 1st April 2019 to 31st March 2020.
- 1.12 It should be noted that it is not the responsibility of Internal Audit to operate the system of internal control; rather, this is the responsibility of management. Furthermore, it is management’s responsibility to determine whether to accept and implement recommendations made by internal audit or, alternatively, to recognise and accept any risks arising from not taking action.

2. Internal Audit activity during 2019/2020

Significant events during the year

- 2.1 The Council's overall internal control framework is considered to have operated effectively during the year. We have completed all of our planned audit work and responded to requests from the Head of Corporate Resources to undertake alternative or additional work, as part of our audit programme. Where internal audit work has highlighted instances of none or part compliance, none are understood to have had a material impact on the Authority's affairs.
- 2.2 However, the opinion provided must be considered in light of the current (at time of writing) ongoing COVID-19 pandemic, and the impact of this on the Council. My opinion is based on internal audit work undertaken during 2019/2020, the majority of which took place prior to COVID-19 and the resulting emergency measures being implemented.
- 2.3 COVID-19 measures have resulted in a significant level of challenge to the Council and put pressure on the expected control environment; the need for prompt and urgent action by officers has required changes to some procedures and control arrangements for example, Business Grant Funding. The level of impact this had in 2019/2020, and continues to have in 2020/2021, is changing as the situation develops. In respect of this annual report it has not been possible to fully quantify the additional risk that may have arisen from such emergency and short-term measures or fully determine the overall impact on the framework of governance, risk management and control.
- 2.4 We will seek to provide assurance to stakeholders in the coming months that the internal control environment continued to be sound and that risk management and governance arrangements were operating satisfactorily.

Factors affecting the extent of our internal audit work

- 2.5 There were no factors which have affected the extent of our internal audit work during the year.

Summary of Internal Audit Work Undertaken in 2019/2020

INTERNAL AUDIT ASSURANCE OPINIONS	
AUDITS	
Refuse Collection	Substantial
Housing Allocations	Substantial
Temporary Accommodation	Substantial
HR	Satisfactory
Commercial Properties	Satisfactory
Procurement	Satisfactory
Payments (Creditors)	Satisfactory
Sundry Debtors	Satisfactory
Housing Benefits	Substantial
NNDR	Substantial
Council Tax	Satisfactory
Budgetary Control	Substantial
Capital Accounting and Asset Management	Substantial
Treasury Management	Substantial

FMS	Substantial
Building Control	Satisfactory
Income Collection (Cash and Bank)	Satisfactory
NFI	N/A
Payroll	Substantial

The Audit Plan

- 2.6 The 2018-2019 audit plan was agreed by the Head of Corporate Resources (Council's S151 Officer) and the Audit Committee was asked to receive the report.
- 2.7 The 2019-2020 audit plan was completed in full and included audits of the Council's fundamental systems, operational audits and computer audits, along with ad-hoc reviews.

3. Assurance Statement by the Internal Audit Provider

- 3.1 As the provider of an internal audit service to Mid Sussex District Council I am required by the PSIAS to provide the Council with assurance on the whole system of internal control. In giving my opinion it should be noted that assurance can never be absolute. The most that the internal audit service can provide is reasonable assurance that there are no major weaknesses in the whole system of internal control. In assessing the level of assurance to be given we have taken into account:
- (a) the findings arising from audits undertaken during 2019/2020 and in previous years;
 - (b) the results of management action taken in respect of recommendations made in audits from the current and previous years;
 - (c) whether or not any high or medium recommendations have not been accepted by management, and the consequent risks;
 - (d) the effects of any material changes in the Council's objectives or systems;
 - (e) matters arising from previous reports of the external auditor;
 - (f) whether or not any limitations have been placed on the scope of internal audit;
 - (g) whether or not there have been any resource constraints that may impinge on the Head of Corporate Resources' ability to meet the full audit needs of Mid Sussex District Council; and
 - (h) the proportion of the audit needs that have been covered to date.
- 3.2 The matters raised in this report are only those that came to our attention during our internal audit work during the course of the year, and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all improvements that may be required.
- 3.3 This report is prepared by Gillian Edwards, Audit and Risk Manager at Crawley Borough Council, in the capacity of Head of Audit for Mid Sussex District Council as part of a shared service arrangement. Details may be made available to the specified external agencies, including external auditors, but otherwise the report should not be quoted or referred to in whole or in part without prior consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose.

Overall assurance

- 3.4 In my opinion, for the 12-month period to 31st March 2020, and subject to any subsequent issues arising from the ongoing COVID-10 pandemic, Mid Sussex District Council had an adequate, effective and reliable framework of internal control that provides reasonable assurance regarding the effective and efficient achievement of the Council's objectives.

