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Audit and Governance Committee
24 September 2024

Time and venue:

6:00pm in the Court Room at Eastbourne Town Hall, Grove Road, BN21 4UG

Membership:

Councillor Christina Ewbank (Chair); Councillor Ali Dehdashty (Deputy-Chair)

Councillors Hugh Parker, Pat Rodohan, Kshama Shore, David Small, Robin Maxted, Alan Shuttleworth and Stephen Gilbert (Audit Independent Member)

Quorum: 2

Published: Monday, 16 September 2024

Agenda

1 **Minutes (Pages 5 - 10)**

To confirm the minutes of the last meeting of the Committee, held 18 July 2024.

2 **Apologies for absence/declaration of substitute members**

3 **Declarations of Disclosable Pecuniary Interests (DPIs) by members as required under Section 31 of the Localism Act and of other interests as required by the Code of Conduct.**

4 **Questions by members of the public.**

On matters not already included on the agenda and for which prior written notice has been given (total time allowed 15 minutes).

5 **Urgent items of business.**

The Chairman to notify the Committee of any items of urgent business to be added to the agenda.

6 **Right to address the meeting/order of business.**

The Chairman to report any requests received to address the Committee from a member of the public or from a Councillor in respect of an item listed below and to invite the Committee to consider taking such items at the commencement of the meeting.

7 **External Auditor's (Deloitte) report on the 2020/21 Statement of Accounts (Pages 11 - 174)**

Report of the Director of Finance and Performance and Deloitte

8 External Audits Update (Pages 175 - 204)

Report of the Director of Finance and Performance

9 Quarterly Internal Audit and Counter Fraud Report - Q1 (Pages 205 - 240)

Report of the Chief Internal Auditor

10 Treasury Management 2024/25 Q1 (Pages 241 - 262)

Report of the Director of Finance and Performance

11 Date of next meeting

To note that the next meeting of the Audit and Governance Committee is scheduled to be held on 27 November 2024 in the Court Room, Eastbourne Town Hall, Grove Road, Eastbourne, commencing at 6:00pm

Information for the public

Accessibility:

Please note that the venue for this meeting is wheelchair accessible and has an induction loop to help people who are hearing impaired. If you would like to use the hearing loop please advise Democratic Services (see below for contact details) either in advance of the meeting or when you arrive so that they can set you up with the relevant equipment to link into the system.

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Public participation:

Please contact Democratic Services (see end of agenda) for the relevant deadlines for registering to speak on a matter which is listed on the agenda if applicable.

Information for Councillors

Disclosure of interests:

Members should declare their interest in a matter at the beginning of the meeting.

In the case of a disclosable pecuniary interest (DPI), if the interest is not registered (nor the subject of a pending notification) details of the nature of the interest must be reported to the meeting by the member and subsequently notified in writing to the Monitoring Officer within 28 days.

If a member has a DPI or other prejudicial interest he/she must leave the room when the matter is being considered (unless he/she has obtained a dispensation).

Councillor right of address:

Councillors wishing to address the meeting who are not members of the committee must notify the Chairman and Democratic Services in advance (prior to the start of the meeting), with the exception of Planning Committee meetings where registering to speak must be made in accordance with the relevant public speaking rules set out in the Council's constitution.

Democratic Services

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Audit and Governance Committee

Minutes of meeting held in Court Room at Eastbourne Town Hall, Grove Road, BN21 4UG on 18 July 2024 at 6.00 pm.

Present:

Councillor Christina Ewbank (Chair).

Councillors Ali Dehdashty (Deputy-Chair), Andy Collins, Pat Rodohan, Kshama Shore, David Small and Alan Shuttleworth.

Officers in attendance:

Jackie Humphrey (Chief Internal Auditor), Steven Houchin (Deputy Chief Finance Officer), Ross Sutton (Head of Financial Reporting) and Elaine Roberts (Committee Officer).

Also in attendance: Ben Sheriff (Deloitte), and Trevor Greenlee, (Grant Thornton).

1 Minutes

The minutes of the last meeting, held 11 March 2024, were confirmed as an accurate record.

2 Apologies for absence/declaration of substitute members

Apologies were received from Councillor Maxted and Councillor Parker. Apologies were also received from Stephen Gilbert, Audit Independent Person, and from Homira Javadi, Director of Finance and Performance.

Councillor Collins attended as substitute for Councillor Parker.

3 Declarations of Disclosable Pecuniary Interests (DPIs) by members as required under Section 31 of the Localism Act and of other interests as required by the Code of Conduct.

There were no declarations of interest.

4 Questions by members of the public.

The Chair confirmed that no questions had been received from members of the public.

5 Urgent items of business.

There were none.

6 Right to address the meeting/order of business.

There were no requests.

7 External Audits Update

Steven Houchin, Deputy Chief Finance Officer (DCFO), gave an update on progress to complete the external audit of the 2020/21 draft financial statements. The update included a status summary of Local Government external audits nationally and the proposals for the External Audit Backstop arrangements to complete all outstanding audits, and the effect of the delays on preparing the 2023/24 draft financial statements.

Ben Sheriff, from External Auditors Deloitte, attended remotely via Teams for the duration of the item.

Following questions from the Committee, Officers and Deloitte confirmed that completion of the final draft report was expected in the next 4-6 weeks, and that the Statement of Accounts for 2020/21 would be brought to the Committee for approval at its next meeting, in September.

Resolved (unanimously)
To note the report.

8 Treasury Management Annual Report 2023/24

Ross Sutton, Head of Financial Reporting, summarised the activities and performance of the Treasury Management Service during 2023/24 with an update of the Quarter 4 position, and the Committee considered the report.

Before inviting comments from Members, the Chair noted her recent visit to the Business Enterprise Centre, (part of Investment Company Eastbourne Ltd) and reported a positive picture regarding income generation and general progress of the project overall.

Following comments and questions from Members, Officers explained how the exceptional financial support measures and current borrowing rates were informing the Council’s strategy for its comparative use of long- and short-term loans, and that this would be reviewed following any changes to the base rates.

Officers accounted for the variations in actual and forecast figures quoted in the report (page 21 of the report), noted how internal and external factors affected revisions of the capital programme spend as part of the annual budget setting process, and clarified the flexibility and limitations on what the Council could borrow, as per the prudential indicators quoted in the report.

Resolved (unanimously)

To recommend to Full Council (via Cabinet):
1. To approve the Annual Treasury Management report 2023/24 for

publication.

9 Internal Audit and Counter Fraud Report for the financial year 2023-2024

Jackie Humphrey, Chief Internal Auditor (CIA), presented her report, which included the Internal Audit response to the information requested by the Committee at its previous meeting regarding temporary accommodation.

The Committee considered the report.

In the following discussions, concerns were raised regarding the number of cancelled meetings of external companies and subsequent lack of regular assurance statements for those companies' financial and governance arrangements (section 4.4 of the report). The CIA confirmed that the issue was being chased and agreed to the Committee's request that a detailed update be included in the next quarterly report.

Officers provided some additional explanation of the red and amber status designations regarding debtors follow ups (Appendix C, page 65), and of specific recommendations, for example the one outstanding business continuity follow up.

Members praised the CIA and the Internal Audit Team for the comprehensive and clear nature of the quarterly reporting.

Resolved (unanimously)
To note the information, having identified additional information requirements as requested.

10 Annual Governance Statement

Jackie Humphrey, Chief Internal Auditor (CIA) introduced the report which outlined the draft 2023/24 Annual Governance Statement.

The Chair thanked the CIA for the presentation and the Committee considered the report.

Following questions from Members, the CIA:

- Clarified the Corporate Management Team's (CMT) decision-making process behind evaluating governance issues.

- Responded to Members' concerns regarding the capacity and resourcing issues outlined in the report and confirmed that the CMT had considered the issue but had not graded it as 'significant'. The CIA noted that the points were still included in the Annual Governance Statement, for transparency, and explained that the Committee could request that CMT re-consider the issue's governance level again.

- Explained that the issue of document disposal and retention arrangements raised within the Managers' assurance statements was reported to CMT.

Resolved (unanimously)
To approve the draft Annual Governance Statement for 2023-24, as set out in Appendix 5 of the report.

11 External Audit Plan 2023/24 Accounts

The Chair began by welcoming newly appointed External Auditor, Grant Thornton, and its representative in attendance at the meeting, Trevor Greenlee.

Steven Houchin, Deputy Chief Finance Officer (DCFO) informed the Committee that, following discussions with Grant Thornton, he could confirm that Appendix C did not need to be considered in private session. The Committee then agreed to consider the report and all three appendices together in open session under Item 11.

Trevor Greenlee provided an overview of the approach that Grant Thornton would be taking to prepare and present future external audits and a gave summary explanation of the content of the report and appendices.

Trevor Greenlee advised that Grant Thornton had had to start work without the assurance of completed audited accounts for the previous two years, and the consequent increase in demand on officers' and auditors' time this would make.

Trevor Greenlee paused to take questions from the Committee.

In the discussions, Trevor Greenlee confirmed that a representative would attend each committee meeting, ideally in person, to report on progress and answer any questions arising.

Members commended Grant Thornton on the quality and 'user-friendliness' of the reports presented to date. When asked, Officers confirmed that the initial working sessions with the new external auditor had proven very positive and did bode well for the future. The Committee encouraged Grant Thornton to also liaise directly with the CIA.

Trevor Greenlee continued by presenting the progress report. Following queries and comments, Trevor Greenlee assured the Committee that resources had been assigned and that typically Grant Thornton would expect to complete an external audit, without issues, in 8-10 weeks. Trevor Greenlee clarified the expected timelines for tackling the first set of external audits and noted Grant Thornton expected to only be able to provide qualified statements in the initial years due to the backlog of external audits, and use of the backstop arrangement to assess all remaining statement of accounts.

Resolved (unanimously)
1. To note and approve the Audit Plan for 2023-24.

2. To confirm that management responses (‘Informing the audit risk assessment’) were consistent with the Committee’s understanding

12 Exclusion of the public

Not required.

13 External Audit Plan 2023/24 Accounts - Exempt Appendix 3

Taken under item 11 as agreed by the Committee at the meeting.

14 Date of next meeting

The date of the next meeting was confirmed as Wednesday 25th September at 6pm in the Court Room, Eastbourne Town Hall.

The meeting ended at 7.29 pm

Councillor Christina Ewbank (Chair)

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Report To:	**Audit and Governance Committee**
Date:	**24 September 2024**
Report Title:	**The External Auditor's (Deloitte) report on the 2020/21 Statement of Accounts**
Report of:	**Homira Javadi, Director of Finance and Performance (S151 Officer)**
Ward(s):	**All**
Purpose of report:	**To review the Independent Auditor's (Deloitte) report to those charged with governance regarding the audited 2020/21 Statement of Accounts.**
Officer Recommendations:	**1. Note the Independent Auditor's (Deloitte) report to those charged with governance on EBC Accounts, and the Value for Money conclusion report.** **2. Delegate authority to the Chair of the Audit and Governance Committee, in consultation with the Director of Finance and Performance (S151 Officer) to sign-off the audited EBC 2020/21 Statement of Accounts.** **3. Authorise the Director of Finance and Performance (S151 Officer) to sign the formal Letter of Representation to Deloitte.**
Reasons for recommendations:	**The Council is required to produce an Annual Statement of Accounts in line with the Accounts and Audit Regulations.**
Contact Officer(s):	**Name: Steven Houchin** **Post title: Deputy Chief Finance Officer** **e-mail: steven.houchin@lewes-eastbourne.gov.uk** **Telephone number: 07591 838068**

1. Introduction

1.1 This report summarises the key findings (Appendix A) arising from Deloitte final audit work in relation to the draft Council's 2020/21 financial statements (Appendix B), and on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

1.2 The completion of the audit was delayed, primarily due to a number of elements including limited resources and team availability to carry out the EBC accounts audit given Deloitte existing commitments to other ongoing audits

2. 2020/21 Statement of Accounts

2.1 Under its terms of reference, it is the role of this Committee to review/approve the annual statement of accounts and the external auditor's report to those charged with governance, having considered whether appropriate accounting policies have been followed, and any issues raised by Deloitte from the audit of the accounts.

2.2 The auditors envisage issuing an unqualified audit opinion on the Council's financial statements. A number of accounting and presentational adjustments arising from normal audit work have been noted, discussed, and resolved as stated in the report.

2.3 Deloitte has also completed the review of the arrangements made by the Council to secure economy, efficiency, and effectiveness in the use of resources (Value for Money - VFM) and did not identify any significant VFM risks in 2020/21. Deloitte is satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2021, and did not feel it necessary to report on any particular points on value for money issues.

3. Letter of Representation 2020-21

3.1 Each year, on completion of the audit of the Council's Financial Statements, Director of Finance and Performance (S151 Officer) is required to submit a Letter of Representation to the Council's external auditor. The letter formally and publicly confirms the accuracy and completeness of the presented Statement of Accounts

3.2 A copy of the draft Letter of Representation for 2020/21 is attached at Appendix C and on receipt of the signed Letter of Representation, the Council's external auditor will formally issue an opinion on the Financial Statements.

4. Corporate plan and Council policies

4.1 Considered as part of the overall Accounts and Audit Regulations requirement and the timescales.

5. Financial Appraisal

5.1 There are no direct financial considerations arising from this report. However, there are significant financial implications caused by the delay in the audit of these accounts.

6. Risk Management Implications

6.1 There are no implications arising from this report.

7. Equality Analysis

7.1 This is a routine report for which a detailed Equality Analysis is not required to be undertaken.

8. Legal Implications

8.1 The Accounts and Audit Regulations 2015 require the Statement of Accounts to be considered and approved by way of a committee resolution and thereafter published. Further comments from the Legal Services Team are not necessary for this routine monitoring report.

9. Environmental sustainability implications

9.1 There are no environmental implications from this report.

10. Appendices

10.1 Appendix A - Report to the Audit & Governance Committee on the audit for the year ended 31 March 2021

10.2 Appendix B - EBC Statement of Accounts 2020/21

10.3 Appendix C - Formal Letter of Representation to Deloitte

11. Background Papers

11.1 Draft 2020/21 Statement of Accounts

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Deloitte.

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Eastbourne Borough Council

Report to the Audit & Governance Committee on the audit for the year ended 31 March 2021

Deloitte Confidential: Government and Public Services

Contents

Introduction

The key messages in this report

We have the pleasure of presenting our report to the Audit Committee of Eastbourne Borough Council (the Council) for the 2020/21 audit. The scope of our audit was set out within our planning report presented to the Audit and Governance Committee on 03 March 2021.

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

Overview of the accounts preparation and audit process

The external audit for the Council's statement of accounts is complete, subject to receipt of signed management representation letter and update of our subsequent events review to the date of signing.

The original timelines for the 2020/21 audit were affected by the issues identified in the 2019/20 audit and these were included in our final report on the 2019/20 audit issued on 3 April 2023 upon signing.

The 2020/21 financial statement close process had been undertaken prior to the resolution of these issues, with the draft accounts published in 2021. Although the current finance team updated the 2020/21 accounts for these changes, and other issues that they have identified, this does not address the underlying issues in accounting processes and the financial reporting and close process which therefore have continued to impact the 2020/21 audit. We understand that the Council has taken steps to address these issues for subsequent years, though we note that to date the 2021/22 group accounts have not yet been prepared, and the 2022/23 and 2023/24 accounts have not been prepared or published for inspection, and therefore cannot comment on the implementation of these changes for later years.

Further to consequent changes to the 2020/21 financial statements from the matters impacting 2019/20, issues impacting on the 2020/21 audit following resumption of audit work have included:

- The quality of the original draft financial statements and supporting working papers, together with the impact of the control deficiencies identified in the current and prior years (including the absence of accounting papers and weaknesses in the audit trail supporting the financial statements), impacting on the time taken for completion of the audit; and
- Although revised financial statements were prepared addressing issues in the financial statements themselves, limitations in the original working papers and historic accounting practices, together with loss of historic knowledge to address accounting, have led to on-going delays in provision of information and completion of testing. The pace of receipt of information has been impacted by overall capacity within the finance team, reliance on key individuals (including part time staff), availability of officers during the summer due to the impact of leave, and the accounts preparation process not including adequate audit trails of adjustments or review controls.

A number of adjustments have been identified through the audit process as well as additional internal reviews and work by the finance team as outlined below:

- Adjustments to correct various disclosures, including omitted disclosures, and clarification of narrative disclosures, including matters amended in the final 2019/20 financial statements and additional matters arising in the context of 2020/21 disclosures;
- Changes to the presentation of infrastructure assets, following the issue of a Statutory Instrument in December 2022. (Amended in the final 2019/20 financial statements and in the 2020/21 financial statements); and
- Adjustment to the pension valuation for finalised actuarial figures.

Introduction

The key messages in this report (continued)

Overview of the accounts preparation and audit process (continued)

We have set out the key adjustments that have been made (in addition to less material adjustments and disclosure changes) below :

- Correction of the accounting for Covid-19 grants, resulting in a £10.4m netting off of income and expenditure for grants where the Council is acting as an agent, and £1.3m release of deferred income;
- Elimination of intragroup transactions which had not been adjusted for in the draft consolidation amounting to £12.0m. We note that the eliminations are a netting off exercise and therefore do not have any impact on the group surplus position, however excluding these transactions resulted in the consolidated numbers not reflecting accurately.
- Investment in joint venture (JV) amounts were initially understated in Note 4 of the Statement of Accounts due to the double counting of investment in Infrastructure Investments Leicester Limited;
- Post-acquisition losses of £0.5m pertaining to Infrastructure Investments Leicester Limited had been omitted in the Notes to the Group Accounts;
- Changes to the presentation of infrastructure assets, following the issue of a Statutory Instrument in December 2022 (amended in the final 2019/20 financial statements and in the 2020/21 financial statements); and
- Omissions in relation to the Council's Disclosure of the Related Party Note whereby, related party amounts of one of the entities under consideration had not been disclosed per the provisions of IAS 24 and the Code of Practice on local authority accounting.

Management has updated the Statement of Accounts for the principal matters noted above and we are completing our checks on the final versions of the financial statements.

We have included in this paper our conclusions from testing of key areas of the financial statements. The details of uncorrected misstatements are set out on pages 28-31 of this report. We envisage issuing an unmodified audit opinion, with no reference to any matters in respect of the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources, or the Annual Governance Statement.

We have further identified a number of internal control recommendations set out in this report, which have been shared with management.

Introduction

The key messages in this report (continued)

Status of the statutory audit of the financial statements	The external audit for the Council's statement of accounts is complete, subject to receipt of signed management representation letter and update of our subsequent events review to the date of signing. Considering the issues and weaknesses identified in the prior year, the need to follow up upon those matters, and the issues identified in the current year, we have increased the resources to help progress the audit and address the heightened risks and complexities that are a result of the weaknesses identified at the authority. We allocated a full engagement team last summer to complete the audit, with the issues identified resulting in significant additional work. We will discuss the proposed fee variations based on final costs with management prior to submission to PSAA for review.
Status of the audit – Value for Money ("VFM")	Our Value for Money work is for the purposes of our audit opinion is complete. In line with National Audit Office guidance, our VfM commentary will be reported on a combined basis for the years 2020/21-2022/23 in a single Auditor's Annual Report. We draw your attention to the discussion of financial sustainability on pages 19 to 21. Based on the risk assessment procedures performed in respect of arrangements for 2020/21, which reflect the uncertainty of the pandemic and the actions taken to respond to this by management (as well as the findings of the CIPFA Financial Governance review), we have not identified a risk of significant weakness in arrangements for the year. However, we note the increased risk presented by the Council's historic relatively low level of reserves, and the impact of cost pressures since the pandemic on the Council's financial position, which have required further requests for exceptional financial support in 2023/24 and 2024/25. We have not identified any significant weakness in arrangements to secure economy, efficiency and effectiveness in the use of resources in respect of 2020/21.

Introduction

The key messages in this report (continued)

Narrative Report and Annual Governance Statement	Under International Standard on Auditing (ISA) (UK) 720A (revised), the Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements, we are required to review the content of the Narrative Report and the Annual Governance Statement to identify material inconsistencies (if any) with the statements that they accompany. We are not required to give an opinion on the Narrative Report and Annual Governance Statement (and as such they are not considered 'audited' statements). We are, however, required to read the Narrative Report and Annual Governance Statement to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by the auditor while performing the audit. At the date of this report, we have no significant matters to raise with you in respect of the Narrative Report which has been updated for our proposed adjustments to ensure appropriate detail in relation to Covid-19 has been included. We have assessed and concluded that the information given in the Annual Governance Statement meets the disclosure requirements set out in CIPFA guidance and is consistent with other information from our audit.
Duties as public auditor	We did not receive any formal queries or objections from local electors this year. We have not identified any matters that would require us to issue a public interest report. We have not had to exercise any other audit powers under the Local Audit and Accountability Act 2014.

Quality indicators

Impact on the execution of our audit

Management and those charged with governance are in a position to influence the effectiveness of our audit, through timely formulation of judgements, provision of accurate information, and responsiveness to issues identified in the course of the audit. This slide summarises some key metrics related to your control environment which can significantly impact the execution of the audit. We consider these metrics important in assessing the reliability of your financial reporting and provide context for other messages in this report.

We expect management and those charged with governance to recognise the importance of a strong control environment and take proactive steps to deal with identified on a timely basis, and this reflects expectations set by the Financial Reporting Council for preparers.

Area	Grading	Reason
Quality of draft financial statements	! (Lagging)	The original draft financial statements contained a number of material misstatements, internal inconsistencies, and omitted or unclear disclosures requiring correction in the final financial statements. Although management has taken actions to improve the accounts preparation process, the historic issues will require further consideration in finalising the 2021/22 financial statements, preparation of the 2022/23 financial statements and 2021/22 group accounts, and as part of the accounts process for future years.
Quality of underlying financial records	! (Developing)	As we noted in our 2019/20 control findings, there were recommendations that were made to improve the quality of the underlying financial records such as in the maintenance of a clear audit trail of accounts mapping and documented rationale of adjustments in accounts preparation. Although some improvements in processes for 2020/21 have been noted, material adjustments were required to the draft account, some of which reflected underlying transactional recording.
Adherence to deliverables timetable	! (Lagging)	The initial circumstances of auditing remotely during Covid impacted the timeliness and completeness of provision of deliverables. Subsequent loss of historic knowledge due to staff changes, and the limitations on availability of some information and quality of records noted above have impacted on-going delivery. We do however note that the Council has subsequently recruited additional qualified and experienced staff to improve in this area.
Quality and accuracy of management accounting papers	! (Developing)	As noted in the 2019/20 audit, the Council had not historically prepared accounting papers, and these were initially unavailable for initial judgements in the audit. In the 2020/21 audit, Papers have been prepared by the current finance team in respect of some judgmental areas such as in the determination of amounts tied to the ICE financial arrangement as well as an assessment of the presence of Reinforced Autoclaved Aerated Concrete (RAAC) in the Council buildings. We recommend that the Council formalise an approach for future years of preparing papers for any key accounting judgements or issues arising.

Lagging ! Developing ! Mature

Our audit explained

We tailor our audit to your organisation and your strategy

Identify changes in your business and environment

The Council has faced significant financial challenges because of the Covid-19 pandemic and associated lockdowns and, considering Eastbourne's economic profile, a drastic impact on the authority's income from tourism, culture and leisure. The significant pressures from this resulted in variances from budget in excess of £4.5M in 2020/21 as the level of financial support remained uncertain. The Council to date has been allocated in total of £12.8M of General Fund funding from central government in relation to Covid 19.

Scoping

There have been no changes to the scope of our work which is carried out in accordance with the Code of Audit Practice and supporting auditor guidance notes issued by the NAO. The Council is the only significant component for the group audit.

Other findings

As well as our conclusions on the significant risks we are required to report to you our observations on the internal control environment as well as any other findings from the audit. We report our audit findings from page 15.

- **Identify changes in your business and environment**
- **Determine materiality**
- **Scoping**
- **Significant risk assessment**
- **Conclude on significant risk areas**
- **Other findings**
- **Our audit report**

Determine materiality

Upon receipt of draft group accounts in summer 2023, we set our materiality based on 2% of gross expenditure at £2.8m for group and £2.3m for council materiality. Following the adjustments made to the financial statements, we have revised our group materiality down to £2.4m.

We report to you in this paper all misstatements above £115k for group (£115k for council).

Significant risk assessment

In our planning report we explained our risk assessment process and detailed the significant risks we have identified on this engagement. We report our observations on these risks arising from our work carried out to date on these risks in this report. No additional financial statement risks have been identified since our Audit Plan.

We report our findings and conclusions on these risks in this report.

Conclude on significant risk areas

We draw to the Committee's attention our conclusions on the significant audit risks. The Audit Committee must satisfy itself that management's judgements are appropriate and will need to agree arrangements to consider any significant findings arising from audit work which is not yet complete.

Our audit report

Based on the status of our audit work, we envisage issuing an unmodified audit report and unmodified value for money conclusion.

Significant risks

Cut off and completeness of expenditure via accruals and provisions

Risk identified

Under UK auditing standards, there is a presumed risk in respect of revenue recognition due to fraud. We have rebutted this risk, and instead believe that the fraud risk lies with the completeness of expenditure, in particular the completeness of trade payables, accruals and provisions.

For 2020/21 the Council approved a budget with a net cost of service of £13.5m, with actual expenditure running significantly ahead of budget. Given the Council's current budget position and the pressures across the whole of the public sector, there is an inherent risk that the year-end position could be manipulated by omitting or misstating accruals and provisions. There is also a heightened risk of costs being omitted and delays in processes due to the ongoing impact on ways of working at the council and in suppliers.

Deloitte response

We obtained an understanding of the design and implementation of the key controls in place in relation to recording completeness of accruals and provisions.

We performed focused testing in relation to the completeness of expenditure including a detailed review of accruals and provisions.

As part of this focused testing challenged any assumptions made in relation to year-end accruals and provisions.

We reviewed the year-on-year movement in accruals and provisions and investigated significant movements.

We tested an enhanced sample of expenditure for late cut-off at year end.

Findings and Conclusions

Our testing did not identify any significant issues in these areas.

Our testing in this area is complete.

Significant risks (continued)

Valuation of property assets

Risk identified

The Council is required to hold property assets within Property, Plant and Equipment (PPE) and Investment Properties at valuation. The valuations are by nature significant estimates which are based on specialist and management assumptions, and which can be subject to material changes in value.

Key judgements and our challenge of them

The Council held £323.98m of PPE assets on 31 March 2021, an increase of £13.5m, made up of £6.28m of additions and net revaluation increases of £15.2m, offset by net depreciation and impairment charges of £1.55m, disposals of £5.87m, and reclasses of £0.52m. Investment properties decreased from £27.3m to £24.8m, of which £3.4m were valuation losses and the remainder additions.

The Council's land and buildings are revalued every five years, with a full revaluation on 31 March 2020, and a desktop revaluation review carried out annually subsequently to identify any material changes to a class of asset. Given the market movements in 2020/21 there may be larger than usual movements in the year thus presenting a risk that that the carrying value of assets not included in the Council's revaluation process in the current year materially differ from the year end fair value.
Investment properties are valued each year.

Deloitte response

- We tested the design and implementation of key controls in place around the property valuation, including how the Council ensures that there are no material impairments or changes in value for the assets not covered by the annual valuation.
- We obtained an understanding of the approach adopted to the valuation, including assessing the valuer's qualifications, objectivity and independence and reviewing the methodology used.
- We performed our testing on the valuation estimates and assumptions used by using our property valuation specialists, Deloitte Real Estate and considering the RICs guidance.
- We tested a sample of inputs used in the valuation process. We have not identified issues to report from our sample testing.
- We tested a sample of revalued assets and reperformed the calculation of the movement to be recorded in the financial statements to check that it was correctly recorded.

Findings and Conclusions

- We have identified a number of adjustments in respect of asset valuations. A £0.5m overstatement has been corrected in the financial statements. We have identified £1.4m of uncorrected overstatement of property assets, as detailed in the schedule of uncorrected misstatements in the appendix.
- The Council's general valuation approach is sufficiently robust, and other than in respect of the above, the resulting valuations do not appear unreasonable as noted by Deloitte Real Asset Advisory.
- We have identified a number of control deficiencies including recommendations raised by our specialist in relation to the valuation process. For instance, we were not able to identify a documented internal control relating to the review by officers of the valuation report received from Wilks Head Eve. In addition, we identified a number of instances where we consider that the valuers did not follow best practice in their approach, typically through an overly simplified approach, and where improvements could be made for future valuations as noted on page 25 of the report. These matters were noted to the valuer during the review process.
- A national issue emerged in 2023 regarding the use of Reinforced Autoclaved Aerated Concrete (RAAC) in public sector buildings. Buildings with this material have been found to be structurally unsound and, in some instances, were closed due to safety concerns. This could lead to potential impacts on the financial statements of the Council in the form of property impairments and reduce an asset's expected useful life. In light of this, the Council undertook a scoping survey to identify properties that could fall within the possible parameters of RAAC such as building age and construction type. We reviewed the work performed by the Council to consider the potential for presence of RAAC in the Council's estate, and assessment of the risk against the value of properties not yet inspected. No RAAC was identified in the properties inspected and therefore no adjustments to building values were required.
  Our testing in this area is complete.

Significant risks (continued)

Management override of controls

Risk identified

In accordance with ISA 240 (UK) management override is a significant risk. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Council's controls for specific transactions.

Deloitte response

We have considered the overall sensitivity of judgements made in preparation of the financial statements, and note that:

- The Council's results throughout the year showed a surplus of income over expenditure.
- Senior management's remuneration is not tied to financial results.

We have considered these factors and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements.

Significant and unusual transactions

See separate area of audit focus in relation to ICE. There were no other significant or unusual transactions in the period.

Journals

We have performed design and implementation testing of the controls in place for journal approval. Consistent with the findings of Internal Audit, we identified control recommendations over journal approvals.

We have used Spotlight data analytics to risk assess journals and select items for detailed follow up testing. The journal entries were selected using computer-assisted profiling based on areas which we consider to be of increased interest.

Our work on the testing of the appropriateness of journal entries recorded in the general ledger is complete. We will further test the appropriateness of other adjustments made in the preparation of financial reporting based on the adjusted statement of accounts.

Accounting estimates

We have performed design and implementation testing of the controls over the accounting estimate of valuation of Council's estate.

We performed an assessment of assumptions utilised on estimates for pension liability in combination with the work performed by our audit expert.

The key judgements in the financial statements are those selected as significant audit risks and other areas of audit interest: valuation of the Council's estate, the pension liability, and accounting for ICE, as discussed elsewhere in this report.

We reviewed accounting estimates for biases that could result in material misstatements due to fraud.

We have considered the overall sensitivity of judgements made in preparation of the financial statements and note that the Council's results throughout the year were projecting overspends in operational areas. This was closely monitored and whilst projecting overspends, the underlying reasons were understood.

Findings and Conclusions

We have noted some control observations in respect to journal authorizations and controls over accounting estimates in pages 24 and 25 of this report.

We have concluded that management estimates with regards to valuation of the Council's estate, the Pension liability and fair value estimates in ICE accounting were acceptable and no instances of bias were identified.

We did not identify any significant issues in our journals testing.

Our testing in this area is complete.

Other areas of audit focus

Valuation of Pension liability

Background

The Council participates in the East Sussex Local Government Pension Scheme, administered by East Sussex County Council. The pension liability valuation is an area of audit focus due to the material value and assumptions used in the calculation of the liability. The net pension liability has increased from £49.9m at 31 March 2020 to £68.5m at 31 March 2021 due to asset value movements, and some changes in discount rates, and inflation assumptions.

The valuation of the Scheme relies on a number of assumptions, including actuarial assumptions, and actuarial methodology which results in the Council's overall valuation. Furthermore, there are financial and demographic assumptions used in the calculation of the Council's valuation – e.g., the discount rate, inflation rates, and mortality rates. These assumptions are required to reflect the profile of the Council's employees and need to be based on appropriate data.

The valuations are prepared by a reputable actuary using standard methodologies which have been considered as appropriate in previous years and no significant changes in the membership of the scheme or accrued benefits occurred in the year.

Deloitte response

- We obtained a copy of the actuarial report produced by Barnett Waddingham, the scheme actuary, and agreed in the disclosures to notes in the accounts;
- We assessed the independence and expertise of the actuary supporting the basis of reliance upon their work;
- We reviewed and challenged the assumptions made by Barnett Waddingham, including benchmarking against our expected range of assumptions as of 31 March 2021;
- We have assessed the reasonableness of the Council's share of the total assets of the scheme with the Pension Fund financial statements;
- We reviewed the disclosures within the accounts against the Code.
- We received assurance from the auditor of the pension fund over the controls for providing accurate membership data to the actuary.
- We tested the movements in pension asset values from 31 March 2020 to 31 March 2021 via substantive analytic procedures.

The total asset values are consistent with our expectation.

Findings and Conclusions

- Our testing identified an understatement of pension assets of £1.1m, and judgemental understatement of liabilities of £0.5m, for a net £0.6m overstatement of the net liability, which is included in our schedule of unadjusted misstatements. The pension asset misstatement was identified from our review of the work of the auditor of the East Sussex Pension Fund accounts, and the pension liability misstatement from our review of the actuary's report.

- The mortality assumptions have been assessed on an individual element level and in aggregate. At an individual level, some elements of the mortality assumptions sit at the more prudent or optimistic end of our reasonable ranges. Overall, when taken in aggregate, the mortality assumptions are towards the middle of our reasonable range. We recommend that the Employer considers including a note in the accounts, to indicate the impact on the pension liability of adopting a W2020 parameter of 25%. Further, it is recommended that the Council consider adding a narrative to the pension disclosure note to explain how it has reacted to the 2020 Government announcement on RPI changes.

- We have included the above uncorrected misstatements in Pages 30 and 31 of our report. We have not identified any other significant matters.
- The work performed by our actuarial specialists in relation to the Council actuary report has concluded satisfactorily. Our testing in this area is complete.

Other areas of audit focus (continued)

Group Accounts

Audit considerations regarding the Group Accounts

We have not been appointed the auditor of the material subsidiary companies within the group. In order to gain sufficient assurance over significant account balances in the group accounts, we have performed further audit procedures based on a group risk assessment. The key components are indicated below with a summary of audit procedures performed to ensure that the amounts consolidated are accurate and no material misstatement has occurred due to the consolidation process and elimination.

Our testing of the consolidation identified that intragroup transactions had not been correctly eliminated in the CIES, resulting in a £12.0m adjustment to reduce income and expenditure, which has been corrected. We have noted this as part of our overall control recommendation on the financial statements process.

Components	Expenditure 2020/21 £m	Net Assets 31/3/21 £m	% of total Group Expenditure	% of Group Net Assets	Summary of work to be performed
Eastbourne Borough Council (EBC)	122	192	90.84%	97.92%	The Deloitte Group audit team has performed full-scope audit procedures under the Code on this component. Matters arising are noted throughout this report
Eastbourne Homes Limited (EHL)	7.8	1.4	5.79%	<1%	EBC holds all the Share Capital (full voting, dividend and capital distribution rights). We have considered and concluded that the component is immaterial for Group accounting, and we have performed analytic procedures at a group level.
South East Environmental Services Limited (SEESL)	4.2	0.0	3.16%	<1%	SEESL is wholly owned by the Council. We have considered and concluded that the component is immaterial for Group accounting, and we have performed analytic procedures at a group level.
Eastbourne Housing Investment Company (EHIC) Limited	0.3	1.8	<1%	<1%	EHIC holds £25.94m of investment property (other items are primarily intercompany which eliminate). The valuation of the investment property was therefore in scope for our group audit and audited by the group team. We have performed analytic procedures at the group level.
Investment Company Eastbourne Limited	The transactions in ICE are captured under the recording and accounting of the Eastbourne Borough Council and thus, no separate consolidation process is required, and hence we have tested these at Council level in line with the same procedures and code on the EBC component.				
Infrastructure Investments Leicester (IIL) Ltd	0.0	0.1	<1%	<1%	IIL is accounted for as a Joint Venture under the equity method. We have tested the group accounting for the joint venture and have performed analytic procedures at the group level. Our work on the valuation of the investment property in IIL is discussed below.
Aspiration Homes LLP	0.0	1.2	<1%	<1%	This component is not significant. We have performed analytic procedures at the group level.

Accounting for the ICE transaction arrangements

Risk identified

In the 2018/19 audit we noted that the Council (through its subsidiary, ICE), agreed to provide certain guarantees with respect to a loan taken out in relation to a property investment in Leicester. This property is owned and operated by a third party.

The guarantee is two-fold, in that ICE (and the council) are guaranteeing the repayments of the bank borrowings by the third party, and also a certain level of rental income through the property.

The Council also purchased a related option to buy up to 49% of the share capital of the property company for £1 at any time and gains the rights to 100% of the share capital should there be an event of default.

This is a complex arrangement, and the financial statement risks include the potential for the subsequent accounting treatment to be incorrect in the 2020/21 financial statements

Area	On-going accounting
Investment in IIL	Under equity accounting, the Council's share of profit and losses is included in CIES in the group accounts.
Rental guarantee	Treated as a non-financial guarantee under IFRS 9. Income is recognised over the life of the guarantee, with the carrying value re-measured each year to fair value (with movements in the CIES). The net movement for 2020/21 is an expense of £1.2m (due to reduction in discount rate in valuing the guarantee).
Loan interest guarantee	This is a financial guarantee, recognised at higher of amortised value and any determined loss allowance. Income is recognised on amortisation of the loan, adjusted for loss allowances. The net movement for 2020/21 is income of £588k.
Contract receivable	The debtor receivable (Guarantee Fee and Sales Proceeds) is held at Fair Value through Profit & Loss, with movements recognised in the CIES. The balance is discounted and so increases as the discounting unwinds, but also reflects assumptions on the amounts receivable over time. The debtor is discounted and unwound over the life of the 30-year agreement, with interest income from the unwinding of the discount recognised in the CIES. The income on the unwinding of the debtor (including from change in discount rate assumption) is £2.89m for 2020/21.

Findings and conclusions

- Our approach to testing and challenge of the judgements in accounting for the arrangement has included:
  - challenging management's valuation of the various elements of the financial instruments, including the impact of COVID-19 on assumptions, discount rates (including the basis for determining for assets and liabilities), and the assessment of fair value movements on the loan;
  - requesting evidence supporting the valuation of the investment property in IIL (which is the principal judgement in that entity, with the Council's share of valuation movements impacting the gain/loss recognised for the year). Our valuation specialists will review the judgement that there were no fair value movements in the year, despite the uncertainties in the property market; and
  - sensitivity analyses of key assumptions, to challenge the robustness of the model, and to focus our testing on the key judgements.