Operational assurance

- 3.5 The internal audit service examined systems operating to achieve the Council's objectives in several areas.
- 3.6 During the conduct of our audit work we have had regard to the following objectives of internal audit:
- (a) to review and appraise the soundness, adequacy and application of the whole system of internal control;
 - (b) to ascertain the extent to which the whole system of internal control ensures compliance with established policies and procedures;
 - (c) to ascertain the extent to which the assets and interests entrusted to or funded by the Council are properly controlled and safeguarded from losses;
 - (d) to ascertain that management information is reliable as a basis for the production of financial, statistical and other returns;
 - (e) to ascertain the integrity and reliability of information provided to management including that used in decision making; and
 - (f) to ascertain that systems of control are laid down and operate to achieve the most economic, efficient and effective use of resources.
- 3.7 The level of assurance given by an individual audit is directly related to the significance of the findings and categories given to the resultant recommendations.

4 Policy Context

- 4.1 Receiving this report enables the Committee to perform its duties under the Accounting and Auditing regulations

5. Other Options Considered

- 5.1 None.

6. Financial Implications

- 6.1 This is a report on the activity of Internal Audit in the previous year and as such does not have any financial implications. The budget for Internal Audit relating to work undertaken during 2019/2020 has been discussed previously in the Revenue Budget Management reports for the year.

7 Risk Management Implications

- 7.1 None.

INTERNAL AUDIT – MONITORING REPORT 31st August 2020

REPORT OF: Audit and Risk Manager
Contact Officer: Gillian Edwards
Email: gillian.edwards@midsussex.gov.uk Tel: 01444 477241
Wards Affected: All MSDC Wards
Key Decision: No
Report to: Audit Committee
15th September 2020

Purpose of Report

1. The purpose of this report is twofold; to update the Committee on the progress of the 2019/2020 and 2020/2021 Internal Audit Plans and to report on the progress made in implementing previously agreed recommendations.

Recommendation

2. The Committee is asked to receive this report.

Background

3. Work Completed

Since the last report, as at 3rd March 2020, the following reviews have been completed.

Audit Title	Audit Opinion
Capital Accounting	Substantial
Housing Benefits	Substantial
FMS	Substantial
Building Control	Satisfactory
Treasury Management	Substantial
Budgetary Control	Substantial
Cash and Bank	Satisfactory

We completed in full the 2019/2020 Internal Audit Plan.

Due to the COVID-19 pandemic, we were unable to commence work on 2020/2021 until the end of July 2020. However, I am confident that we will complete the current work as agreed in the 2020/2021 Internal Audit Plan by 31st March 2021.

4. Work in Progress

The reviews in progress and other work that we have undertaken in the period are shown at Appendix A.

5. High priority findings in this period

5.1 **Cash and Bank Audit 2019/2020**
Final Report Date: 28th May 2020

During this review, we identified two high priority findings as follows:

Bank Reconciliation – Completion and Procedure Notes

Following the introduction of the T1 FMS system in September 2019, bank reconciliations were not completed in a timely manner. The bank reconciliations for September and October 2019 were not received until March 2020.

The bank reconciliation's that were received did not have any procedures as to how they were to be compiled on T1 nor were they accompanied by copies of the months bank statements.

It was agreed that the bank reconciliations would be brought up to date, with procedure notes developed to support the process.

Please see section 5 below for an update on the status of the agreed actions.

6. Follow Up Audits:

6.1 **Cash and Bank – 28th May 2020**
High Priority findings – 2

We have received copies of the outstanding bank reconciliations and can confirm that they are now up to date.

We have also received comprehensive and documented guidance notes showing the processes followed to perform the bank reconciliations, and assurances that their preparation will continue in a timely manner.

Status of agreed action – Implemented.

7. Work in Progress

7.1 The reviews in progress and other work that has been undertaken in the period are shown at Appendix A.

7.2 All work has been planned and allocated to Audit staff and we are confident that the audit plan will be complete by 31st March 2021.

Background Papers

- Internal Audit reports relating to 2019/2020
- Working papers relating to 2019/2020

Internal Audit Plans 2019/2020 and 2020/2021

Progress Report as at 31st August 2020

Audit	Audit Plan Year	Audit Opinion-Assurance	Number of High Priority Findings	Comments
A. Work Completed in the Current Period				
Capital Accounting	2019/20	Substantial		
Housing Benefits	2019/20	Substantial		
FMS	2019/20	Substantial		
Building Control	2019/20	Satisfactory		
Treasury Management	2019/20	Substantial		
Budgetary Control	2019/20	Substantial		
Cash and Bank	2019/20	Satisfactory	2	
B. Work In Progress				
Payroll Systems Post Implementation Review	2020/21			
Tech 1 System Post Implementation Review	2020/21			
Disabled Facility Grants	2020/21			
Follow Ups				
Cash and Bank	2020/21			

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REVIEW OF TREASURY MANAGEMENT ACTIVITY 2019/20

REPORT OF: Peter Stuart, Head of Corporate Resources

Email: pamela.coppelman@adur-worthing.gov.uk Tel: 01903 221236

Wards Affected: All

Key Decision No

PURPOSE OF REPORT

1. The report sets out the Council's treasury management activity for the year ended 31 March 2020.

SUMMARY

2. All transactions are in order and the performance of the service has been in keeping with the requirements of the Service Level Agreement (SLA) with our shared services provider.