We have reviewed the supporting evidence to enable completion of our work over:

- The fair value of the loan guarantee and rental guarantee (which currently reflect changes in discount rates but no other fair value considerations); and .
- The valuation of St George's Tower (the investment property in IIL), including how this has considered the impact of COVID-19 on value of property and the rental income.

Our testing in this area is complete

Other areas of audit focus (continued)

Infrastructure assets

Background

During the finalisation of our 2019/20 audit, a number of related issues around infrastructure assets were noted nationally and were the subject of extensive discussions led by CIPFA and DLUHC to seek a solution to the issues identified.

The CIPFA Code envisages that councils will adopt a componentised approach to infrastructure assets, and for example, when road resurfacing occurs will be able to derecognise the existing surface component and recognise a replacement component.

In practice, councils typically do not componentise infrastructure assets in this way, do not hold information sufficient to readily do so, and so do not record disposals of infrastructure assets. At a minimum, this means that there will be some level of overstatement of the gross cost and accumulated depreciation for users. However, even if this is quantitatively material, overstatement of this disclosure (which has no net impact on the financial statements) does not affect the users of the financial statements or their decision making.

Accordingly, a statutory override was introduced in December 2022, which removed the disclosure of gross values as not relevant to users, with infrastructure assets presented separately from other assets. Eastbourne applied this statutory override in the 2019/20 final financial statements and has updated the 2020/21 financial statements to follow this approach.

There is also a risk that councils are not applying appropriate useful economic lives to infrastructure assets (and may not have adequate records to enable them to adjust their accounting). In some cases, councils appear to have adopted unrealistically long asset lives. More widely, where councils are not componentising assets, this requires an appropriate overall asset life to be applied so that effectively shorter-lived elements of assets are fully depreciated before replacement and longer-lived elements of assets are less depreciated as part of an overall blended useful economic life.

Application to Eastbourne

The Council has £14.7m of infrastructure assets, with a gross book value of £34.3m and accumulated depreciation of £19.5m. Of these assets, the most material element are sea defences, with a net book value of £13.7m. The sea defences have been depreciated over a 40-year asset life.

We requested management to provide support for the asset lives being used, which they are benchmarking against comparable assets.

The Council has historically had limited additions to assets, reducing the risk around infrastructure assets compared to councils with major road assets.

In response to the wider challenges on infrastructure assets, we considered the approach adopted, and noted that although there is scope for improvement in the asset register, Eastbourne has relatively disaggregated information in its fixed asset register, enabling it to review its accounting. There remains a potential impact of repairs and replacements to the gross cost and accumulated depreciation of infrastructure assets, with some risk of overstatement of the net asset position. The Council has elected to the statutory override, meaning that and no disposals are required to be recorded.

Findings and conclusions

Our audit work on infrastructure is complete.

We have reviewed management's assessment of asset lives and concluded that they have been accounted for correctly and in line with the CIPFA guidance. The Council will then need to consider national guidance on improving infrastructure asset record keeping as and when a longer-term approach is proposed nationally.

Other areas of audit focus (continued)

Capital expenditure arising from capitalisation direction

Risk identified

On 10 February 2021, the Ministry of Housing, Communities and Local Government approved a capitalisation direction to fund in 2020/21 up to £6.8m of revenue expenditure incurred by the Council in respect of cost pressures and income losses arising from Covid-19, in accordance with the Local Government Act 2003.

The capitalised expenditure must either fall within the cost pressures included in the Council's request for financial support, or not exceed the income losses agreed as having occurred. The expenditure will be subject to an annual Minimum Revenue Provision over at most 20 years, and if funded from borrowing will be at 1% over the standard Public Works Loan Board rates.

Deloitte response

- We obtained a copy of the capitalisation direction letter issued by the Ministry of Housing, Communities and Local Government (MHCLG) and agreed to the disclosures to notes in the accounts;
- We reviewed additional reports such as the revenue and capital outturns included within the 2020/21 Council Cabinet meeting minutes;
- We reviewed subsequent year reports such as the 2021/22 and 2022/23 revenue and capital outturns included within the Council Cabinet meeting minutes;
- We reviewed the December 2021 CIPFA report issued by the Department for Levelling Up, Housing and Communities on its key findings from the assessment performed on the Council's efficiency in delivering services under financial pressures;
- We performed high level interviews with senior operational staff on the Council's capital developments and the related considerations to achieve value for money;
- We have tested the accounting entries in relation to the capitalisation decision, including the appropriateness of classification of items included within the capitalised revenue expenditure; and
- We also reviewed the adequacy of the disclosures in the narrative report and financial statements, including in respect of the ongoing financial sustainability of the Council and the need for further financial support for subsequent years.

Findings and conclusions

We reviewed the revenue outturns included within the Council Cabinet Minutes and noted that in 2020/21, overall net expenditure was £3.6M more than available funding but £3.2m less than the maximum capitalisation limit of £6.8m or other approved and or available resources. In the finalisation of the accounts, this was increased to £4.6m, which remained below the capitalisation limit. In 2021/22 the Council received a capitalisation direction of £6m, but in the draft accounts had only utilised £4.1m of this due to the actual outturn position in management accounts.

We recommended inclusion of clear disclosure within the financial statements explaining the operation of the capitalisation direction (which had initially only been disclosed as a line on the CIES). This has been included in the updated draft accounts.

Our audit work on Capital Expenditure in respect to the capitalisation direction is complete.

Other areas of audit focus (continued)

Impact of the Covid-19 pandemic on reporting and other areas of our audit

Impact on property, plant and equipment	The Royal Institute of Chartered Surveyors issued a practice alert, which resulted in the valuers identifying a material valuation uncertainty on 31 March 2020 for most types of property valuation. This practice alert was withdrawn in September 2020. Valuation reports as of March 2020 typically identified a need to consider potential impairments in future periods, and this year's valuations, including the separate report on assets not valued in the year prepared by the Council's valuer, which may reflect more significant movements. The Council included a material valuation uncertainty disclosure in its 2019/20 financial statements. At 31 March 2021, valuation reports typically did not identify a valuation uncertainty, or limited it to specific assets. The Council's valuer indicated there was a "material valuation uncertainty" over retail and car park assets, which is disclosed in the financial statements. Due to the relative materiality of these assets, management have concluded, and we concur, that this is not a material uncertainty from the perspective of the financial statements as a whole, and we have not made reference to this in our audit opinion for 2020/21. The Council has also considered whether there are any indications of impairment of assets requiring adjustment of 31 March 2021 and no issues have been identified from this.
Narrative and other reporting issues	We have considered how the Council has reflected the impact of the pandemic in its reporting, including: • Narrative Report - discussion of the impact on services, operations, performance, strategic direction, resources and financial sustainability. Ensuring that this reflected the significant financial challenge that the Council has experienced; and • Accounts disclosures on the impact on judgements and estimation uncertainty.
Events after the reporting period	The Council is required to consider whether any matters arising subsequently to year-end represent adjusting post balance sheet events. Our testing in relevant areas of the audit have included inquiry and challenge in respect of subsequent events. Management has provided a paper setting out their assessment of the impact of subsequent information upon the amounts recorded within the financial statements, including the results of their consideration of whether any presence of RAAC in non-school properties.

Value for money

Value for Money requirements

We are required to consider the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources. Under the revised requirements of the Code of Audit Practice 2020 and related Auditor Guidance Note 03 ('AGN03'), we are required to:

- Perform work to understand the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources against each of the three reporting criteria (financial sustainability, governance, and improving economy, efficiency and effectiveness);
- Undertake a risk assessment to identify whether there are any risks of significant weaknesses in arrangements;
- If any risks of significant weaknesses are identified, perform procedures to determine whether there is in fact a significant weakness in arrangements, and if so to make recommendations for improvement;
- Issue a narrative commentary in the Auditor's Annual Report, setting out the work undertaken in respect of the reporting criteria and our findings, including any explanation needed in respect of judgements or local context for findings; and
- Where significant weaknesses are identified, report this by exception within our financial statement audit opinion.

Work performed to obtain an understanding of the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources

As part of our risk assessment, we have:

- Reviewed the summary of value for money arrangements prepared by the Council;
- Considered the potential impact of matters identified in previous audits;
- Reviewed the Council's draft Narrative Report, Annual Governance Statement and relevant Council papers and minutes.
- Reviewed reports into governance arrangements at the Council produced by outside parties, including the CIPFA report issued in December 2021, together with action plans and internal reporting of progress against actions.
- Reviewed financial planning and monitoring documentation including budget setting reports, in year monitoring reports, and the Medium-Term Financial Strategy and Medium-Term Financial Plan;
- Made enquiries of senior officers;
- Reviewed reports issued by internal audits, including their opinions issued;
- Considered findings identified through our other audit procedures;
- Considered matters identified by the National Audit Office for auditors to consider in the value for money work for 2020/21;
- Considered local and sector developments and how they impact on the Council; and
- Considered the impact of potential objections received on the accounts to our value for money work.

Value for money (Continued)

Findings and conclusions

Due to the COVID 19 pandemic and associated lockdowns in 20/21, there was a significant impact on the Council's income and expenditure for the financial year. The council's ability to generate income through its tourism offer, through its investments and through other fees and charges was significantly reduced. The government allocated emergency funding to local authorities, allowing the impact of income shortfalls to be spread in the form of grants and other support.

The extent of the impact on the pandemic on the Council meant that there was the potential that it would not be able to maintain a positive General Fund balance and/or set a balanced budget, and so the Council engaged with the Department for Levelling Up, Housing and Communities (DLUHC) to ask for exceptional financial support. This reflected both the specific profile of the Council's activities, together with a relatively lower historic reserve position. The Council applied for support in September 2020. Following a CIPFA Financial Governance review, the capitalisation direction was issued in February 2021 for up to £6.8M for 2020/21. The Council has subsequently been approved for a capitalisation direction of up to £6m for 2021/22, and later a capitalisation direction has been agreed in principle of £3.0m for 2023/24 and £3.0m for 2024/25 reflecting subsequent pressures in particular on housing support.

As part of our risk assessment procedures, we

- reviewed the CIPFA report, including the findings and recommendations ('CIPFA findings") noted; and
- reviewed management's action plans to address the findings; and
- reviewed progress against the action plans (both in year, and as part of our consideration of arrangements for later years).

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We noted the following actions taken by management to address the CIPFA findings:

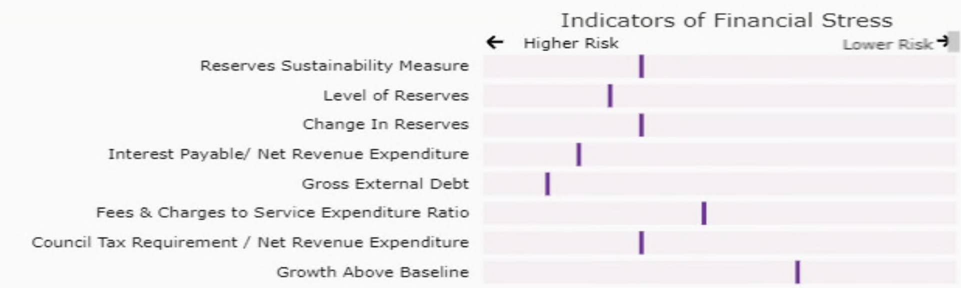
- In 2020 the Council launched the Recovery and Stabilisation Programme, the vehicle through which the council co-ordinated its response to the Covid-19 pandemic and its subsequent impact on the economy. We noted that the actual use of the capitalisation direction in 2020/21 was lower than approved, at £4.6m rather than £6.8m.
- The council has updated their Corporate Plan, budgets and Medium term financial strategy which indicated how the council will diversify its income.
- The council has reviewed its capital financing requirements and will continue to do this as part of budget setting processes each year. The capital programme has been reduced and now only incudes items focused on health and safety and/or urgent works. The council's non-HRA capital programme is expected to decrease from £28.4m in 2021/22 to £2.3m in 2024/25, while the non-HRA (i.e. general funding) borrowing projections are expected to reduce from £18.9m in 2021/22 to £0.5m in 2024/25.

Based upon these risk assessment procedures, we concluded that there was not a risk of significant weakness in arrangements for 2020/21.

Value for money (Continued)

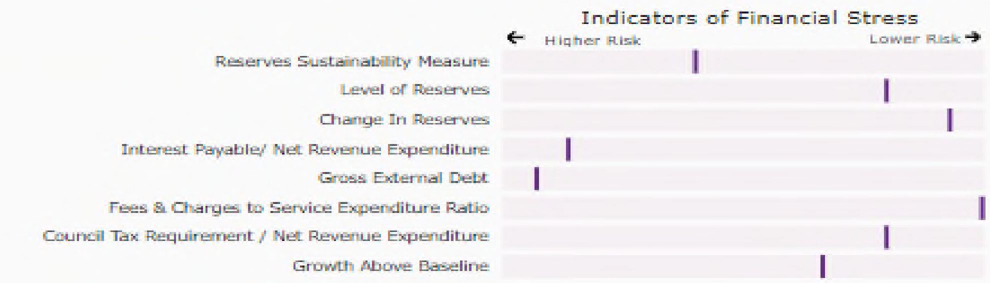
Findings and conclusions (Continued)

We have also compared the council to comparable authorities in the CIPFA Financial Resilience Index and noted that Eastbourne was relatively higher risk in relation to the level of financial reserves. (We note that management are discussing with CIPFA some of the figures used in their index, as this reflects a snapshot position). In 2021/22, the authority's reported an increase in reserves in the draft financial statements and outturn report (reflecting in part the timing of Covid-related funding). The draft outturn position at 31 March 2023 was a general fund position of £4.0m, and earmarked reserves of £6.2m, following the support received in 2020/21 and 2021/22. The Council applied again for exceptional financial support for 2023/24 of £3.0m and 2023/24 of £3.0m. For 2023/24, the draft outturn position was a general fund position of £2.3m and earmarked reserves of £2.1m.



Indicator	Min	Indicator Value	Max
Reserves Sustainability Measure	2.50	100.00	100.00
Level of Reserves	29.65%	94.91%	300.00%
Change In Reserves	-54.51%	70.07%	440.14%
Interest Payable/ Net Revenue Expenditure	0.38%	18.77%	58.60%
Gross External Debt	£3,258k	£159,450k	£207,223k
Fees & Charges to Service Expenditure Ratio	2.29%	19.81%	35.84%
Council Tax Requirement / Net Revenue Expenditure	24.25%	48.28%	100.00%
Growth Above Baseline	-6.61%	40.02%	113.53%

2021-22 Financial Resilience Index



Indicator	Min	Indicator Value	Max
Reserves Sustainability Measure	39.06	100.00	100.00
Level of Reserves	24.15%	165.12%	300.00%
Change In Reserves	-7.13%	83.92%	146.23%
Interest Payable/ Net Revenue Expenditure	0.58%	31.31%	43.27%
Gross External Debt	£3,157k	£160,237k	£161,517k
Fees & Charges to Service Expenditure Ratio	6.11%	40.39%	40.39%
Council Tax Requirement / Net Revenue Expenditure	35.80%	89.75%	100.00%
Growth Above Baseline	2.93%	40.02%	84.33%

The Council's response to their financial challenges in later years will be considered in our work on VfM arrangements for 2021/22 and 2022/23, including in respect of the subsequent CIPFA review from 2023, and we would anticipate this being a focus for Grant Thornton for subsequent years.

Control observations

Internal control and risk management

We note that there are a large number of significant control weaknesses with respect to the financial reporting arrangements of the authority which have been identified in the current and prior year audits. Due to the timing of completion of the 2019/20 audit, not all matters identified during that audit could be addressed during the 2020/21 close process. We have reported below the status of the control observations which remained open during 2020/21, based on the position for the 2020/21 audit. We recommend that the Audit Committee puts in arrangements to ensure that the recommendations are implemented on a timely basis

Area	Observation	Priority
Quality of draft financial statements	During the 2018/19 audit we identified a high priority finding on the quality of draft financial statements. Although there has been some progress seen in the 2019/20 and 2020/21 accounts process, there remain issues that have not been addressed, and have resulted in material adjustments to the financial statements (even comparing to the updated draft received in 2023 following inclusion of group figures, where the Council revisited the draft position but without showing operation of a full set of controls over the accounts process). These areas need improvement to support the recovery of timely and accurate reporting. The following matters remain key and need improvements: • Inconsistencies between notes and primary statements; • Insufficient documentation of disclosure notes; • Timeliness of preparation of group figures (which have not been included in published draft accounts), with suitable review of the consolidation; • Differences noted during our call and cast process; and • Misstatements in the underlying accounting for transactions. There is an inherent lag in the implementation of responses to this type of issue, reflecting the time needed for changes to be made. We note that from late 2019/20 the Council had recruited to strengthen the finance team going forward, and that there is a lag from the initial production of FY21 accounts to the impact of changes in processes which will only impact future years (such as the introduction of an accounts model with inbuilt control checks, training for staff, and additional review controls). Areas to keep in view through these changes for improvement include: • preparation of a skeleton draft of the financial statements ahead of year-end, reviewed against the Code for any changes in the year and for the disclosure requirements for any new or changed activities of the Council; • maintenance of clear audit trail of accounts mapping and documented rational of adjustments in accounts preparation; • documentation and quantification of judgments in respect of materiality of disclosure requirements in preparing the accounts; • documented and reviewed use of CIPFA disclosure checklists; • documented and reviewed internal checks of arithmetic accuracy and internal consistency; • documented and reviewed audit trail of consolidation adjustments and support; • maintenance of a clear, documented and reviewed audit trail for adjustments between versions of financial statements; and • documented and reviewed internal tie back and referencing of the draft financial statements to supporting working papers.	High

The purpose of the audit was for us to express an opinion on the financial statements. The audit included consideration of internal control relevant to the preparation of the financial statements to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that we have identified during the audit and that we have concluded are of sufficient importance to merit being reported to you.

Low Priority
Medium Priority
High Priority

Control observations (continued)

Internal control and risk management

Area	Observation	Priority
Preparation for IFRS 16	The implementation of IFRS 16, Leases, is expected to have a greater and more complex impact upon most Councils than the implementation of IFRS 9 and IFRS 15 in 2018/19. The scope and potential complexity of work required, which may require system or process changes to underpin correct accounting under the standard, will require work to be completed at a significantly earlier to allow for financial reporting timetables to be met. As a result of Covid-19, and wider issues in local government reporting, the implementation of IFRS 16 has been delayed to 2024/25 (with the option to adopt from 2022/23 onwards). Whilst this point remains open and will need Council attention in due course, this does not impact the currently open years of account. Management have informed us preparations are being made for the introduction of this standard, but this work has not been reviewed by audit. We recommend early consideration following the impact analysis of actions required to embed IFRS 16 accounting in the Council's underlying accounting systems.	●
Information technology	Our IT specialists raised the following insights with regards to the Council's systems: • Lack of a cyber security strategy; and • Lack of a formal classification over the sensitivity of data at the council. Whilst these matters had no impact on our audit approach, they are areas in which the Council could make improvements to the functionality of their systems and to reduce risks.	●
Journal authorisation	There is no control in place within Civica (the accounting system used) which prevents a user from posting a journal with has not been authorised. Only finance staff can post journals and are given instructions to seek approval for journals which are posted for amounts greater than £100k. We note that this is dependent on the journal preparer communicating this to the senior accountant (i.e. they are still able to post journals without authorisation). Higher level reviews provide a mitigating control, however embedding the authorisation policy would improve the control environment. (We note that Internal Audit have raised related control findings in their Main Accounts System review).	●

Control observations (continued)

Internal control and risk management

Area	Observation	Priority
Valuation of properties	The valuation of properties is dependent on input from officers in forming assumptions including the location and functional obsolescence of the existing properties and information provided by officers, including the number, type and condition of council dwellings and the floor areas of the different buildings. A paper was not prepared which set out the key assumptions, and officer's view on whether the revaluation assumptions are appropriate. We were also not able to identify a documented internal control relating to the review by officers of the valuation report received from Wilks Head Eve. We recommend that a paper should be prepared and set out the review of key assumptions, and officer's view on why the revaluation assumptions are appropriate.	●
Improvements to the valuation exercise	Whilst overall we have concluded that the properties held at revalued amounts are not materially misstated, several insights and improvements for the future have been identified. We have fed back a detailed list to management and include a summary of the more significant items below: • The Council’s valuer values each of the Fair Value assets annually on a desktop basis with updates provided by the authority on any changes in arrangements between tenants. It is recommended that, if the valuer is undertaking valuations without having specifically inspected the asset, that they are provided with all information from the client in relation to the asset and its specification and condition at the valuation date; • It is recommended that the valuer consider adopting a market standard net yield approach as this would assist with accuracy and transparency of the valuations; • The narrative in the valuation report should specifically address the circumstances of the valuation (e.g. that Eastbourne value all their assets every four years) rather than general descriptions to ensure clarity; • The Council’s valuer confirmed that, unless specifically informed by the client, they assume that no planning proposals are likely to affect the value of the properties. It is recommended that in future valuations; the valuer confirms that they have considered potential alternative use values. • The Council’s valuer assumed that no contamination or potentially contaminative uses have ever been carried out on the properties and have assumed that no potential for contamination exists. It is recommended that in future valuations; the valuer confirms that they have assessed the validity of this assumption in relation to the properties which were inspected. • It is recommended that the valuer achieves confirmation of EPC scores for each of the assets they value for future valuations to ensure that the full impact of the EPC ratings are reflected in the valuations; • To ensure that the valuation of the actual asset is prepared on a comparable basis to the transactional evidence the valuer should deduct Stamp Duty Land Tax (SDLT) costs, agents and legal fees (purchaser’s costs). The impact of not deducting these costs varies as SDLT is a progressive tax and is calculated on the gross value. • The Council should ensure that an Annual revaluation review of the Heritage assets should be performed as per the Council’s policy.	●

Control observations (continued)

Internal control and risk management

Area	Observation	Priority
Management assessment of estimates - Accounting Papers Not Prepared, Reviewed and Challenged for each area of Accounting Estimate	Accounting papers were not prepared to explain and support key judgements and estimates as part of accounts preparation (including the ongoing pertinence of judgements made in previous years). These would include consideration of the relevant requirements of the accounting standards and the Code, the fact pattern (including details of relevant terms of contracts), an assessment of how the standards apply in this context, consideration of potential alternative treatments, the proposed approach to measurement/calculation of accounting entries required, and the required disclosures. In determination of ICE Balances, Pensions and PPE Valuation there is a high level of complexity and estimation uncertainty, thus increasing the risk and opportunity for management bias or fraud. We recommend formalising an approach for future years of: • preparing papers for any key accounting judgements or issues arising. • presenting accounting papers are presented to the same meeting of the Panel at which the draft statement of accounts are approved (if not earlier) for scrutiny and to inform the panel's approval of the draft statement of accounts.	
Payroll review - Net Pay Variance Report not signed off once completed	While performing audit walkthroughs on the Payroll balance, we observed that the monthly net pay variance report is generated detailing changes in the current month from the previous month. The variance report compares figures relating to salary and pension expenses incurred in the current month to the prior month as a completeness check. While the net variance report was generated in January 2021 and compared to the December 2020 report, evidence of review of the report in form of a signature was missing. We recommend that an independent check is done to ensure that the payroll report is reviewed by a person independent of the preparer to ensure that any exceptions or unusual items are investigated appropriately and that the Payroll Manager evidences their review by dating and signing the working papers.	

Your annual report

We are required to report by exception on any issues identified in respect of the Annual Governance Statement.

	Requirement	Deloitte response
Narrative Report	The Narrative Report is expected to address (as relevant to the Council): - Organisational overview and external environment; - Governance; - Operational Model; - Risks and opportunities; - Strategy and resource allocation; - Performance; - Outlook; - Basis of preparation; and - Future sustainability and risks to this posed by Covid-19.	Under International Standard on Auditing (ISA) (UK) 720A (revised), the Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements, we are required to review the content of the Narrative Report to identify material inconsistencies (if any) with the statements that they accompany. We are not required to give an opinion on the Narrative Report (and as such it is not considered an 'audited' statement). We have assessed whether the information given in the Narrative Report meets the disclosure requirements set out in guidance, is misleading, or is inconsistent with other information from our audit. We fed back some improvements that could be made in various areas of the report to improve drafting and understandability. We also note for subsequent years CIPFA have issued further guidance on the details that should be included within the Narrative Report in relation to the Covid-19 pandemic. Overall, we concluded that the narrative report is presented satisfactorily.
Annual Governance Statement	The Annual Governance Statement reports that governance arrangements provide assurance, are adequate and are operating effectively.	We have assessed whether the information given in the Annual Governance Statement meets the disclosure requirements set out in CIPFA guidance, is misleading, or is inconsistent with other information from our audit. The initially approved AGS did not discuss governance around the ICE transaction and on-going governance of the relationship with this entity. Given that the approval process of the AGS did not permit the AGS to be amended, addendum has been provided. We reviewed the content of the proposed addendum, and we are satisfied the transaction on ICE was properly disclosed in the Accounts. Overall, we concluded that the Annual Governance Statement is presented satisfactorily.

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Audit Committee and the Council discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK) to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the Narrative Report.

What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Council.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

The scope of our work

Our observations are developed in the context of our audit of the financial statements. We described the scope of our work in our audit plan and again in this report.

This report has been prepared for the Audit Committee and Council, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

We welcome the opportunity to discuss our report with you and receive your feedback.

Deloitte LLP

for and on behalf of **Deloitte LLP**

4 September 2024

Appendices

Audit adjustments

Uncorrected misstatements

After the adjustments that have been made in the updated draft financial statements (and subject to completion of our checks of that updated draft), the following uncorrected misstatements have been identified. We request that you ask management to correct as required by ISAs (UK).

			Debit/(credit) CIES £000	Debit/(credit) in net assets £000	Debit/(credit) prior year reserves £000	*Memo: Debit/ (credit) Council useable reserves £000*
Misstatements identified in current year that remain uncorrected						
Classification of ICE debtor between long and short-term debtors	Debtors	[1]		109 (109)		
Understatement of IAS 19 Pension Fund Level 3 Assets	Pensions	[2]	(1,060)	1,060		
Understatement of revaluation gains and impairments losses	CIES	[3]	124 (124)			
Overstatement of property valuation due to methodology applied on an asset	PPE	[4]	1,000	(1,000)		
Overstatement of valuation due to index applied to garage portfolio	PPE	[5]	105	(105)		
Overstatement of Assets Held For Sale	PPE	[6]	268	(268)		
Prepayment items incorrectly expensed	Prepayments	[7]	(421)	421		*(421)*
Understatement of Pensions Service costs	Pensions	[8]	230	(230)		
Understatement of Pensions in respect of Goodwin	Pensions	[9]	250	(250)		
Sub total			372	(372)		*(421)*
Misstatements identified in prior years that remain uncorrected						
Housing Rent arears debtor balance not linked to specific individual invoices	Short Term Debtors	[10]		(135)	135	*135*
Capitalisation of rental reductions on leaseholders	Investment Property	[11]	(200)		200	*200*
Sub total			(200)	(135)	335	*335*
Grand Total			172	(507)	335	*(86)*

Uncorrected misstatements

After the adjustments that have been made in the updated draft financial statements (and subject to completion of our checks of that updated draft), the following uncorrected misstatements have been identified. We request that you ask management to correct as required by ISAs (UK).

1. The council classified both short term and long-term debtor balances linked to the ICE financial model under one account. For presentational purposes, the amount included in the LT debtor amount should only include the long-term debtor amount and the short-term debtor amount should be reclassified to the correct account line.
2. Per the Grant Thornton audit report on the East Sussex Pension Scheme, level 3 investments have been understated by £25.2m. For the 4.19% share of the fund by Eastbourne Borough Council, we have estimated this as a £1.06m misstatement. Management did not deem this material to the pension balance or the accounts as a whole, and has therefore not adjusted for this misstatement.
3. For one property, the associated revaluation reserve amount was a negative balance. The relevant movement should therefore have been accounted for as an impairment.
4. The council's valuers have applied a yield which does not reflect the specification of the asset, the Weighted Average Unexpired Lease Term (WAULT) at the valuation date or the vacancy rate. Deloitte internal valuers have carried out a sensitivity test to the valuation and estimate that the reported value is overstated by c. £1.0m equating to 7.4%.
5. The council have adjusted the carrying value of certain assets by index movements. Following audit challenge the Council's valuers agree there is limited evidence to support an increase in the value of garages (which had been increased by 7.9%), and we have therefore proposed an adjustment in respect of this.
6. Assets held for sale of £268k at 31 March 2021 were subsequently disposed of for nil consideration (due to the level of costs incurred by the council), and we consider this to be an adjusting subsequent event that provides more information about the value of the asset at 31 March 2021.
7. A payment was made on February 2021 relating to IT services for the period 11 April 2021 to 31 March 2022. This was initially captured in the general ledger as an expense rather than a prepayment. We have extrapolated an error of 457k of which management has corrected 36k, leaving an extrapolated error of £421k
8. The testing of the Pension Interest expense suggest that this is understated by circa £230k. The misstatement was identified by the Deloitte specialist team from our review of the actuarial report.
9. The testing of the Pension past service Cost suggest that an allowance should be made in relation to the Goodwin case, and this is understated by circa £250k. The misstatement was identified by the Deloitte specialist team from our review of the actuarial report.
10. The Housing rent debtor balance includes £135k which is not linked to specific individual debtors. This was due to an error in transition to a new software system, with no breakdown migrated to the new system. Management have not identified evidence supporting recoverability of this amount.
11. Investment property additions in 2019/20 included £200k capitalised of rent reductions given to tenants due to refurbishments of the shops and flats. The commercial units are investment properties which are revalued annually and therefore any increases/decreases in value are written out through CIES immediately. The rent reduction did not meet the definition of capitalised costs as per IAS 16/IAS 40.

Uncorrected disclosure misstatements

1. Pension Liability – RPI Changes

The Employer should consider adding a narrative to the pension disclosure note to explain how it has reacted to the 2020 Government announcement on RPI changes.

2.. Pension Liability- Mortality Assumptions

The mortality assumptions have been assessed on an individual element level and in aggregate. At an individual level, some elements of the mortality assumptions sit at the more prudent or optimistic end of our reasonable ranges. Overall, when taken in aggregate, the mortality assumptions are towards the middle of our reasonable range. We recommend that the Council considers including a note in the accounts, to indicate the impact on the DBO of adopting a W2020 parameter of 25%.

Audit adjustments (continued)

Corrected misstatements

Pages 30 and 31 show the impact of the adjustments made to the published draft financial statements. [The amounts included within the last two columns in the tables may change to reflect the updates reflected in the final Statement of Accounts.] This shows the Council-only financial statements, as the draft accounts published for inspection did not include group financial statements. In addition to the adjustments noted below, the Group financial statements have been adjusted by £12.0m for an elimination between income and expenditure for intragroup transactions not eliminated in the draft consolidation workings. The table below show the impact of the adjustments made compared to the published draft statement of accounts on the Council Comprehensive Income and Expenditure Statement. (The initial draft financial statements did not include the correct value for Grant Income and Expenditure in the Comprehensive Income and Expenditure Statement (and so did not cast), but this figure was reflected elsewhere in the financial statements – therefore no entry is shown in the adjustment column for this.)

	EBC	EBC	EBC
	Initial Statement of Accounts	Adjustments	Final Draft Accounts '000
	£ '000	£ '000	£ '000
Income	-115,682	43,575	-72,107
Expenditure (excluding capitalization direction)	122,157	-45,821	76,336
Expenditure (capitalization direction)	3,550	1,035	4,585
Cost of Services	**10,025**	**-1,211**	**8,814**
Levy Payable	235	-	235
Payments to housing capital receipts pool	248	-	248
Loss on sale and derecognition of Non-current assets	5,057	-1,683	3,374
Gain / (loss) on disposal of shares	-952	2,635	1,683
Other Operating Expenditure	**4,588**	**952**	**5,540**
Interest payable & similar charges	3,291	119	3,410
Fair Value movement in Shares	-	-952	-952
Expected Credit Loss	196	-	196
Fair Value movement in Financial Guarantee contract	-1,990	2,571	581
Net Interest on the Net Defined Benefit Liability	1,522	-	1,522
Interest & other investment income	-1,115	-2,690	-3,805
Investment Properties	1,999	-	1,999
Trading Accounts	701	-97	604
Financing and Investment Income and Expenditure	**4,604**	**-1,049**	**3,555**
Non ring-fenced grants and contributions	-19,572	-	-19,572
Council Tax income	-8,746	1	-8,745
Non Domestic Rates Income and Expenditure	8,241	-	8,241
Taxation and Non-specific Grant Income and Expenditure	**-20,077**	**1**	**-20,076**
(Surplus) / Deficit on Provision of Services	**-860**	**-1,307**	**-2,167**
Surplus/Deficit on revaluation of Property, Plant and Equipme	-418	-	-418
Re-measurement of the net defined benefit liability	11,989	-	11,989
Other Comprehensive I & E	**11,571**	**-**	**11,571**
Total Comprehensive I & E	**10,711**	**-1,307**	**9,404**

Audit adjustments (continued)

Corrected misstatements (continued)

The table below show the impact of the adjustments made compared to the published draft statement of accounts for the Council balance sheet.

	EBC	EBC	EBC
	Initial Statement of Accounts	Adjustments	Final Draft Accounts '000
	£ '000	£ '000	£ '000
Property, Plant & Equipment	338,690	- 14,707	323,983
Infrastructure Assets	-	14,707	14,707
Heritage Assets	14,702	-	14,702
Investment Property	24,846	-	24,846
Intangible Assets	4,838	-	4,838
Long Term Investments	-	-	-
Investment in Joint Venture	3,500	-	3,500
Long Term Debtors	49,333	-	49,333
Long Term Assets	**435,909**	-	**435,909**
Assets Held for Sale	922	-	922
Inventories	106	-	106
Short Term Debtors	41,568	- 1,041	40,527
Cash and Cash Equivalents	4,423	-	4,423
Current Assets	**47,019**	**- 1,041**	**45,978**
Short Term Borrowing	-40,327	-	-40,327
Short Term Creditors	-40,637	2,349	-38,288
Short Term Provisions	-888	-	-888
Revenue Grants Receipts in Advanc	-107	-	-107
Current Liabilities	**-81,959**	**2,349**	**-79,610**
Long Term Creditors	-	-	-
Long Term Borrowing	-119,236	- 1	-119,237
Other Long Term Liabilities	-21,278	-	-21,278
Pension Liability	-68,477	-	-68,477
Long Term Liabilities	**- 208,991**	**- *1***	**- 208,992**
NET ASSETS	**191,978**	**1,307**	**193,285**
Usable Reserves	-34,375	- 2,405	-36,780
Unusable Reserves	-157,603	1,098	-156,505
TOTAL RESERVES	**-191,978**	**-1,307**	**-193,285**

Independence and fees

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

Independence confirmation	We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Council and will reconfirm our independence and objectivity to the Audit and Governance Committee for the year ending 31 March 2021.
Audit fees	The scale fee for the audit of the Council was set by PSAA for 2018/19, 2019/20, and 2020/21. The scale fee is based on assumptions about the scope and required time to complete our work and does not reflect any additional audit issues for the year, or the increasing scope of work required due to new auditing requirements and regulatory requirements. These are subject to separate agreement with the Council and PSAA. For 2018/19, an initial £15k fee variation was agreed in respect of ICE transaction. The total hours incurred on the audit for each year have been significantly higher than allowed for in the scale fee. After absorbing a significant proportion of the total hours, we have submitted fee variation proposals to Council and PSAA of £124k in respect of 2018/19 (in addition to £15k agreed during the audit), and £138k in respect of 2019/20. The fee variations applicable to 2020/21 will be submitted following completion of the audit. We have included a summary of the fee variations proposed on the next slide, which has been provided to PSAA as part of their approval process. The fee variations are being reviewed by PSAA and have not yet been approved.
Non audit fees	There are no other non-audit fees in relation to financial year 2020/21. Please see slide 33 for more detail in relation to the non-audit services provided in relation to the 2024/25 financial year.
Independence monitoring	We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise, as necessary.
Relationships	We have no other relationships with the Authority, its members, officers and affiliates, and have not supplied any services to other known connected parties, other than the relationships set out on the subsequent page.

Independence and fees (Continued)

As part of our obligations under International Standards on Auditing (UK) and the FRC's Ethical Standard we are required to report to you on all relationships (including the provision of non-audit services) between us and the audited entity:

Deloitte has been contracted by the Ministry for Housing, Communities and Local Government (MHCLG) to provide services to Local Authorities to support with levelling up projects. During 2024/25, subsequent to the financial periods for which we are auditor, we have been asked by MHCLG to provide support in respect of levelling up funding awarded to the Council. The support will be to understand the proposal that is being prepared by the Council for review by MHCLG and to triage any issues that could impact on the delivery of the project. The activities under the services will include meeting with the Local Authority to understand the need, and identify targeted support from SMEs drawn from a pool assembled by our consortium partner and Deloitte to unblock delivery e.g. looking at planning process delays, project management capabilities etc. The fees expected in relation this this engagement will be circa £25,000 (excluding VAT). The possible threats to independence and safeguards in place are set out below:

Possible threats to auditor independence	Is the threat applicable	Rationale/safeguards
Management threat	No	The role is to provide advice, facilitate unblocking for delivery issues and provide the council and partners with options to get delivery back on track where stalled, it is then up to the council and partners to decide as to how they take the advice on board, the engagement team will not make any management decisions.
Self-review threat	No	Any advice provided will be after 1 April 2023, and therefore not impact any period which has been audited by Deloitte. The activities being undertaken do not lead to the determination of financial statement items - they may affect income received but will not determine what is being recorded. The services provided therefore does not present a self-review threat. It should also be noted that the services will be provided to a different team to the audit team.
Advocacy threat	No	The aim of the services is to provide impartial advice to support the council and partners in unblocking delivery issues. The team will not take the side of any party but will facilitate conversation and access to subject matter experts. It should also be noted that the services will not involve undertaking work directly on behalf of the council as the agreement is with the Ministry for Housing, Communities and Local Government.
Self-interest threat	Yes, however appropriately mitigated	Fees are determined based on the rate card with MHCLG and funding will be received directly from the department. The engagement does not fall within any of the categories of prohibited services under Auditor Guidance Note 1 or the Ethical Standard. Although the AGN01 fee cap is not applicable to periods where we are not the auditor, the value of the work undertaken would be below the fee cap (calculated based upon the scale fee).

Independence and fees (Continued)

2018/19 Fee Variation analysis

The table below shows the fee variation analysis which we have discussed with management, and which has been submitted to PSAA Ltd for their review and approval. They are shown at the applicable PSAA rates for 2018/19.