RECOMMENDATIONS

3. The Committee is requested to note the contents of the report.
-

BACKGROUND

4. The Treasury Management function of this Council has been provided by Adur and Worthing Councils as a shared service since October 2010. This has enabled the cost of the service to be reduced whilst giving access to specialist advice and the administration skills of a larger authority. The SLA was extended for a further three years from 18th October 2019.
5. The 2019-20 Treasury Management Annual Report produced by the Group Accountant (Strategic Finance) is attached as Appendix 1. Members should note that this report format and level of detail is similar to that presented to the other authorities in the shared service and whilst it may appear to contain much in the way of industry knowledge, it would reward careful reading by those with an interest.

For those Members seeking a summary, paragraph 11.2 of Appendix 1 sets out the key points:

"The actual outturn performance for investment income was a shortfall of £22k against the budget, due to the lower than forecast interest rates available in the market. The shared service will continue to monitor the market carefully for the best possible interest rates. All counterparty lending limits approved at the start of the year were met and all Prudential Limits were adhered to."

6. The Group Accountant would welcome questions and queries from Members using the contact details above.

POLICY CONTEXT

7. The presentation of this report has been delayed beyond the requirements under the Council's treasury management policy to produce an annual report by 31st August 2020 after the year end. This is due to the cancellation of the July Audit Committee meeting because of the Covid-19 virus issues. Providing transparency and approval of the strategies contained in this report is an important part of the Council's statutory role. Treasury Management has become increasingly topical given the nature of the world's financial markets in recent years, and Members are expected to have a basic understanding of how the Council uses its reserves and cash flows which are in the stewardship of the Head of Corporate Resources.

OTHER OPTIONS CONSIDERED

8. None – this report is statutorily required by regulations issued under the Local Government Act 2003.

FINANCIAL IMPLICATIONS

9. This report has no quantifiable financial implications. Interest payable and interest receivable arising from treasury management operations, and annual revenue provisions for repayment of debt, form part of the revenue budget but are not required to support the provision of services.

RISK MANAGEMENT IMPLICATIONS

10. This report has no specific implications for the risk profile of the Council.

EQUALITY & CUSTOMER SERVICE IMPLICATIONS

11. None

BACKGROUND PAPERS

- Treasury Management Strategy Statement & Annual Investment Strategy 2019/20 to 2021/22 (Council on 27th March 2019), and Review of Treasury Management Activity 1 April – 30 September 2019 (Audit Committee 12th November 2019).
- The CIPFA code of Practice on Treasury Management (the code).
- CIPFA Prudential code for Capital Finance in Local Authorities (the Prudential Code)
- Link Asset Services report template (April 2020)

1. SUMMARY

- 1.1 This report summarises the operation of the treasury management service for the financial year 2019/20. The presentation of this report fulfils the requirements under the Council's treasury management policy.

2. INTRODUCTION AND BACKGROUND

- 2.1 Treasury management is defined as:

“The management of the local authority's cash flows and investments, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”

- 2.2 The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2019/20. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

- 2.3 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report therefore provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

- 2.4 For 2019/20 the minimum reporting requirements were that the Council should receive the following reports, which incorporate a variety of policies, estimates and actuals:

- The Annual Treasury Management Strategy Statement and Annual Investment Strategy approved by full Council in advance of the year (Council – 27th March 2019)
- The mid-year treasury management operations update report (Audit Committee – 12th November 2019)
- An annual review (this report) to be presented to the Audit Committee following the end of the year, describing the activity compared to the strategy.

- 2.5 The Council confirms that it has complied with the requirement under the code to give prior scrutiny to all of the above treasury management reports by the Audit Committee before they were reported to the full Council. Member training on treasury management issues was undertaken on 2nd July 2019 in order to support members' scrutiny role.

3. THE COUNCIL'S CAPITAL FINANCING AND EXPENDITURE

The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators, because the Council must ensure that capital expenditure is affordable, approved and monitored. The table below shows the actual capital expenditure and how this was financed.

£m	2018/19 Actual	2019/20 Strategy	2019/20 Actual
Capital expenditure	24.626	2.426	9.492
Financed in year	22.035	2.426	9.492
Unfinanced capital expenditure	2.591	0.000	0.000

4. THE COUNCIL'S OVERALL BORROWING NEED

4.1 Some of the Council's capital expenditure is funded immediately by, for example, capital grants, capital receipts from the sale of assets, or from contributions from the revenue budget (capital funded by revenue as approved by statute). Capital expenditure that is not funded by any of these means is described as "the underlying need to borrow" and is termed the Capital Financing Requirement (CFR). The Council decides whether or not to borrow these amounts externally, or alternatively to use cash that would otherwise be invested (internal borrowing). This decision is based on a number of factors, including the prevailing interest rates for borrowing compared to those for investing, the likelihood of a capital receipt in the near future or a forecast of additional capital grants.

4.2 **Gross borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2019/20) plus the estimates of any additional capital financing requirement for the current (2020/21) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allowed the Council some flexibility to borrow in advance of its immediate capital needs to take advantage of, say, low interest rates.