Category	Eastbourne Borough Council	
	Hours	Cost at PSAA rates
Property, plant and equipment valuations	383	21,320
Accounts- Other:		
Group consolidation work	145	9,595
New Accounting standards- IFRS 9 and 15	141	9,157
Technical accounting issues	205	16,225
Quality and preparation issues	773	38,848
Covid 19 impact on completion	228	10,344
Other areas including VFM considerations	361	18,772
Total	**2,236**	**124,261**
Initial fee variation following initial identification of delays	193	15,000
Total for the audit	**2,429**	**139,261**

2019/20 Fee Variation analysis

The table below shows the fee variation analysis which we have discussed with management, and which has been submitted to PSAA Ltd for their review and approval. They are shown at the applicable PSAA rates for 2019/20.

Category	Eastbourne Borough Council	
	Hours	Cost at PSAA rates
Group Consolidation work	136	7,269
Pension Valuation	54	3,398
PPE and investment properties	390	20,197
Technical accounting issues	230	14,292
Quality and preparation issues	942	46,128
Value for money	82	5,064
Covid 19 impact on completion	325	15,125
Covid-19 time impact	108	6,104
Increased FRC Challenge	124	6,768
Other	285	13,697
Total for the audit	**2,676**	**138,042**

Fraud responsibilities and representations

Responsibilities explained

Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with officers and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

Required representations:

We have asked the Council to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you have disclosed to us all information in relation to fraud or suspected fraud that you are aware of and that affects the Council.

We have also asked the Council to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

Audit work performed:

In our planning we identified valuation of land and buildings, completeness of expenditure and accruals and management override of controls as key audit risks for the council.

During course of our audit, we have had discussions with officers and those charged with governance.

In addition, we have reviewed officer's own documented procedures regarding fraud and error in the financial statements.

We have reviewed the Annual Governance Statement.

Conclusion:

We have no matters to report from our procedures in this regard.

Eastbourne Borough Council

Statement of Accounts 2020/21

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REPORT BY CHIEF FINANCE OFFICER

I am very pleased to welcome you to Eastbourne Borough Council's Statement of Accounts for 2020/21, which gives me the opportunity to set the accounts in the context of the financial challenges being faced by the Council.

In the first quarter of 2020, a coronavirus outbreak (COVID-19) started across the globe. This resulted in the UK government imposing restrictions through guidance and law on the movement of people which came into full effect on 23rd March 2020. Every aspect of society has continued to be affected by the exceptional circumstances of the COVID-19 pandemic throughout 2020/21. Of course, the personal impact has been severe and tragic for many people. The broader impact on Eastbourne and the Council's role in supporting the borough and its people, will continue to be felt for the foreseeable future. From the spring of 2021, with the initial roll-out of the vaccination programme, there is a planned lessening of restrictions into summer 2021 but the continued global uncertainty continues.

As ever, the Council is committed to delivering its key services and providing an environment where everyone works to create a confident and a resilient Council. Eastbourne faced additional costs in responding to the pandemic and severe shortfalls in its usual sources of income. Additional financial support from central government provided significant help to the Council in ensuring that in-year budget pressures were reduced. However, the significant loss of income required further support which was facilitated through a capitalisation agreement from the government. There is still considerable uncertainty about the economic recovery and any impact on the Council's locally generated income as well as government funding in the years ahead along with the longer-term financial implications of COVID-19.

Throughout the year the Council's finances were closely monitored, and a range of corrective actions were put in place and implemented. An early comprehensive review of all service and financial plans was carried to inform the council's Priority Based Budgeting process and Recovery and Reset Programme. In order to both maintain its resilience in the face of ongoing and future financial pressures and deliver a major change programme to transform its services, the Council seeks capitalisation directives to access additional financial resources during 2020/21. Capitalisation allows the Council to treat certain revenue (day-to-day) costs impacted by the pandemic as capital expenditure and hence to spread those costs over a number of years to avoid a severe reduction in reserves, which are required to maintain resilience and mitigate risks.

We will continue to deliver improvements that will enable the Council to respond to the anticipated challenges. A key part of this will include the Recovery and Reset programme, which has been designed in response to these challenges, deliver appropriate organisational change and address the Council's financial challenges in a planned way.

I want to thank all of our Finance and other colleagues who have once again worked tirelessly to support the Council throughout this challenging period and in doing so, continued to protect our key services and support the borough. I also want to acknowledge the excellent work done to develop balanced budgets for 2020/21 and 2021/22, and to manage the financial position of the Council throughout the financial year. Careful financial administration allows for informed decision making when determining the best use of Council resources so that services of the best possible quality can be delivered.

Homira Javadi CPFA, FCCA, ACCA
Chief Finance Officer (S151 Officer)

NARRATIVE REPORT

INTRODUCTION

As has been outlined in the message from the Chief Finance Officer, the financial year 2020/21 has been like no other. Along with the rest of the country and indeed the world, Eastbourne Borough Council has had to manage the unprecedented challenges that COVID-19 has posed. From the start of the first national lockdown on 24 March 2020, and also in the weeks immediately leading up to the lockdown, COVID-19 has influenced every aspect of the work of the Council. Challenging though it has been, the Council has responded well, delivering a wider range of new initiatives under the Recovery and Reset, as well as continuing to deliver business as usual services, adapting provision to align to the circumstances.

The accounts for 2020/21 reflect the nature of the activity that has been undertaken to respond to the pandemic but also to continue to provide essential services. The financial pressures of the increased unforeseen activities were supported by substantial extra Government grant funding and this has had an impact on the outturn for the year with the MHCLG Capitalisation Directive.

This Narrative Statement will cover the impact of COVID-19 in more detail in the following sections but will firstly outline key information about the Council to provide background context.

The Statement of Accounts contains all the financial statements and disclosure notes required by statute. They have been prepared in accordance with 2020/21 Code of Practice on Local Authority Accounting in the United Kingdom (the Code), based on International Financial Reporting Standards and the Service Reporting Code of Practice (SeRCOP), together with guidance notes and published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The Statement of Accounts aims to provide information so that members of the public, including electors and residents of Eastbourne, Council Members, partners, stakeholders and other interested parties can:

- Understand the overarching financial position of the Council and the outturn for 2020/21;
- Have confidence that the public money with which the Council has been entrusted has been used and accounted for in an appropriate manner; and
- Be assured that the financial position of the Council is sound and secure.

The Narrative Report provides information about Eastbourne, including the key issues affecting the Council and its accounts. It also provides a summary of the financial position at 31 March 2021 and is structured as below:

- About Eastbourne
- How the Council Operates
- Corporate Risk
- Summary of Achievements
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ABOUT EASTBOURNE

The Council

Eastbourne Borough Council is one of five district and borough councils in East Sussex, each providing key services to their residents. These services include waste collection and recycling, environmental health, tourism, leisure and amenities, planning and collection of council tax.

East Sussex County Council serves this entire part of South East England. It provides services including education, social services, roads and transport, waste disposal and libraries.

Our Environment

Eastbourne is a large town in East Sussex and is a gateway to the eastern end of the South Downs National Park, with approximately 7km (over 4 miles) of outstanding coastline. For an urban borough it has significant natural environment, a high proportion of which is downland. This natural environment with its panoramic views, areas of outstanding natural beauty and sites of special scientific interest, has 485 hectares (1,200 acres) of open access land and is highly valued by our residents and visitors. Eastbourne is primarily a seaside resort with natural shelter provided by Beachy Head.

Within its built environment, Eastbourne has a wide range of parks and gardens and significant areas of historic interest, including 250 listed buildings and almost 10 per cent of the built-up area protected with Conservation Area status. Eastbourne also has a range of sport and leisure facilities including: an international, high quality tennis centre developed in partnership with the Lawn Tennis Association; a number of community and borough sporting facilities; theatres; a modern art gallery; and a number of smaller venues act as centres of local memory and heritage. It has an outstanding seafront destination offering miles of unspoilt coast, with a preserved Victorian promenade, extending to a modern, high quality marina and berthing facility at Sovereign Harbour. The borough has a diverse range of restaurants, retail and hospitality accommodation adding to the visitor and community offer.

The Community

Eastbourne has an estimated population of 103,745. Historically, it has attracted older people to come and live in the town. Compared to the region and nation as a whole, Eastbourne has a higher percentage of the population of pensionable age, 25% aged over 65 years old against a national average of 18.4%. However, this is changing and although Eastbourne still provides an attractive location for retirement, the town has also experienced considerable housing and economic development that has attracted a younger age group, leading to an increasingly more balanced community. We now have 32.2% of our population below the age of 30.

Around 22% of people are living with a limiting long-term illness and 21% have a disability, with both ratios likely to rise over the next decade or so. During the COVID-19 lockdown clinically vulnerable residents were asked to shield, with Eastbourne having a rate of 7.5 per 100 shielding as compared to 6.7 nationally. Four areas of Eastbourne fall within the most 10% deprived in England. These are found within the Devonshire, Langney and Hampden Park wards.

The Economy

Public administration, education and health are the largest employers in Eastbourne at 35.8% followed by wholesale and retail trade at 22.2%. Both sectors have greater concentrations in Eastbourne than East Sussex, the South East and Great Britain.

Eastbourne has a similar proportion of individuals employed as managerial, senior officials and professionals, as the South East and Great Britain. However, there is a higher concentration of caring, leisure and elementary occupations.

Average (median) earnings for Eastbourne are £454 per week, which is lower than the national average of £483, but slightly higher than the average for East Sussex. The local unemployment rate in Eastbourne (4.4%) is higher than in East Sussex (3.4%) the South East (3.4%) and the national figure (3.9%).

The impact of COVID-19 has been significant, affecting the tourist economy and hospitality businesses, as well as employment. The claimant rate for universal credit and job seekers allowance increased to 7.8 as compared to 3.7 in the previous year. Around one quarter of jobs are considered to be at risk in Eastbourne as a result of Covid19, similar to the national and regional figures.

HOW THE COUNCIL OPERATES

Eastbourne Borough Council is a complex organisation. Elected councillors direct our policies, which the Corporate Management Team (shared with Lewes District Council) then implements through the officers of the Council. There are 27 councillors representing 9 wards within the borough. Full Council elections take place every four years, most recently in May 2019 with two by-elections due in 2021. Composition of the Council is as below:

Liberal Democrat Party (controlling political group)	17 Councillors
Conservative Party	8 Councillors
Vacant Seats	2

All councillors meet together as the Council and are normally open to the public. The Covid 19 lockdown has led to meetings being held remotely. Here councillors decide the Council's overall policies and set the budget each year. The Council appoints the members of the Scrutiny Committee and all other council committees – for example, the Audit and Standards Committee and the Planning Applications Committee. The Council considers recommendations made to it by the Cabinet and the Scrutiny Committee as to any changes in policy, which might need to be made.

The Executive is made up of the Leader, appointed by the full Council, together with a Cabinet of councillors whom the Leader appoints. Each member of the Cabinet has a portfolio of the areas for which they are responsible. Cabinet normally meets seven times in a municipal year.

The Cabinet consists of the following members:

Councillor David Tutt	Leader of the council and chair of cabinet, and cabinet member for responsibilities aligned with the chief executive
Councillor Stephen Holt	Deputy leader, cabinet member for financial services
Councillor Margaret Bannister	Cabinet member for tourism and leisure services
Councillor Jonathan Dow	Cabinet member for climate change
Councillor Alan Shuttleworth	Direct assistance services
Councillor Colin Swansborough	Cabinet member for place services and special projects
Councillor Rebecca Whippy	Cabinet member for disabilities and community safety

The Leader of the Council is responsible for discharging most day-to-day decisions, although the Leader may decide to delegate his/her powers to the Cabinet as a whole, or to an officer.

The Scrutiny Committee is in place to ensure that the Council's policies, plans, decisions and actions are being made in the community's best interest. It consists of eleven Councillors who are not on Cabinet. This enables non-executive members to influence decisions and ensure the views and needs of local people are taken into account. It is about being a 'critical friend'. A member of the Minority Group chairs the Scrutiny Committee.

Supporting the work of councillors is the organisational structure of the Council headed by the Corporate Management Team (CMT). CMT is comprised of our most senior staff (officers) as follows:

Robert Cottrill	Chief Executive (Statutory Head of Paid Service)
Ian Fitzpatrick	Deputy Chief Executive and Director of Regeneration and Planning
Tim Whelan	Director of Service Delivery
Homira Javadi	Chief Finance Officer (Statutory Section 151 Officer)
Becky Cooke	Assistant Director of Human Resources and Transformation
Philip Evans	*Director of Tourism and Enterprise (left in 2020/21)*
Peter Finnis	*Assistant Director – Corporate Governance (left in 2020/21)*
Catherine Knight	*Assistant Director - Legal & Democratic Services (left in 2020/21)*

The Council appoints the three statutory posts of Head of Paid Service, Section 151 Officer and Monitoring Officer, as required by law. These officers have responsibility to take action if the Council has, or is about to, break the law or if the Council is about to set an unbalanced budget.

Eastbourne Borough Council is supported by a workforce fully shared and integrated with Lewes District Council to provide more flexible, customer-focussed and cost-effective services. This was achieved via the phased Joint Transformation Programme (JTP) which has now concluded.

The JTP delivered considerable changes in technology that has enabled the scale of transformation needed by the councils. The two councils share a joint website (www.lewes-eastbourne.gov.uk) which continues to develop and become the main point of contact for many customers. An ongoing increase in the number of online transactions being completed demonstrates a positive direction of travel towards channel shift and the aspiration to be digital by default. However, local democratic accountability is maintained with both councils remaining separate sovereign entities with their own distinct priorities.

The Annual Governance Statement was approved by the Audit and Governance Committee on 28 July 2021 and is available on the Council's website www.lewes-eastbourne.gov.uk.

CORPORATE RISK

The Council holds a Risk Management Strategy which sets out the way in which risks are to be identified, scored and recorded. This strategy is reviewed annually. Project, operational, departmental and strategic risk registers are now held on performance management software so that they can be updated regularly by managers who have complete ownership and responsibility for reviewing and updating the registers. The following strategic risks are reviewed by the Corporate Management team quarterly:

9Title	Description	Internal Controls
No political and partnership continuity/consensus with regard to organisational objectives	Sudden changes of political objectives at either national or local level renders the organisation, its current corporate plan and Medium-Term Financial Strategy unfit for purpose.	Reduces Likelihood 1. Create inclusive governance structures which rely on sound evidence for decision making. Reduces Impact 2. Annual review of corporate plan and Medium-Term Financial Strategy 3. Creating an organisational architecture that can respond to changes in the environment.
Changes to the economic environment makes the	1. Economic development of the town suffers. 2. Council objectives cannot be met.	Reduces Impact 1. Robust Medium-Term Financial Strategy reviewed annually and monitored quarterly.

9Title	Description	Internal Controls
Council economically less sustainable	3. Covid-19 has had a serious impact on the council's finances.	Refreshed in line with macro-economic environment triennially. 2. Creating an organisational architecture that can respond to changes in the environment. Reduces Likelihood 3. The council is currently in ongoing discussions with the Ministry of Housing, Communities and Local Government around financial support to cover costs related to expenditure on response to the Covid-19 pandemic.
Unforeseen socio-economic and/or demographic shifts creating significant changes of demands and expectations.	1. Unsustainable demand on services. 2. Service failure. 3. Council structure unsustainable and not fit for purpose. 4. Heightened likelihood of fraud.	Reduces Impact 1. Grounding significant corporate decisions based on up to date, robust, evidence base. (e.g. Census; Corporate Plan Place Surveys; East Sussex in Figures data modelling). 2. Ensuring community and interest group engagement in policy development (e.g. Neighbourhood Management Schemes; Corporate Consultation Programme)
The employment market provides unsustainable employment base for the needs of the organisation	Employment market unable to fulfil recruitment and retention requirements of the Council resulting in a decline in performance standards and an increase in service costs.	Reduces Likelihood 1. Changes undertaken to increase non-financial attractiveness of EBC to current and future staff. 2. Appropriate reward and recognition policies reviewed on a regular basis. Reduces Likelihood and Impact 3. Review of organisation delivery models to better manage the blend of direct labour provision. Pursuit of mutually beneficial shared service arrangements.
Not being able to sustain a culture that supports organisational objectives and future development.	1. Decline in performance. 2. Higher turnover of staff. 3. Decline in morale. 4. Increase in absenteeism. 5. Service failure 6. Increased possibility of fraud.	Reduces Likelihood 1. Deliver a fit for purpose organisational culture. 2. Continue to develop our performance management capability to ensure early intervention where service and/or cultural issues arise. 3. Continue to develop communications through ongoing interactions with staff.
Council prevented from delivering services for a prolonged period of time.	1. Denial of access to property 2. Denial of access to technology/information 3. Denial of access to people	Reduces Likelihood 1. Adoption of best practice IT and Asset Management policies and procedures. Reduces Likelihood and Impact 2. Joint Transformation programme has created a more flexible, less locationally dependent service architecture. Reduces Impact 3. Regularly reviewed and tested Business Continuity Plans.

9Title	Description	Internal Controls
		4. Regularly reviewed and tested Disaster Recovery Plan.
Council materially impacted by the medium to long term effects of an event under the Civil Contingencies Act	1. Service profile of the Council changes materially as a result of the impact of the event. 2. Cost profile of the Council changes materially as a result of the impact of the event. 3. Work adversely affected by reduced staff numbers due to effects of pandemic virus.	Reduces Likelihood and Impact 1. Working in partnership with other public bodies. 2. Robust emergency planning and use of Council's emergency powers. Reduces Impact 3. Ongoing and robust risk profiling of local area (demographic and geographic). 4. Review budget and reserves in light of risk profile.
Failure to meet regulatory or legal requirements	1. Trust and confidence in the Council is negatively impacted. 2. Deterioration of financial position as a result of regulatory intervention/penalties. 3. Deterioration of service performance as a result of regulatory intervention/penalties	Reduces Likelihood 1. Developing, maintaining and monitoring robust governance framework for the Council. 2. Building relationships with regulatory bodies. 3. Develop our Performance Management capability to ensure early intervention where service and/or cultural issues arise. 4. Take forward the recommendations of the CIPFA Asset Management report to ensure we meet regulatory/legal requirements regarding the management of property. 5. Ensure there is full understanding the impact of new legislation. 6. All managers are required to abide by the Council's procurement rules. 7. Ensure that fire risk regulations are adhered to and that Fire Risk Assessments are regularly reviewed.
Commercial enterprises that are fully controlled by the authority do not deliver financial expectations or do not meet governance requirements.	1. Unfamiliar activity with staff inexperienced in this area 2. Council finances affected if projects do not meet financial expectations. 3. Reputational damage if governance procedures are inadequate. 4. Failure to abide by company law.	Reduces Likelihood 1. Hire suitably qualified/experienced staff to give legal and specialist support. 2. Appoint Head of Commercial Activities. 3. Ensure that projects meet core principles. 4. Up or re-skill staff to maximise commercial opportunities. 5. Ensure governance processes are set up and adhered to.
The Council suffers a personal data breach by inadequate handling of data or by an IT incident	1. Trust and confidence in the Council is negatively impacted. 2. Deterioration of financial position as a result of regulatory intervention/penalties 3. Deterioration of service performance as a result of regulatory intervention/penalties 4. Increased probability of compensation claims by persons affected by a personal data breach.	Reduces Likelihood 1. Ongoing corporate training for data protection. 2. Ensure all staff complete the e-learning Data Protection course. 3. Ensure that the Data Protection Policy is regularly reviewed. 4. Ensure the Data Protection Officer is afforded the resources to discharge their statutory functions. 5. Ensure that managers regularly remind staff of their responsibilities under data protection, including personal data breach reporting arrangements.