The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

	31 March 2019 Actual	31 March 2020 Strategy	31 March 2020 Actual
CFR (£m)	27.948	7.437	27.438
External Debt	(13.571)	(7.437)	(7.437)
Finance Lease *	(2.818)	(2.541)	(2.541)
Total Borrowing	(16.389)	(9.978)	(9.978)
(Over)/under borrowing	11.559	(2.541)	17.460

The difference between the forecast CFR and the actual CFR at 31 March 2020 is due to a delayed capital receipt.

*The Authority has a contract with SERCO for the provision of waste collection. The new fleet of vehicles used to provide the service are shown as Property, Plant and Equipment in the Balance Sheet, with a vehicle life of 10 years 4 months which ends 30 July 2028. Accordingly this is recognised as a Finance Lease.

The difference between the CFR and the gross borrowing position is termed under or over borrowing. If a Council is under borrowed, it is using some of its internal cash that could otherwise be invested. It can therefore choose to borrow externally up to the CFR so as to take advantage of favourable interest rates. If a Council is over borrowed, it needs to ensure that this position is remedied over a two year period.

4.3 The authorised limit is the “affordable borrowing limit” required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2019/20 the Council has maintained gross borrowing within its authorised limit.

The operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached. The Council did not breach the operational boundary during the year.

Actual financing costs as a proportion of net revenue stream - this indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream. The costs incurred through capital expenditure are the interest payable on money borrowed and the Minimum Revenue Provision (MRP see section 8), which is a statutory annual revenue charge to reduce the indebtedness of a Council, based on the amount of unfunded capital expenditure.

Investment income is deducted from the costs and the net figure is then compared to the Council’s net revenue stream – the income received from grants and taxation as shown in the Statement of Accounts. Consequently if only the costs of the capital programme increase, so will the proportion of financing costs to net revenue stream. If only the net revenue stream increases, then the proportion will reduce. Usually there will be a combination of both factors.

	2019/20
Authorised limit	£34.000m
Maximum gross borrowing position during the year	£16.389m
Operational boundary	£32.000m
Financing costs as a proportion of net revenue stream	0.32%

The maximum gross borrowing position occurred on the 1st April 2019 prior to the repayment of the £6m temporary loan.

5. THE COUNCIL'S TREASURY POSITION AT 31 MARCH 2020

5.1 The Council's treasury position at the beginning and end of the year was as follows:-

	Principal at 31.03.19 £m	Average Interest Rate	Average Life in Years	Principal at 31.03.20 £m	Average Interest Rate	Average Life in Years
<u>Borrowing</u>						
PWLB	(0.571)	4.55%	3.92	(0.437)	4.55%	2.92
Other Borrowing	(13.000)	1.00%	1.27	(7.000)	1.14%	1.36
Finance lease	(2.818)			(2.541)		
TOTAL BORROWING	(16.389)			(9.978)		
CFR	27.948			27.438		
(Over)/under borrowing	11.559			17.460		
<u>Investments:</u>						
Local Authority Property Fund	5.942	4.30%	n/a	5.730	4.05%	n/a
In-house:						
Long Term	0.025	n/a	n/a	0.025	n/a	n/a
Short Term	25.210	0.99%	< 1 year	28.465	0.95%	< 1 year
TOTAL INVESTMENTS	31.177			34.220		
NET INVESTMENTS	14.788			24.242		

5.2 The maturity structure of debt table that follows demonstrates that procedures are in place to prevent the maturity of too much debt in a single period, when only high interest rates may be available for refinancing the debt, if required.

	31 March 19 actual	2019/20 original limits	31 March 2020 actual
Under 12 months	6.410	50%	2.422
12 months and within 24 months	2.422	70%	5.434
2 year to 5 years	6.029	80%	1.054
Over 5 Years	1.528	60%	1.068

5.3 Investments held at 31 March 2020 (excluding the Local Authority Property Fund):

Counterparty	Issue Date	Maturity Date	Principal	Interest Rate	Long Term Rating
Cambridge Building Society	26/06/2019	25/06/2020	£2,000,000	1.2500	*
Cambridge Building Society	10/07/2019	10/07/2020	£1,000,000	1.2000	*
Close Brothers Bank	05/09/2019	07/09/2020	£2,000,000	1.1000	A
Lloyds Bank	10/05/2019	11/05/2020	£1,000,000	1.2500	A+
Lloyds Bank	05/06/2019	05/06/2020	£1,000,000	1.2500	A+
Lloyds Bank	27/06/2019	29/06/2020	£1,000,000	1.2500	A+
Monmouthshire BS	07/11/2019	05/11/2020	£1,000,000	1.0800	*
National Counties BS	11/04/2019	14/04/2020	£2,000,000	1.2600	*
National Counties BS	16/05/2019	18/05/2020	£1,000,000	1.2600	*
Newcastle Build Soc	17/04/2019	17/04/2020	£1,000,000	1.2500	*
Newcastle Build Soc	23/05/2019	22/05/2020	£1,000,000	1.3000	*
Newcastle Build Soc	07/11/2019	05/11/2020	£1,000,000	1.1700	*
Nottingham Build Soc	13/06/2019	12/06/2020	£1,000,000	1.1500	BBB+
Progressive BS	09/10/2019	09/10/2020	£1,000,000	1.1000	*
Progressive BS	23/10/2019	23/10/2020	£1,000,000	1.1000	*
Saffron BS	30/05/2019	29/05/2020	£1,000,000	1.2500	*
Blackrock MMF	01/07/2019	n/a	£460,000	0.3643	AAA
CCLA MMF	06/02/2020	n/a	£3,000,000	0.4688	AAA
Federated MMF	01/05/2019	n/a	£3,000,000	0.4251	AAA
Handelsbanken call a/c	15/06/2018	n/a	£5,000	0.5000	AA-
Invesco MMF	10/06/2019	n/a	£3,000,000	0.4070	AAA
TOTAL			£28,465,000		

* - Not on credit list

All investments listed are due to mature within 12 months.

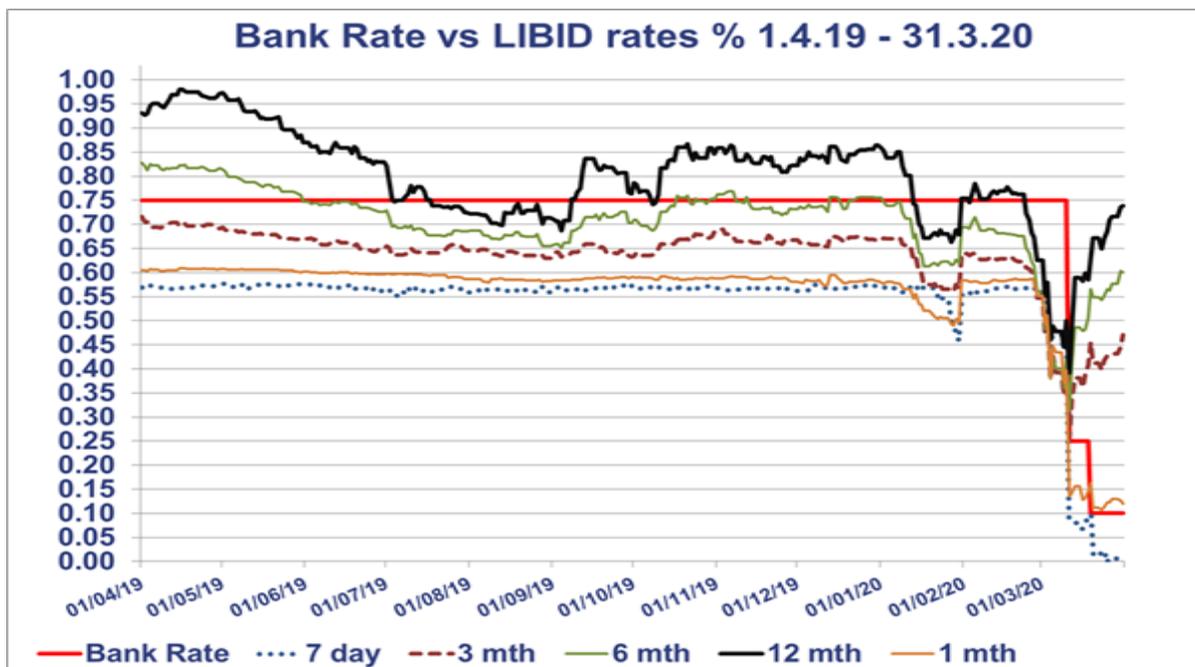
Local Authority Property Fund – the Council has also invested £6m with the Local Authorities' Property Fund.

6. THE STRATEGY FOR 2019/20

Some of the information and tables in the following paragraphs are supplied by the Council's treasury advisors, Link Asset Services and consist of detailed economic and market information which informed the Council's treasury management decisions throughout the year.

6.1 Investment strategy and control of interest rate risk

(LIBID - London Interbank Bid Rate - the rate bid by banks on deposits)



Investment returns remained low during 2019/20. The expectation for interest rates within the treasury management strategy for 2019/20 was that Bank Rate would stay at 0.75% during 2019/20 as it was not expected that the MPC would be able to deliver on an increase in Bank Rate until the Brexit issue was finally settled. However, there was an expectation that Bank Rate would rise after that issue was settled, but would only rise to 1.0% during 2020.

Rising concerns over the possibility that the UK could leave the EU at the end of October 2019 caused longer term investment rates to be on a falling trend for most of April to September. They then rose after the end of October deadline was rejected by the Commons but fell back again in January before recovering again after the 31 January departure of the UK from the EU.

When the coronavirus outbreak hit the UK in February/March, rates initially plunged but then rose sharply back up again due to a shortage of liquidity in financial markets. As longer term rates were significantly higher than shorter term rates during the year, value was therefore sought by placing longer term investments where cash balances were sufficient to allow this.