9Title	Description	Internal Controls
		6. Ensure the suite of IT policies is kept up to date. 7. Ensure that IT security is in place and regularly tested. Reduces Impact 8. Incident management procedures to mitigate loss or breach of data are in place.
Judicial challenge of decision-making is heightened as a consequence of increased reliance on use of officer delegated powers	1. There is scope for the public audience, members of whom may be directly or indirectly affected by council decisions, to increase once they can routinely hear (and see) meetings from the comfort of their homes. So, the number of people who may be in a position to mount a challenge may similarly increase. 2. There is potential for successful challenges where lapses in IT connectivity may mean that decisions are made where members have not heard, and taken into account, all relevant information and/or where key public or other participants have not been able to participate in the meeting due to technological failure. 3. The officer resource needed to defend the councils against this type of challenge will be significant.	Reduces Likelihood 1. Work closely with IT to ensure that technological issues are kept to a minimum. Reduces Impact 2. Use of delegated powers to be adequately recorded 3. Issue minutes of meetings as soon as possible.

SUMMARY OF ACHIEVEMENTS

In the 2020/21 financial year, the following key successes were delivered:

- Mobilisation of community hub to support vulnerable and isolated residents during lockdown.
- Fast-track distribution of £33.2m in government grants to support small businesses during the pandemic; launching a dedicated online portal to receive and process applications quickly.
- Sovereign Centre and Congress Theatre used as vaccination centres.
- Launch of German version of the Visit Eastbourne website to help attract foreign visitors.
- Opening of new visitor centre in The Welcome Building.
- Continuation of pesticide-free approach where possible to control weeds, with no use of chemical weed killers, including glyphosate, in any council parks, open spaces or children's play areas.
- Refurbish of the Beachy Head centre.
- Adoption in July 2020 of Whole Estate Plan (WEP) to help guide the longer-term management of the Downland Estate.
- Strategy for Eastbourne Carbon neutral 2030 produced.
- Eastbourne Walking Festival 2020 in September. A ten-day celebration of the great outdoors re-imagined in the light of the Covid pandemic.
- £420k of government funding secured to help tackle anti-social behaviour, theft and burglary in a part of Eastbourne disproportionately affected by these offences.

Key Performance Indicators

The following performance indicators have been used to track performance in the past year and progress has been reported through our Scrutiny Committee and Cabinet on a quarterly basis.

Performance has improved in many areas, particularly around customer service (benefits processing and call answering times). The council continues to monitor performance closely and is taking proactive measures in response to the new challenges arising from the COVID-19 crisis.

Performance indicator	**Target for 2020/21**	**Performance in 2020/21**	
Percentage of Major Planning Applications processed within 13 weeks	65%	80%	
Percentage of minor planning applications processed within 8 weeks	75%	78%	
Percentage of household waste sent for reuse, recycling and composting	38%	35.10%	
Number of households living in emergency (nightly paid) accommodation	Data only	122	Data only
Average void relet time (key to key)	15	48.5	
Revs and Bens: Average days to process new claims	22	19	
Percentage of phone calls answered within 60 seconds	80%	89%	
Percentage of Council Tax collected during the year	96.52%	95.89%	
Percentage of Business Rates collected during the year	95.82%	94.70%	
Average days lost per FTE employee due to sickness	8 days	6.37 days	

Key

Performance that is above target.

Performance that is slightly below target but is within an acceptable tolerance/projects where there are issues causing significant delay or change to planned activities.

Performance that is below target/projects that are not expected to be completed in time or within requirements.

The key financial metrics are referenced in areas of the financial performance below.

FINANCIAL PERFORMANCE OF THE COUNCIL IN 2020/21

The Council incurs both revenue and capital expenditure during the financial year. Revenue spending is generally on items that are consumed within a year and is financed from Council Tax, Government Grants and other income. Capital expenditure is on items which have a life beyond one year and which also add value to a fixed asset (known as non-current assets). This is financed largely by capital grants, loans and other capital contributions.

1. Comprehensive Income and Expenditure Account

All the services provided by the Council, including council housing, are shown within the Comprehensive Income and Expenditure Statement. This statement shows the equivalent of the trading position of a UK listed company in accordance with IFRS requirements, and discloses a 'surplus' for 2020/21 of £2.167m (split between General Fund deficit £14.981m and HRA surplus £17.148m). The Movement in Reserves Statement reconciles this IFRS 'surplus' together with other reserve transfers into a net increase in the general fund balance of £3.123m and a decrease in HRA balances of £0.433m.

The General Fund and Housing Revenue outturn detailed below does not reconcile with the statutory presentation of the Comprehensive Income and Expenditure Statement as the outturn is prepared on the basis of how the Council sets its revenue budget rather than the accounting provisions of the Code, and therefore is not presented on the same basis as the Comprehensive Income and Expenditure Statement. The Expenditure and Funding Analysis at note 7, identifies the adjustments between the management and the financial accounts. The Council's underlying financial position, including usable Reserves, is identical in both its management and financial accounts.

2. General Fund

The General Fund is the main revenue fund of the Council and covers day to day expenditure and related income on all services. The Council set its Budget Requirement at £13.5m (amount to be funded by Government Grant, Council Tax and Business Rates). The Council set a Band D Council Tax for 2020/21 of £251.79, being a 2.0% percent increase over 2019/20.

The 2020/21 financial year saw significant challenges as a result of the COVID-19 pandemic and associated lockdown. This prompted the Council to undertake a number of immediate actions in order to manage the unprecedented financial and operational impacts of the pandemic. These included:

- Very early engagement with Ministry of Housing Communities and Local Government (MHCLG),
- active campaigning for more realistic COVID grant allocation,
- developing the Recovery and Reset Programme; and
- seeking additional financial support from the Government which was granted in the form of a capitalisation direction of £6.8M for 2020/21 and £6M for 2021/22 following a comprehensive review of the Council finances.

Whilst the capitalisation support provided the Council with a much-needed assurance, it was essential for the Council to ensure it keeps within the support package provided and restructure its future financial plans. The revenue outturn provides a financial overview of the progress made by the Council during 2020/21 and measures the effectiveness of its actions in response to the pandemic.

Overall net expenditure was £3.550m more than available funding, but £3.25m less than the maximum capitalisation limit of £6.8m or other approved and or available resources. The outturn position is a clear indication of a significant improvement and represents the Council's commitment to careful financial control measures which were put in place very early in the year.

A summary of the General Fund position is shown below in the format used for management accounting and reported to Members throughout the year:

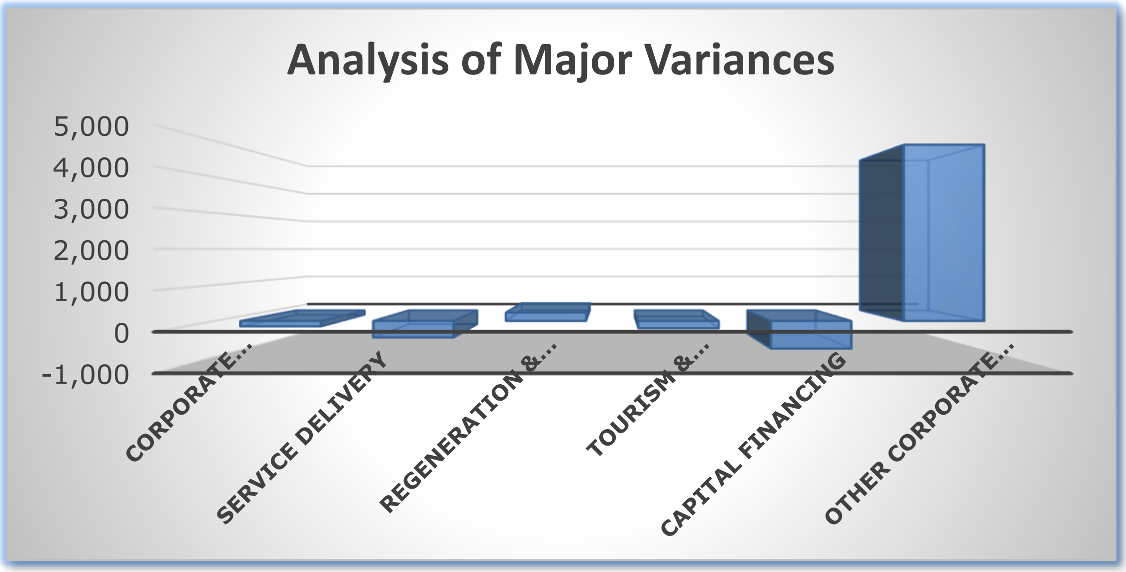
General Fund	Original Budget	Current Budget	Actual	Variance
	£000's	£000's	£000's	£000's
Corporate Services	3,737	4,394	4,245	(149)
Service Delivery	5,979	8,214	7,013	(1,201)
Regeneration and Planning	97	156	507	351
Tourism and Enterprise	2,619	7,120	6,972	(148)
Service Total	**12,432**	**19,884**	**18,737**	**(1,147)**
Corporate Expenses	161	100	-	(100)
Corporate Efficiency Savings	(1,565)	-	-	-
Recovery & Reset Costs	-	1,200	164	(1,036)
Capitalisation Direction	-	(6,800)	-	6,800
Income Recovery	-	(2,800)	(3,353)	(553)
Capital Financing	2,286	1,996	1,573	(423)
Total Expenditure	**13,314**	**13,580**	**17,121**	**3,541**
Transfers to/(from) Reserves	208	(52)	(42)	10
Budget Requirement	**13,522**	**13,528**	**17,079**	**3,551**
Council Tax	(8,712)	(8,712)	(8,712)	-
Business Rates	(4,346)	(4,346)	(4,346)	-
Government Grants	(464)	(470)	(471)	(1)
Total Funding	**13,522**	**13,528**	**13,529**	**(1)**
Total Net Overspend			**3,550**	**3,550**

The actual in the table above is the revenue outturn position reported to Cabinet and is based on funding before any accounting adjustments under government regulations.

The General Fund Revenue outturn is a deficit of £3.55m against the revised budget. When the budget was originally set in February 2020 the Council estimated it would need to make a contribution of £208,000 from the General Fund Reserve in order to balance the budget.

The main variances between the revised budget and the actual net expenditure are detailed below:

Analysis of Major Variances	Variance
	£000's
Corporate Services	(151)
Service Delivery	(457)
Regeneration & Planning	233
Tourism & Enterprise	(203)
Capital Financing	(767)
Other Corporate	4,895
Total Net Overspend	**3,550**



As a result of this movement the General Fund Balance as at 31 March 2021 was £1.999m.

Summary	1 April 2020 £000's	Transfers (In)/Out £000's	31 March 2021 £000's
General Fund Reserve	-	(16)	(16)
Strategic Change Reserve	(245)	4	(241)
Capital Programme Reserve	(336)	-	(336)
Revenue Grants Reserve	(613)	(1,724)	(2,337)
ICE Reserve	(1,750)	(50)	(1,800)
Commercial Reserve	(250)	(271)	(521)
Business Rates Equalisation Reserve	-	(1,104)	(1,104)
SHEP Properties Works Reserve	(1)	-	(1)
Total GF Earmarked Reserves	**(3,195)**	**(3,161)**	**(6,356)**
General Fund Balance	(2,025)	26	(1,999)
Total GF Reserves & Balances	**(5,220)**	**(3,135)**	**(8,355)**

The 2020/21 accounts include a disclosure note – the Expenditure and Funding Analysis (EFA) (note 7a to the Accounting Statements) – which sets out the net amounts chargeable to the General Fund, HRA and Earmarked reserves balances for the year as compared to the amounts accounted for under generally accepted accounting practices shown in the Comprehensive Income and Expenditure Statement. These amounts are analysed across the directorates of the Council on the same basis as shown in the outturn summary table above.

3. Housing Revenue Account (HRA)

The Council continues to be the major provider of rented accommodation in the borough and it transferred responsibility for the management of the housing stock to Eastbourne Homes Ltd (EHL), an arm's length management organisation, on 1 April 2005. At 31 March 2021 there were 3,376 dwellings provided for rent. Housing Associations are the second major provider, and the Council continues its work with them in order to meet new affordable housing requirements for Eastbourne.

For 2020/21 the Housing Revenue Account net position shows an overall surplus (pre capital financing adjustments) of £243,000 for the year against an expected budgeted surplus of £310,000 resulting in an unfavourable variance of £67,000. The following table compares movement in the HRA Balance from the budget to the outturn for 2020/21:

HRA	Original Budget £000	Revised Budget £000	Actual £000	Variance £000
Income	(15,473)	(15,542)	(15,758)	(216)
Expenditure	13,501	13,697	13,957	260
Net Interest Charges	1,897	1,535	1,558	23
Contribution to Reserves	-	-	-	-
Total HRA (Surplus)/Deficit	**(75)**	**(310)**	**(243)**	**67**

The analysis in this table is not the same as HRA statutory accounts position (page 94) due to the different reporting requirements and excludes capital financing charges.

The main variances between the revised budget and the actual net expenditure are detailed below:

Descriptions	Variance £000's
Additional rental income	(74)
Additional service charges income	(142)
Reduced contribution to bad debt provision	(203)
Increased depreciation & impairment charge	296
Net increased management and supervision costs	167
Increased loan interest cost	23
Total Variances	**67**

4. Collection Fund

The Council has, by law, to maintain a specific account called the Collection Fund which records all income from Council Tax and Non-Domestic Rates and its distribution to the major precepting authorities, being Central Government, East Sussex County Council, Sussex Police, East Sussex Fire Authority and Eastbourne Borough Council.

The Council Tax element shows the opening surplus has increased by £296K during the year to £504K as at 31 March 2021. The Business Rate deficit at 31 March 2021 was £27.857m due to additional COVID-19 reliefs and discounts. Collection Fund surpluses or deficits declared by the billing are apportioned to the relevant precepting bodies in the subsequent financial year. The January 2021 forecast surplus for the Council Tax element of the fund of £362K will be distributed to precepting bodies pro rata to their Band D Council Tax during 2021/22 leaving a surplus of £143K to be distributed. The Council's share as at 31 March 2021 was £36K.

It should be noted that as part of the Government's response to the COVID-19 pandemic and the impact it is having on Local Government finances, it is proposing three-year phasing of 2020/21 collection fund deficits. This means that repayments to meet collection fund deficits accrued in 2020/21 will instead be phased over a three-year period (2021/22 to 2023/24) to ease immediate pressures on budgets. This will be factored into the calculations to determine the Collection Fund surplus/deficit position in December/January.

The local government finance regime was previously revised with the introduction of the retained business rates scheme. The main aim of the scheme is to give Councils a greater incentive to grow businesses in the area. It does, however, also increase the financial risk due to non-collection and the volatility of the Business Rates Tax Base.

During 2020/21 the Council worked within a Business Rate Pool with the other East Sussex Borough and District Councils, East Sussex County Council and East Sussex Fire Authority. Under this arrangement, 50% of any growth in business rate income which would otherwise be paid as levy to the Government can be retained by the Pool to be redistributed to its participating authorities in accordance with an agreed memorandum of understanding.

The government continues to work towards transferring control to local authorities over the locally generation business rate income. In December 2017, the government announced the aim of increasing the level of business rates retained by local government from the current 50% to the equivalent of 75%

in April 2020. In order to test increased business rates retention and aid understanding of how to transition into a reformed business rates retention system in April 2020, the government invited local authorities in England to apply to become 75% business rates retention pilots in 2019/20. The East Sussex Pool became one of the pilot pools for 2019/20.

5. Capital Programme

The Council's capital programme spending in the year was £16.024m, compared with a revised budget of £38.690m, giving a net underspend of £22.666m. A key part of its recovery programme, the Council made significant reductions to the programme in order to reduce its borrowing levels and the corresponding capital financing costs. The main items of capital programme expenditure are:

2020/21 Capital Programme Summary	Original Estimate	Revised Estimate	Actual	Variance
	£000's	£000's	£000's	£000's
HRA	12,735	11,989	3,626	(8,363)
Community Services	1,866	2,038	1,348	(690)
Tourism & Leisure	8,510	27	18	(9)
Corporate Services	11,847	15,882	4,293	(11,589)
Asset Management	5,721	1,954	3,189	1,235
Capitalisation Direction		6,800	3,550	(3,250)
Total Programme	**40,679**	**38,690**	**16,024**	**(22,666)**
Financed By: -				
HRA Capital Receipts	465	211	-	(211)
HRA 1-4-1 RTB Receipts	1,306	3,949	545	(3,404)
GF Capital Receipts	551	215	3,550	3,335
Grants and Contributions	1,300	3,929	2,665	(1,264)
Major Repairs Reserve	4,307	5,483	2,748	(2,735)
Revenue Contribution to Capital	3,697	1,781	-	(1,781)
Reserves	2,000	2,765	-	(2,765)
Section 106 Contributions	27	-	-	-
GF Borrowing	26,025	20,357	3,562	(16,795)
HRA Borrowing	1,001	-	2,954	2,954
Total Financing	**40,679**	**38,690**	**16,024**	**(22,666)**

Investment and Land Acquisition – further schemes to be identified, underspend to be carried over into 2021/22.

Devonshire Park Development – major project to include a new Welcome building and the restoration of Congress, Winter Garden and Devonshire Park theatres. Underspends are due to phasing of works and can be carried over into 2021/22.

The Council continues to invest in assets to support the local community and economy. The most significant planned capital schemes are:

- Improvements to the Council's housing stock;
- Economic regeneration;
- Asset improvements.

6. Pensions

The Council's liability for future pension payments has increased from £49.9m to £68.4m. The Defined Benefit Obligations have increased by £48.8m from £195.7m to £244.5m and the net asset value has increased by £30.2m from £145.8m to £176.0m. It is important to realise that this accounting change does not trigger an immediate change in contribution rates, as these are assessed with a longer-term view of liabilities and of investment performance.

7. Treasury Management

The Council's external loan debt at 31 March 2021, comprising long and short-term borrowing, stood at £159.4m excluding accrued interest payable. This is made up of £119.2m repayable in more than one year and £40.2m repayable in less than one year. This is a net decrease of £2.8m over the previous year, mainly as a result repayment of outstanding loan and capital programme slippages.

No short-term investments were held at 31 March 2021, the same as the previous year. The Council held cash balances as at 31 March 2021 of £4.1m, compared to £3.1m as at 31 March 2020.

STAFFING

A summary of the Council's staffing is shown in the table below:

Employees	**2020/21**
Total number of current permanent full and part time employees	736
Total number of current temporary/fixed term employees	29
Total Number of Employees	**765**
Total number of employees expressed as full-time equivalents	705

Posts	**2020/21**
Total number of permanent full and part time posts	711
Total number of temporary/fixed term posts	29
Total number of posts	**740**
Total number of posts expressed as full-time equivalents	711

Staff turnover was 16.31% in 2020/21 of which 47.6% was through voluntary resignation and 75.4% including voluntary redundancy.

Sickness absence for 2020/21:

Number of Hours Lost	**Number of Days Lost**	**Average Number of Days Lost per employee**
34,675	4,686	6.37

FUTURE PLANS

- **Medium Term Financial Plan**

The Council's spending plans continue to be linked to residents' priorities and the Government's national priorities for all local authorities. The General Fund budget for 2021/22 and the Medium Term Financial Strategy (MTFS) for the years through to 2024/25 were set in February 2021 in the context of the multi-year Government funding settlement which is intended to give participating local authorities increased certainty of funding through to 2021/22. The council continues to set a balanced budget without the need to draw from reserves to support recurring expenditure.

The MTFS included a set of financial assumptions and forecasts up to the financial year 2024/25, based on the most up to date information available at the time and presents the updated forecast financial position for 2021/22, taking into account:

- the capital strategy and programme approved by Council in February 2020,
- the budget changes identified since the publication of the MTFS;

- the latest intelligence regarding the Spending Review announcement on 25 November 2020;
- the provisional 2021/22 local government funding settlement subsequently announced on the 17 December 2020.

The 2021/22 budget has been prepared during one of the most challenging and uncertain times due to the ongoing impacts of COVID-19 on the Council's finances, staff, residents, and local economy. Government spending to combat COVID-19 and mitigate its impact on businesses and individuals has led to record levels of public sector borrowing, and there is continuing uncertainty over the core funding that will be available to local authorities over the medium term.

One of the key outcomes of the Corporate Plan is achieving a robust financial strategy, the 2021/22 budget and medium-term financial strategy has been aligned to the Council's 5 Strategic priorities as shown below.

The budget has been formulated in line with these priorities as shown in the following chart:

The MTFS report highlighted the following key points that:

- The Strategy was prepared at a time of massive uncertainty with regard to the COVID-19 pandemic and its impact on the economy.
- The Council has seen a significant drain on its budgets and reserves due to the impact of COVID-19. Although lockdown had eased (at that time), the full impact of the virus was still to be seen but the estimated net cost to the Council had been estimated to be circa £21m over the 4-year model based on the position in September.
- The financial position over the medium term showed a revenue budget deficit of £8m for 2020/21, with future years as follows:

Forecast Deficits	**2021/22 £000's**	**2022/23 £000's**	**2023/24 £000's**	**2024/25 £000's**
Worst Case Scenario	9,748	5,571	4,699	4,482
Current Position	5,398	2,421	1,299	582

The MTFS report added that the range of financial outcomes depended on two key factors:

- the pace of recovery for the tourism economy; and
- the savings generated from the Recovery and Reset (R&R) Programme.

- The saving targets identified for the R&R programme are based on early estimates. More detailed work is being carried out to specify the targets on project by project basis. In addition, the savings will need to be sufficient, not only to cover the deficits, but also to replenish the Council's reserves to ensure future financial resilience.
- The Council's financial recovery and MTFS is highly dependent on further financial support from the Government for 2020/21 and 2021/22.

- **Summary of MTFS 2021-2025 - General Fund**

	2020/21 £000's	2021/22 £000's	2022/23 £000's	2023/24 £000's	2024/25 £000's
Budget Forecast	19,122	19,336	20,688	20,895	21,706
External Funding	(13,522)	(13,838)	(14,001)	(14,270)	(14,654)
Initial Budget Gap	**5,600**	**5,498**	**6,687**	**6,625**	**7,052**
CMT Savings	(50)	(150)	(250)	(250)	(250)
Grants Review	-	(60)	(250)	(250)	(250)
Recovery and Reset Programme	-	(850)	(2,500)	(2,500)	(2,500)
Redundancy and Set Up costs	1,250	1,850	-	-	-
Pay Award savings	-	(288)	(288)	(288)	(288)
Capitalisation Direction	**(6,800)**	**(6,000)**	-	-	-
Annual Budget Gap	**-**	**-**	**3,399**	**3,337**	**3,764**
Cumulative Budget Gap	**-**	**-**	**3,399**	**6,736**	**10,500**

- **Capital Programme**

The Capital Programme has been framed to deliver significant investment in infrastructure in the future. It is funded by Capital Receipts, Grants and Contributions, Reserves and Borrowing.

The Council has a policy of only using borrowing for schemes that are invest to save and can generate enough savings or additional income to service the financing costs. The Capital Programme for 2020/21 to 2023/24 is as follows:

Summary of Capital Programme 2020 to 2024	**Estimate Total 2020/21**	**Estimate Total 2021/22**	**Estimate Total 2022/23**	**Estimate Total 2023/24**
Capital Programme	**£000**	**£000**	**£000**	**£000**
HRA	11,989	19,820	30,750	22,703
Community Services	2,039	1,901	1,751	1,500
Tourism & Leisure	27	500	-	-
Corporate & Core Services	22,681	13,553	10,110	5,435
Asset Management	1,954	3,480	550	550
Total Expenditure	**38,690**	**39,254**	**43,161**	**30,188**
Financed By: -				
HRA Capital Receipts	211	429	435	445
HRA 1-4-1 RTB Receipts	3,949	4,806	1,180	2,130
GF Capital Receipts	215	2,067	4,350	1,750
Grants and Contributions	3,929	5,224	1,750	1,750
Major Repairs Reserve	5,483	4,348	4,403	4,635
Revenue Contribution to Capital	1,781	3,085	280	218
Reserves	2,765	-	1,207	1,695
Section 106 Contributions	-	27	-	-
Commercial Loans Repaid	11,400	-	-	-
GF Borrowing	8,957	11,382	6,311	3,070
HRA Borrowing	-	7,886	23,245	14,495
Total Financing	**38,690**	**39,254**	**43,161**	**30,188**

Capital programme recognises the significant spending limitations within the Finance Settlement for 2021/22 and the impact of the pandemic on the resources available. Therefore, the programme is revised to prioritise delivery to incorporate those projects that are either a statutory requirement or are essential to delivery of the Council's key priorities whilst reducing demand on its borrowing requirements.

The programme includes schemes where the Council has been successful in securing funding from external grants and contributions, and schemes where the Council is pro-actively working with external bodies to secure funding. For these schemes to go ahead it is important that the funding is secured. The programme has been compiled taking account of the following main principles, to:

- maintain an affordable four-year rolling capital programme;
- reduce external borrowing
- ensure capital resources are aligned with the Council's key priorities,
- maximise available resources by actively seeking external funding and disposal of surplus assets; and
- not to anticipate receipts from disposals until they are realised or have a high degree of certainty to realise.

The current economic climate also places further emphasis on ensuring that the levels of capital receipts are maximised through improved asset management and through the sale of surplus and underused assets. The Council recognises disposal of its surplus assets key to its overall financing of capital investment and at the same time reduced the demand on the revenue costs of capital.

- **Recovery and Reset Programme**

Prior to the COVID-19 pandemic, the council had set a challenging financial but realistic budget for the current financial year as a result of various factors, including the end of government funding, sharp increases in demand for essential services particularly housing and homelessness, economic uncertainty and the significant support and investment the Council has undertaken to support the local economy. The budget set for this financial year (2020/21) included a requirement to achieve challenging savings and additional income targets of £6.967m.

The COVID-19 pandemic and associated lockdown has significantly affected the council's financial position. The council's ability to generate income through its tourism offer, through its investments and through other fees and charges has been massively reduced. Alongside this, the council has had to undertake activities in response to COVID-19 which were not budgeted for and have put further pressure on the financial situation. In addition, many of the savings and income targets which were a budget requirement of the current year will not be achievable in full due to the economic downturn.

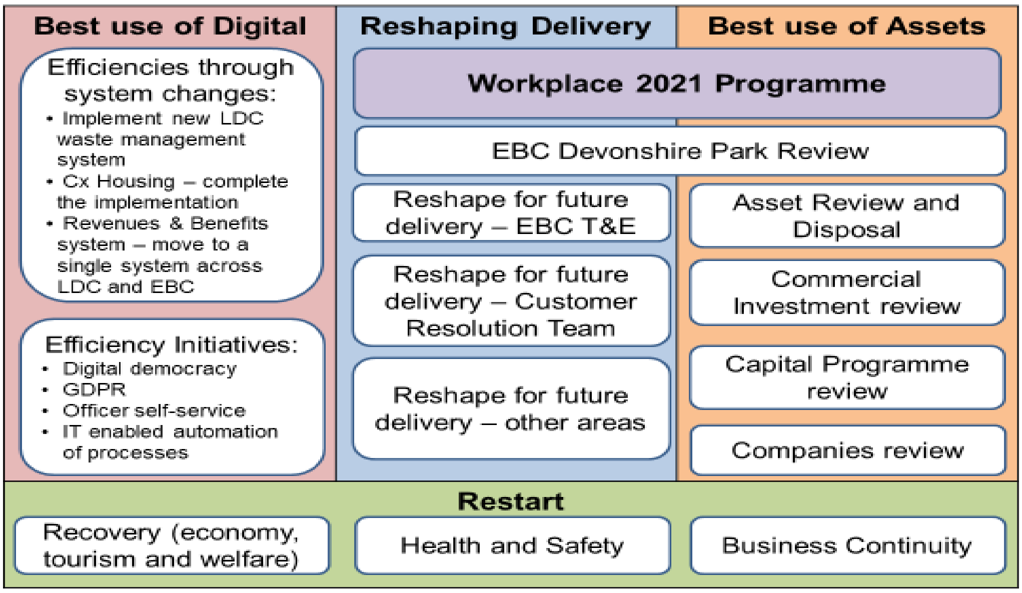
There has been some welcome support from central government to offset the council's additional expenditure and loss of income. However, it is clear that this will not be sufficient to bridge the budget gap, as is demonstrated in the Medium-Term Financial Strategy. It has become clear that there needs to be a fundamental reset of the council's plans, and budgets to respond to this challenging situation. This reset will be undertaken at pace, in order to achieve a balanced budget position for the medium and long-term. The changing needs of residents and how they interact with the council will also need to drive future delivery. The Recovery and Reset Programme has been established to respond to these factors and deliver appropriate organisational change.

The purpose of the Recovery and Reset Programme is to address the council's financial challenges in a sustainable way to ensure delivery of the following objectives;

- A sustainable service delivery model to adapt to the needs of residents and businesses as a result of the pandemic.
- A balanced budget.
- A sustainable Medium-Term Financial Strategy.
- No on-going reliance on reserves to support revenue budgets.
- An affordable Capital Programme.
- A continued focus on the Corporate Plan priorities, recognising that these may need to be revisited in light of resource limitations.

The programme has been designed to deliver these objectives through a variety of projects and interventions falling under four main pillars; best use of digital, reshaping delivery, best use of assets, and restart. The programme builds on what we have learned through recent months and the organisation's proven ability to flex and rapidly adapt to changing situations.

Recovery and Reset Programme Pillars



➢ **CIPFA FM Code of Practice**

CIPFA has developed the Financial Management Code (FM Code) 'designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability.' The FM code has several components including six Principles of Good Financial Management, setting the benchmark against which all financial management should be judged.

CIPFA expect the first full year of compliance with the FM Code to be 2021/22 and it is for individual authorities to determine whether they meet the standards. The Council's Leadership will be taking part in the first workshop in February to develop awareness and understanding of the requirements of the code. Work will continue throughout 2021/22 to ensure the Council adopts best practice.

➢ **Corporate Plan**

The Corporate Plan sets out our priorities and key projects covering the period 2020 to 2024. Refreshed annually (most recently in 2020) the four-year plan sets out the key outcomes the Council will deliver with its partners for our Borough. The Plan has been informed and developed in consultation with our residents, partners and other stakeholders. We monitor the Plan and report progress to Cabinet each quarter. It is a 'living plan' that responds to changing times, and the financial context within which we operate, whilst keeping a focus on the needs of our local communities. We publish the Plan on our website https://www.lewes-eastbourne.gov.uk/about-the-councils/corporate-plans/

➢ **Key Financial Impact of COVID-19**

The Council has played a significant role in responding to Covid19, in supporting businesses and the most vulnerable in our communities as well as running essential services.

The financial impact of COVID-19 has been an evolving picture throughout 2020/21 and this will continue into 2021/22. The Council in initially *forecast additional costs in 2020/21 in the region of £6.8m* including homelessness prevention, deferred savings, redeployment costs, support for the Leisure services, additional PPE, community grants and cleaning costs. However, due to measures put in place, the overall net overspends of £3.550m represents a reduction of £3.250m when compared to the £6.8m capitalisation direction approved by MHCLG.

The Council's income streams have also been affected, with projected losses in the region of £10m including admissions, sales, trade waste, car parking, planning income, and rental income.

The Government has provided support to local authorities through £4.6bn, new burdens funding, and income compensation support (75p compensation in every 95p of income loss from fees and charges).

However, Eastbourne Borough Council's share of these financial supports, falls short of the projected costs and losses in 2020/21.

The Council's capital programme has also been severely impacted by COVID-19 with several projects having to be reviewed, reduced and rephased. The financial impact of COVID-19 for 2021/22 and beyond is difficult to predict, income streams have been reviewed and revised where appropriate. The programme may also be impacted by supply difficulties, for example increased costs from suppliers or additional cost of construction, labour, and Personal Protection Equipment (PPE).

The Council is reviewing how its most critical services are provided, to determine which are required to still be operational in the same way even during a global pandemic and further to this, determine how to provide opportunities to new services in response to local needs as a reaction to the emergency situation. The changing environment and "new normal" in which we now find ourselves requires the Council to review the services it provides, its delivery models and the outcomes that are of the highest priority. The response by the community, voluntary and third sector has been significant in supporting residents and the Council is harnessing how this can continue for the future. This forms a key feature of the Council's Priority Based Budgeting and assessing its vision for in the future.

- **MHCLG financial support and capitalisation directive**

In August 2020, it became very clear that a July recovery and bounce back was no longer an option and the Council's Chief Finance Officer initiated a formal notification process with MHCLG asking for financial support or capitalisation directive.

The Council's finances were closely reviewed as part of the 2020/21 budget setting process including its reserves, the future risks and challenges faced by the Council as a result of COVID-19 and other service pressures. This includes identifying significant funding gaps for 2021/22 and futures years, for which plans continue to be developed in order to address these gaps. In order to both maintain its resilience in the face of ongoing and future financial pressures and deliver a major change programme to transform its services, the Council will need to access additional financial resources. Capitalisation is a process that allows Councils to treat certain revenue (day-to-day) costs as capital expenditure and hence to spread those costs over a number of years to avoid further reduction in reserves, which are required to fund a major change programme.

Similar to other local authorities, EBC took the opportunity to hold discussions with MHCLG about seeking permission for a Capitalisation Directive to help in dealing with 2020/21 deficit and balance the budget in 2021/22. Other councils that have been harder hit by COVID-19 have also requested support using this means across both years. Following the Council seeking further support, on 2nd February 2021, Luke Hall, MP and Minister of State for Regional Growth and Local Government in a letter addressed to the Leader of the Council, approved a total capitalisation direction to fund revenue expenditure not exceeding £6.8m, for the financial year 2020/21 and up to £6m for 2021/22.

Accordingly, the Secretary of State directs, in exercise of his powers under sections 16(2)(b) and 20 of the Local Government Act 2003 ("the Act"), that Eastbourne Borough Council treat as capital expenditure, expenditure which:

- is either:
  - revenue expenditure and meets the definition of an additional cost pressure as identified and agreed with the Ministry of Housing, Communities and Local Government (MHCLG) through the Authority's formal request for exceptional financial support; or
  - any revenue expenditure not exceeding the value of income losses in the financial period 2020/21 as identified and agreed with MHCLG through the Authority's application;
    - is properly incurred during the financial period 2020/21; and
    - does not exceed a total of £6.8m.

Both capitalisation directions are conditional, and should the Council fail to meet the conditions then the Government may choose to withdraw the direction. The capitalisation is planned to be funded by using capital resources. The Council intends to generate sufficient 'surplus' capital receipts to fund the capitalisation direction in order to avoid incurring additional cost of borrowing to fund revenue expenditure.

The Council overall net expenditure was £4.585m, which represents a reduction of £2.215m when compared to the £6.8m capitalisation direction approved by MHCLG.

Financial Reporting & Governance - Future Changes

- The implementation of IFRS 16 Leases remains the most significant known change to the Code beyond 2020/21. Due to the impact of COVID-19 and the resulting resource issues facing finance staff CIPFA has made the decision to delay implementing IFRS 16 until 1 April 2022 (previously delayed from 1 April 2020 to 1 April 2021). This means that the first accounts to be produced incorporating the standard will be for the year 2022/23. While the work required to implement the standard is significant, the Council is well placed to do so having begun preparation for implementation in 2019/20.

- The Redmond Review made a number of recommendations regarding the format and content of the Statement of Accounts which, if adopted, will impact on the production and audit of the accounts. They can be summarised into two proposed changes: (i) Summary Statements are introduced that are standardised, audited, compare costs to budget and are in addition to the statutory accounts (ii) The Code is reviewed to simplify presentation and remove disclosures.

- MHCLG published a formal response to the Redmond Review on 18 December. The response agreed with the Redmond Review that, to 'ensure all taxpayers across the country can effectively hold their council to account, more is needed to improve the accessibility of all authorities' accounts' and stated that 'the proposed measures will go some way towards further improving local transparency and accountability'.

- It is expected that MHCLG will work with CIPFA to introduce the Summary Statements from 2021/22. To enable this there may need to be an amendment to the Accounts and Audit Regulations to mandate the inclusion of the statement. The Code of Audit Practice will also need to be amended by the National Audit Office (NAO) to include the audit requirements.

- MHCLG has committed that additional funding will be made available to local authorities in 2021/22 to enable the preparation of the standardised statements although individual allocations have not been published.

- MHCLG also supported Redmond's view that there may be scope to simplify the presentation of local authority accounts by removing disclosure requirements. The earliest that that this can be incorporated into the accounts is through the 2022/23 Code. MHCLG acknowledged that significant changes would require a phased approach.

- MHCLG white paper on Corporate Audit recommends creating a new body to replace the Finance Reporting Council (FRC) with the Audit, Reporting and Governance Authority (ARGA). The Government is proposing to add the role of oversight of local authority audit to ARGA, while the PSAA will continue to have oversight of appointing individual local authority auditors.

- Amendment to the Audit and Accounts Regulations in response to the pandemic to further extend the date to produce audited accounts from 31st July to 30th September for a period of 2 years (2021/22 and 2022/23) with a commitment to review again to see whether there is a continued need to have this extended deadline.

EXPLANATION OF THE FINANCIAL STATEMENTS

The Statement of Accounts comprises:

A Statement of Responsibilities - This statement defines the roles and responsibilities for preparing the accounts.

Independent Auditor's Report

The Core Accounting Statements:

- **Movement in Reserves Statement** – this statement shows the movements in the year of the different reserves held by the Council. It also provides the interaction of the economic costs and legislation and their impact on changes in the Council's reserves, showing the true cost of the provision of Council services funded by Council Tax payers.
- **Comprehensive Income and Expenditure Statement** – this statement sets out the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation.
- **Balance Sheet** - this statement sets out the overall financial position of the Council as at 31 March 2021. It shows the balances and reserves at the Council's disposal, its long-term indebtedness and incorporates the values of all assets and liabilities.
- **Cash Flow Statement** – this statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes for the financial year. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.
- **Notes to the accounting statements** - required to provide more detail, in line with accounting and statutory requirements. The statement of accounting policies, which describe the underlying accounting policies and concepts used in producing the figures in the accounts, are included here.

The Supplementary Single Entry Financial Statements:

- **Housing Revenue Account** – this account reflects the statutory obligation to account separately for council housing provision. It shows the main elements of housing revenue expenditure – maintenance, administration and capital financing costs and how these are met by rents and other income.
- **Collection Fund** - this account reflects the statutory requirement to maintain a separate record of transactions in relation to Non-Domestic Rates and Council Tax, and illustrates the way in which these have been distributed to local authorities and the Government.

Group Accounts – These accounts show the material interests that the Council has in its subsidiary companies. The group accounts are structured in line with the Council's core accounting statements and are accompanied by notes in the same way.

FURTHER INFORMATION

Summary financial information is published annually on the Council's website (www.lewes-eastbourne.gov.uk). Further information on any of the financial statements may be obtained from the Chief Finance Officer, Town Hall, Grove Road, Eastbourne, BN21 4UG.