While the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

6.2 Borrowing strategy and control of interest rate risk

During 2019/20, the Council maintained an under-borrowed position. This meant that the capital borrowing requirements (the Capital Financing Requirement), was not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were low in relation to the cost of borrowing and minimising counterparty risk on

placing investments also needed to be considered. All capital expenditure in 2019/20 was funded through grants or other contributions, so no new borrowing was required.

Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Head of Corporate Resources therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks

- if it had been felt that there was a significant risk of a sharp FALL in long and short term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then any necessary long term borrowings would have been postponed, and potential rescheduling from fixed rate funding into short term borrowing would have been considered.
- if it had been felt that there was a significant risk of a much sharper RISE in long and short term rates than initially expected, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few years.

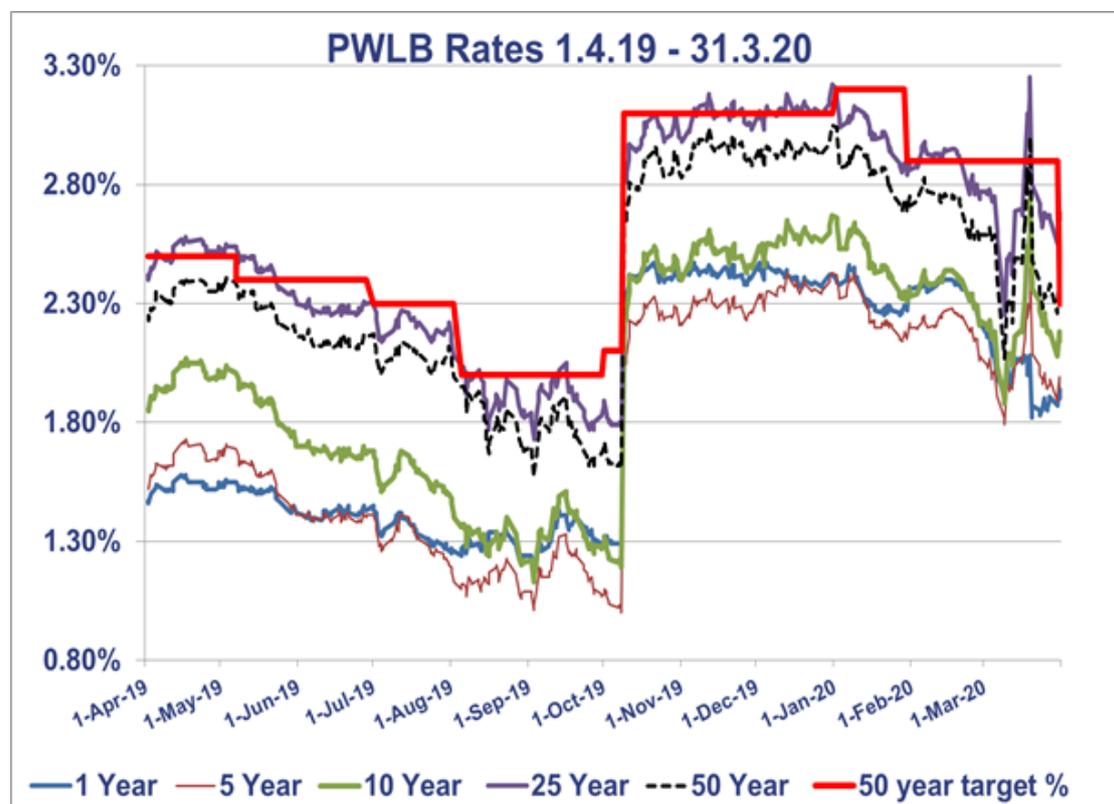
6.3 Interest rate forecasts expected only gradual rises in medium and longer term fixed borrowing rates during 2019/20 and the two subsequent financial years. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period.

	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25
3 Month LIBID	0.70	0.70	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20
6 Month LIBID	0.80	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40
12 Month LIBID	1.00	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60
5yr PWLB Rate	1.20	1.30	1.50	1.60	1.70	1.70	1.80	1.90	2.00	2.00	2.10
10yr PWLB Rate	1.50	1.60	1.80	1.90	2.00	2.00	2.10	2.20	2.30	2.30	2.40
25yr PWLB Rate	2.10	2.30	2.40	2.50	2.60	2.70	2.70	2.80	2.90	3.00	3.00
50yr PWLB Rate	2.00	2.20	2.30	2.40	2.50	2.60	2.60	2.70	2.80	2.90	2.90

PWLB rates are based on, and are determined by, gilt (UK Government bonds) yields through H.M.Treasury determining a specified margin to add to gilt yields. There was much speculation during the second half of 2019 that bond markets were in a bubble which was driving bond prices up and yields down to historically very low levels. The context for that was heightened expectations that the US could have been heading for a recession in 2020, and a general background of a downturn in world economic growth, especially due to fears around the impact of the trade war between the US and China, together with inflation generally at low levels in most countries and expected to remain subdued; these conditions were conducive to very low bond yields.

While inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years.

We have therefore seen, over the last year, many bond yields up to 10 years in the Eurozone turn negative. In addition, there has, at times, been an inversion of bond yields in the US whereby 10 year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession. The other side of this coin is that bond prices are elevated as investors would be expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities.



Gilt yields were on a generally falling trend during the last year up until the coronavirus crisis hit western economies. Since then, gilt yields have fallen sharply to unprecedented lows as investors have panicked in selling shares in anticipation of impending recessions in western economies, and moved cash into safe haven assets i.e. government bonds.

However, major western central banks also started quantitative easing purchases of government bonds which will act to maintain downward pressure on government bond yields at a time when there is going to be a huge and quick expansion of government expenditure financed by issuing government bonds; (this would normally cause bond yields to rise). At the close of the day on 31 March, all gilt yields from 1 to 5 years were between 0.12 – 0.20% while even 25-year yields were at only 0.83%.

However, HM Treasury has imposed two changes in the margins over gilt yields for PWLB rates in 2019-20 without any prior warning; the first on 9 October 2019, added an additional 1% margin over gilts to all PWLB rates. That increase was then partially reversed for some forms of borrowing on 11 March 2020 (including borrowing for the HRA), at the same time as the Government announced in the Budget a programme of increased spending on infrastructure expenditure.

It also announced that there would be a consultation with local authorities on possibly further amending these margins; this ends on 4 June. It is clear that the Treasury intends to put a stop to local authorities borrowing money from the PWLB to purchase commercial property if the aim is solely to generate an income stream.

Following the changes on 11 March 2020 in margins over gilt yields, the current situation is as follows: -

- PWLB Standard Rate is gilt plus 200 basis points (G+200bps)
- PWLB Certainty Rate is gilt plus 180 basis points (G+180bps)
- PWLB HRA Standard Rate is gilt plus 100 basis points (G+100bps)
- PWLB HRA Certainty Rate is gilt plus 80bps (G+80bps)
- Local Infrastructure Rate is gilt plus 60bps (G+60bps)

There is likely to be little upward movement in PWLB rates over the next two years as it will take national economies a prolonged period to recover all the momentum they will lose in the sharp recession that will be caused during the coronavirus shut down period. Inflation is also likely to be very low during this period and could even turn negative in some major western economies during 2020-21.

7 BORROWING OUTTURN for 2019/20

- 7.1 The Council has not borrowed more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed. All the capital expenditure was funded and no new borrowing was required.
- 7.2 No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.
- 7.3 The Council repaid the £6m temporary loan on 1 April 2019. The Council's debt comprises one loan from the Public Works Loan Board (PWLB), which matures on 1 March 2023 and loans with other local authorities, totalling £7m, repayable in November 2020 (£2m) and November 2021 (£5m). The local authority loans will be repaid using capital receipts and maturing investments.

8 INVESTMENT OUTTURN FOR 2019/20

- 8.1 **Investment Policy** – the Council's investment policy is governed by MHCLG guidance, which has been implemented in the annual investment strategy approved by the Council on **27th March 2019**. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.). The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.
- 8.2 **Investments held by the Council** - the Council maintained an average balance of **£31.329m** of internally managed funds, which earned an average rate of return of **1.064%**. The comparable performance indicator is the average 6 month London Interbank Bid Rate (the rate bid by banks on deposits), which was **0.705%**. The actual figures compare with a budget assumption of **£31.064m** of investment balances earning an average rate of **1.150%**. The Treasury investment returns (excluding returns from the Local Authority Property Fund) included in the reported income of the Council for 2019/20 amount to **£335k, £22k below** the budgeted investment estimate. This was due to the lower than projected interest rates available for investments.

- 8.3 **Local Authority Property Fund** – the Council has invested £6m with the Local Authority Property Fund and earned **£257k** in dividend interest in 2019/20.
- 8.4 **Resources** – the Council’s cash balances comprise revenue and capital resources and cash flow monies. The Council’s core cash resources comprised as follows:

Balance Sheet Resources	31 March 2019 £'000s	31 March 2020 £'000s
Balances and Collection Fund Adjustment Account	2.845	6.240
Earmarked Reserves	16.840	15.709
Provisions excl accumulating absences	2.226	1.431
Usable Capital Receipts	1.061	1.145
Capital Grants Unapplied	5.674	5.669
Amount available for investment	28.646	30.194

The cash backed reserves and balances have increased by £1.548m. The working capital surplus was £24.3m (primarily because of a combination of creditors, £17m, and grants/receipts in advance, £9.1m). This strong end of year working capital position ensured that, even though the Council was significantly under borrowed, it had greater investments than the cash backed reserves and balances. This is a strong balance sheet position.

9. MINIMUM REVENUE PROVISIONS (MRP) FOR REPAYMENT OF DEBT

- 9.1 The Council, in accordance with legislation, makes a provision from revenue to enable the repayment of borrowing that has been undertaken to fund the capital programme. This provision is known as the Minimum Revenue Provision (MRP) and is charged to the General Fund Revenue Account each year. MRP is set aside each year at an amount equivalent to the value of debt repaid in the year.
- 9.2 For 2019/20 an amount of **£510k** has been set aside in the annual accounts as the MRP for repayment of debt.

10. OTHER ISSUES AND MATTERS

Shared Services Arrangements

- 10.1 The Council’s treasury management services are provided under a shared services arrangement (SSA) performed by the in-house treasury management team formed out of partnership working between Adur District Council and Worthing Borough Council. The treasury management team is based at Worthing Town Hall, but services all three Councils’ treasury management operations from this location utilising similar banking arrangements. The SSA is provided under a Service Level Agreement that was renewed from 18th October 2019, and which defines the respective roles of the client and provider authorities for a period of three years.
- 10.2 **Statutory override**

Following the consultation undertaken by the Ministry of Housing, Communities and Local Government, [MHCLG], on IFRS9 the Government has introduced a mandatory statutory override for local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds. This will be effective from 1 April 2018. The statutory override applies for five years from this date. Local authorities are required to disclose the net impact of the unrealised fair value movements in a separate unusable reserve throughout the duration of the override in order for the Government to keep the override under review and to maintain a form of transparency.

10.3 Covid-19

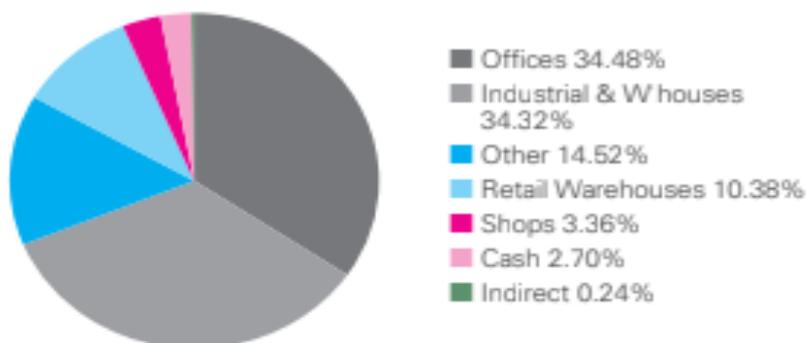
Due to the Covid-19 virus, the government made a payment of nearly £26.9m to the Council on the 1st April 2020 to distribute as business grants to local businesses. Additional funding has been received subsequently to provide relief to the local community, support the additional costs that the Council is incurring and to compensate for loss of income.

The Council has been very successful in distributing the grants. However it was not possible to accept the grant funding and also adhere to the counterparty investment limits set out in the Treasury Management Strategy Statement, whilst managing these short term funds. Consequently the counterparty investment limits have been exceeded on a regular basis. The service has mitigated the risk by spreading the additional funds across the counterparties, using the usual criteria of “security, liquidity then yield.” Now that the Council has distributed the majority of the grants it should be possible to adhere to the treasury limits again, although this will depend on future government funding streams. The Council has not incurred any loss due to this action.

The Covid-19 virus has not affected the fixed term deposits already held by the Council. However the rates on money market funds and new fixed term deposits are now much lower than in February and are continuing to drop. This will affect the ability to meet the 2020/21 treasury income budgets. The Council does not invest in stocks and shares so is not exposed to those market fluctuations.

The investment in the Local Authorities’ Property Fund has reduced in value by 5.7% between February and June, however, as explained in 9.2, this will not impact on the General Fund in the short term due to the Council’s statutory position. The dividend is still holding up well and the June dividend was 85% of the March one. The Fund is widely diversified in terms of its investment sectors and is actively managed.

Asset allocation at 31 December 19



11. CONCLUSION

11.1 This report fulfils the requirements of the CIPFA Codes as well as the Council’s own treasury

management practices to present an annual outturn report on treasury management activity.

- 11.2 The actual outturn performance for investment income was a shortfall of £22k against the budget, due to the lower than forecast interest rates available in the market. The shared service will continue to monitor the market carefully for the best possible interest rates. All counterparty lending limits approved at the start of the year were met and all Prudential Limits were adhered to.

COMMITTEE WORK PROGRAMME 2020/21

REPORT OF: Tom Clark, Head of Regulatory Services
Contact Officer: Alison Hammond, Member Services Officer
Email: alison.hammond@midsussex.gov.uk Tel: 01444 477227
Wards Affected: All
Key Decision: No

Purpose of Report

1. For the Audit Committee to note its Work Programme for 2020/21.

Summary

2. Members are asked to note the attached Work Programme. The Work Programme will be reviewed as the final piece of business at each meeting, enabling additional business to be agreed as required.

Recommendations

3. **The Committee are recommended to note the Committee's Work Programme as set out at paragraph 5 of this report.**
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Background

4. It is usual for Committees to agree their Work Programme at the first meeting of a new Council year and review it at each subsequent meeting to allow for the scrutiny of emerging issues during the year.

The Work Programme

5. The Committee's Work Programme for 2020/21 is set out below:

Meeting date	Item
17 Nov 2020	Audit Results Report Statement of Accounts Internal Audit Progress Report Committee Work Programme
2 March 2021	Business details to follow

Policy Context

6. The Work Programme should ideally reflect the key priorities of the Council, as defined in the Corporate Plan and Budget.

Financial Implications

7. None.

Risk Management Implications

8. None.

Background Papers

None.