Homira Javadi
Chief Finance Officer
Statutory Section 151 Officer

ADOPTION OF THE ACCOUNTS

In accordance with Accounts and Audit Regulations the Chair of the meeting adopting the Statement of Accounts must sign and date the statement in order to confirm that the adoption process has been completed.

The Statement of Accounts for 2020/21 will be approved at the meeting of the Audit and Governance Committee to be held on 25 September 2024.

Signed

Councillor Christina Ewbank
Chair, Audit and Governance Committee

Date: XX September 2024

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Council's Responsibilities

The Council is required to:

- make arrangements for the proper administration of its financial affairs and secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Chief Finance Officer;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the Statement of Accounts.

The Chief Finance Officer's Responsibilities

The Chief Finance Officer is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA /LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Chief Finance Officer has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Local Authority Code.

The Chief Finance Officer has also:

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities;
- assessed the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- used the going concern basis of accounting on the assumption that the functions of the Council will continue in operational existence for the foreseeable future; and
- maintained such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Certificate of the Chief Finance Officer

I certify that the Statement of Accounts presents the true and fair financial position of the Council as at 31 March 2021 and its income and expenditure for the year ended 31 March 2021.

Homira Javadi
Chief Finance Officer
Statutory Section 151 Officer

Date XX September 2024

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EASTBOURNE BOROUGH COUNCIL

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion
In our opinion the financial statements of Eastbourne Borough Council ('the Authority') and its subsidiaries ('the group'):

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2021 and of the group's and the Authority's 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 2020/21.

We have audited the financial statements which comprise:

- the Authority and group Movement in Reserves Statements;
- the Authority and group Comprehensive Income and Expenditure Statements;
- the Authority and group Balance Sheets;
- the Authority and group Cash Flow Statements;
- the Housing Revenue Account Income and Expenditure Statement;
- the Movement on the Housing Revenue Account Statement;
- the Collection Fund Revenue Account; and
- the related notes to the accounting statements 1 to 32, notes to the Housing Revenue Account 1 to 8, notes to the Collection Fund Revenue Account 1 to 4, and notes to the group accounting statements 1 to 8.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting (2020/21).

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern
We are required by ISAs (UK) to report in respect of the following matters where:

- the Chief Financial Officer's use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or

- the Chief Financial Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

The going concern basis of accounting for the Authority is adopted in consideration of the requirements set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, which require entities to adopt the going concern basis of accounting in the preparation of the financial statements.

Other information
The Chief Financial Officer is responsible for the other information. The other information comprises the information included in the statement of accounts and the annual governance statement, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

We have nothing to report in respect of these matters.

Chief Financial Officer's responsibilities
As explained more fully in the Chief Financial Officer's responsibilities statement, the Chief Financial Officer is responsible for the preparation of 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 2020/21 and for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Financial Officer is responsible for assessing the group's and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting on the assumption that the functions of the group and the Authority will continue in operational existence for the foreseeable future.

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

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

REPORT ON OTHER LEGAL AND REGULATORY MATTERS

Report on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Conclusion
On the basis of our work, having regard to the guidance issued by the Comptroller and Auditor General in April 2021, we are satisfied that, in all significant respects, Eastbourne Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

Respective responsibilities in respect of our review of arrangements for securing economy, efficiency and effectiveness in the use of resources

The Authority 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.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, as to whether Eastbourne Borough Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Eastbourne Borough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

Matters on which we are required to report by exception
The Code of Audit Practice requires us to report to you if:

- any matters have been reported in the public interest under Section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of, the audit;
- any recommendations have been made under Section 24 of the Local Audit and Accountability Act 2014;
- an application has been made to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- an advisory notice has been issued under Section 29 of the Local Audit and Accountability Act 2014; or
- an application for judicial review has been made under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

CERTIFICATE OF COMPLETION OF THE AUDIT
We certify that we have completed the audit of the accounts of Eastbourne Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

USE OF OUR REPORT
This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014. Our audit work has been undertaken so that we might state to the members of the Authority, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

Ben Sheriff (Key Audit Partner)
For and on behalf of Deloitte LLP
London, United Kingdom
[Date]

MOVEMENT IN RESERVES STATEMENT

	General Fund	HRA Balance	Earmarked Reserves (note 16)	Earmarked Reserves – Collection Fund (note 16)	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants & Contributions Unapplied	Total Usable Reserves	Unusable Reserves (note 28)	Total Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2019	**(4,382)**	**(5,947)**	**(5,293)**	**-**	**(1,055)**	**(7,545)**	**(2,603)**	**(26,825)**	**(212,566)**	**(239,391)**
Movement in Reserves 2019/20										
Total Comprehensive Expenditure and Income	53,538	(13,691)	-	-	-	-	-	**39,847**	(3,145)	**36,702**
Adjustments between accounting basis & funding basis under regulations (note 8)	(50,491)	13,376	-	-	(95)	1,288	655	**(35,267)**	35,267	**-**
Transfers (to)/from Earmarked Reserves	1,193	379	(1,572)	-	-	-	-	**-**	-	**-**
(Increase) / Decrease in Year	**4,240**	**64**	**(1,572)**	**-**	**(95)**	**1,288**	**655**	**4,580**	**32,122**	**36,702**
Balance at 31 March 2020	**(142)**	**(5,883)**	**(6,865)**	**-**	**(1,150)**	**(6,257)**	**(1,948)**	**(22,245)**	**(180,444)**	**(202,689)**
Movement in Reserves 2020/21										
Total Comprehensive Expenditure and Income	14,981	(17,148)	-	-	-	-	-	**(2,167)**	11,571	**9,404**
Adjustments between accounting basis & funding basis under regulations (note 8)	(30,320)	17,243	-	-	(1,509)	1,712	506	**(12,368)**	12,368	**-**
Transfers (to)/from Earmarked Reserves	12,216	338	(2,861)	(9,056)	84	(721)	-	**-**	-	**-**
(Increase) / Decrease in Year	**(3,123)**	**433**	**(2,861)**	**(9,056)**	**(1,425)**	**991**	**506**	**(14,535)**	**23,939**	**9,404**
Balance at 31 March 2021	**(3,265)**	**(5,450)**	**(9,726)**	**(9,056)**	**(2,575)**	**(5,266)**	**(1,442)**	**(36,780)**	**(156,505)**	**(193,285)**

This statement shows the movements in the year on the different reserves held by the Council, analysed into "usable reserves" (those that can be used immediately to fund expenditure or to reduce local taxation) and other reserves. The purpose of individual reserves is set out in Note 2.19, and more details are given for earmarked and unusable reserves in Notes 15 and 29 respectively. Total Comprehensive Expenditure and Income shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the amounts required by statute to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwelling rent setting purposes.

COMPREHENSIVE INCOME & EXPENDITURE STATEMENT

2019/20 Exp. £000	2019/20 Income £000	2019/20 Net £000		Note	2020/21 Exp. £000	2020/21 Income £000	2020/21 Net £000
8,181	(1,567)	6,614	Corporate Services		13,056	(5,196)	7,860
56,345	(46,420)	9,925	Service Delivery		55,221	(44,242)	10,979
7,368	(1,405)	5,963	Regeneration and Planning		4,737	(2,193)	2,544
54,233	(8,397)	45,836	Tourism and Enterprise		8,898	(4,702)	4,196
(3,572)	(15,360)	(18,932)	Housing Revenue Account		(5,576)	(15,774)	(21,350)
-	-	-	Capitalisation Direction		4,585	-	4,585
122,555	**(73,149)**	**49,406**	**Cost of Services**		**80,921**	**(72,107)**	**8,814**
230	-	230	Levy Payable		235	-	235
281	-	281	Payments to housing capital receipts pool		248	-	248
5,740	(2,624)	3,116	Loss on sale and de-recognition of non-current assets		4,299	(925)	3,374
-	-	-	Gain / (loss) on disposal of shares		1,683	-	1,683
6,251	**(2,624)**	**3,627**	**Other Operating Expenditure**		**6,465**	**(925)**	**5,540**
3,878	-	3,878	Interest payable & similar charges	23	3,410	-	3,410
298	-	298	Fair Value movement in Shares		-	(952)	(952)
-	-	-	Expected Credit Loss		196	-	196
3,318	-	3,318	Fair Value movement in Financial Guarantee contract	4,5	581	-	581
1,402	-	1,402	Net Interest on the Net Defined Benefit Liability	30	1,522	-	1,522
-	(3,705)	(3,705)	Interest & other investment income	23	-	(3,805)	(3,805)
(1,287)	(1,401)	(2,688)	Investment Properties		3,539	(1,540)	1,999
1,937	(1,543)	394	Trading Accounts		1,463	(859)	604
9,546	**(6,649)**	**2,897**	**Financing and Investment Income and Expenditure**		**10,711**	**(7,156)**	**3,555**
-	(4,359)	(4,359)	Non ring-fenced grants and contributions	14	-	(19,572)	(19,572)
-	(8,618)	(8,618)	Council Tax income		-	(8,745)	(8,745)
12,010	(15,116)	(3,106)	Non Domestic Rates Income and Expenditure		12,234	(3,993)	8,241
12,010	**(28,093)**	**(16,083)**	**Taxation and Non-specific Grant Income and Expenditure**		**12,234**	**(32,310)**	**(20,076)**
150,362	**(110,515)**	**39,847**	**(Surplus) / Deficit on Provision of Services**		**110,331**	**(112,498)**	**(2,167)**
		8,822	Surplus/Deficit on revaluation of Property, Plant and Equipment Assets	30			(418)
		(11,966)	Re-measurement of the net defined benefit liability	30			11,989
		(3,144)	**Other Comprehensive I & E**				**11,571**
		36,703	**Total Comprehensive I & E**				**9,404**

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Councils raise taxation in order to cover expenditure in accordance with regulations, and this definition of expenditure may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

BALANCE SHEET

31 March 2020		Notes	31 March 2021	
£000			**£000**	**£000**
310,481	Property, Plant & Equipment	17	323,983	
15,557	Infrastructure Assets	17	14,707	
14,702	Heritage Assets	18	14,702	
27,250	Investment Property	20	24,846	
6,446	Intangible Assets	21	4,838	
732	Long Term Investments	12	-	
3,500	Investment in Joint Venture	4,5	3,500	
43,761	Long Term Debtors	25	49,333	
422,429	**Long Term Assets**			**435,909**
-	Assets Held for Sale		922	
141	Inventories		106	
24,420	Short Term Debtors	25	40,527	
3,459	Cash and Cash Equivalents	31	4,423	
28,020	**Current Assets**			**45,978**
(35,638)	Short Term Borrowing	23	(40,327)	
(13,739)	Short Term Creditors	26	(38,288)	
(835)	Short Term Provisions	27	(889)	
(10)	Revenue Grants Receipts in Advance	14	(106)	
(50,222)	**Current Liabilities**			**(79,610)**
-	Long Term Creditors	26	-	
(126,903)	Long Term Borrowing	23	(119,237)	
(20,697)	Other Long Term Liabilities	4,5	(21,278)	
(49,938)	Pension Liability	30	(68,477)	
(197,538)	**Long Term Liabilities**			**(208,992)**
202,689	**NET ASSETS**			**193,285**
(22,245)	Usable Reserves	28		(36,780)
(180,444)	Unusable Reserves	29		(156,505)
(202,689)	**TOTAL RESERVES**			**(193,285)**

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The Council's net assets (assets less liabilities) are matched by the reserves that it holds. Reserves are reported in two categories: usable and unusable. Usable reserves are those that the Council may use to provide services, subject to the need to keep a prudent level of reserves and to any statutory limits on their use, such as the Capital Receipts Reserve only being used to fund capital expenditure or to repay debt. Unusable reserves are those that the Council is not able to use to provide services. This category includes reserves to hold unrealised gains and losses (such as the Revaluation Reserve), where amounts would only become available to provide services if the asset was sold, and reserves that hold timing differences shown in the section in the Movement in Reserves Statement labelled "Adjustments between accounting basis and funding basis under regulation."

Homira Javadi
Chief Finance Officer

CASH FLOW STATEMENT

2019/20 £000	CASH FLOW STATEMENT	2020/21 £000
(39,847)	Net Surplus / (Deficit) on provision of services	2,167
35,504	Adjustment to net surplus on the provision of services for non-cash movements	28,044
(5,207)	Adjustment for items included in the net surplus on the provision of services that are investing and financing activities	(5,251)
(9,550)	**NET CASH (OUTFLOWS) / INFLOWS FROM OPERATING ACTIVITIES**	**24,960**
(28,028)	Investing Activities	(5,833)
38,795	Financing Activities	(18,163)
1,217	**NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS**	**964**
2,242	Cash and cash equivalents at the beginning of the reporting period	3,459
3,459	**CASH AND CASH EQUIVALENTS AT THE END OF THE REPORTING PERIODS**	**4,423**

31 March 2020 £000	COMPONENTS OF CASH AND CASH EQUIVALENTS	31 March 2021 £000
3,432	Bank Current Accounts	4,396
27	Cash held by the Authority	27
3,459	**Total Cash and Cash Equivalents**	**4,423**

The Cash Flow Statement shows the changes in the Council's cash and cash equivalents during the financial year. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the Council's operations are funded from taxation and grant income or from the recipients of the Council's services. Investing activities represent the amount to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

NOTES TO THE ACCOUNTING STATEMENTS

1. CHANGES TO ACCOUNTING POLICIES AND TO PREVIOUS YEAR'S FIGURES

The accounting policies applied in 2020/21 are consistent with those applied in 2019/20.

PRIOR PERIOD ADJUSTMENT

There are no prior period adjustments

2. ACCOUNTING POLICIES

2.1 General Principles

The Statement of Accounts summarises the Council's transactions for the 2020/21 financial year and its position at the end of 31 March 2021. It has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, which is based on International Financial Reporting Standards. The accounting convention adopted is historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments. They are prepared on a going concern basis.

2.2 Accruals of Expenditure and Income

We account for activity in the year that it takes place, not simply when cash payments are made or received. In particular:

- Fees, charges and rents due from customers are accounted for as income at the date the Council provides the relevant goods or services.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption and where the amounts are significant, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- A de-minimis level of £1,000 has been set for accruals. Income and expenditure below this amount may not be accrued as it is considered trivial.

In cases where a full year's income & expenditure is shown in the accounts, for example utility bills and annual contracts, no accrual is made in the accounts as this would overstate the annual position.

Housing Rents is billed and accounted for on a weekly basis, at the start of each week. No adjustment is made at year end to record income to 31 March unless the adjustment is material.

Housing Benefit Payments are made on a weekly basis. No adjustment is made to the accounts at year end to record payments to 31 March unless the adjustment is material.

Accounting for Council Tax

While the Council Tax income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and transferred to the Council's General Fund, or paid out to the major preceptors. The amount credited to the General Fund under statute is the Council's demand for the year plus or minus the Council's share of the surplus or deficit on the Collection Fund for the previous year.

The Council Tax income included in the Comprehensive Income and Expenditure Statement is the Council's share of the Collection Fund's accrued income for the year. The difference between this value and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund

Adjustment Account via the Movement in Reserves Statement. Revenue relating to Council Tax shall be measured at the full amount receivable (net of any impairment losses) as the transactions are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates.

The cash collected by the Council from Council Tax payers belongs proportionately to the Council and the major preceptors. The difference between the amounts collected on behalf of the major preceptors and the payments made to them is reflected as a debtor or creditor balance as appropriate.

Accounting for Non Domestic Rates (NDR)

While the NDR income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and transferred to the Council's General Fund, or paid out to the precepting authorities and the Government. The amount credited to the General Fund under statute is the Council's share of NDR for the year specified in the National Non Domestic Rates NNDR1 return.

The NDR income included in the Comprehensive Income and Expenditure Statement is the Council's share of the Collection Fund's accrued income for the year and is as set out in the NNDR3 return. The difference between this value and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account via the Movement in Reserves Statement. Revenue relating to NDR shall be measured at the full amount receivable (net of any impairment losses) as these transactions are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates.

The cash collected by the Council from NDR payers belongs proportionately to the Council, the precepting authorities and Government. The difference between the amounts collected on behalf of the precepting authorities and Government and the payments made to them is reflected as a debtor or creditor balance as appropriate.

2.3 Cash and Cash Equivalents

The Council treats as "cash and cash equivalents" all money held as cash or in bank accounts (whether in surplus or overdrawn), including cash deposited in interest-bearing call accounts, repayable without penalty. Investments made for a period of less than one month are also accounted for in this category, rather than as investments.

2.4 Contingent Assets

A contingent asset is a possible asset that arises from a past event and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Council. Typically a contingent asset is related to a legal action by the Council, whose outcome is uncertain when the balance sheet is compiled.

Contingent assets are not recognised in the balance sheet, but their existence is recorded in a note to the accounting statements.

2.5 Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

2.6 Employee Benefits

Benefits Payable during Employment

Accounting standards require that accruals for expenditure are made for short-term compensated absences, covering entitlement for annual leave, flexi-time and time in lieu. Short-term employee benefits are those due to be settled within 12 months of the year-end. Where considered material, an accrual is made for the cost of holiday entitlements earned by employees but not taken before the year-end which employees can carry forward into the next financial year.

The accrual is made using an estimated average salary rate. The accrual is charged to Surplus or Deficit on the Provision of Services but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the relevant service cost line in the CI&ES when the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy. Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end

Post-Employment Benefits

The majority of employees of the Council are members of the Local Government Pension Scheme, administered by East Sussex County Council for local authorities within East Sussex. This scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees work for the Council. We therefore account for this scheme as a defined benefit plan.

- The liabilities of the East Sussex County Council pension scheme attributable to this Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 2.0% (based on the indicative rate of return on the iboxx Sterling Corporates Index, AA over 20 years) Previously the discount rate used was 2.3%.
- We include the assets of the East Sussex County Council Pension Fund attributable to this Council in the Balance Sheet at their fair value:
    - quoted securities – current bid price
    - unquoted securities – professional estimate
    - unitised securities – current bid price
    - property – market value.
- The change in the net pensions liability is analysed into the following components:
    - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;
    - past services cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement;
    - net interest on the net defined benefit liability , i.e. net interest expense for the Council – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the beginning of the period – taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.
- Re-measurement comprising:
    - the return on plan assets – excluding amounts included in net interest on the net defined liability – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure;

  - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

- Contributions paid to the East Sussex County Council's Pension Fund – cash paid as employer's contributions to the Pension Fund in settlement of liabilities; not accounted for as an expense.

Statutory provisions require the Council to charge the General Fund Balance with the amount payable by the Council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. This means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and the amounts payable to the fund but unpaid at the year-end. The negative balance that arises on the Pension Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

2.7 Events after the Reporting Period

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events;
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events but, where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

2.8 Exceptional Items and Prior-Period Adjustments

When items of income and expenditure are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

Where the Code specifies a change of accounting policy, it is applied retrospectively to the previous financial year, so that the comparative figures for the opening and closing balance sheets for that year will be changed, along with the other accounting statements and the notes to the accounting statements.

Similar adjustments are made for any changes to accounting policies not directly specified by the Code, and to correct material errors in prior periods.

2.9 Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For the Council's borrowings, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Where loans are replaced through restructuring, there are distinct accounting treatments, as follows:

- Modification - Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

- Substantially Different - Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

- Early repayment of loans - The accounting treatment for premiums and discounts arising on the early repayment of loans is largely dictated by the general principle that financial instruments are derecognised when the contracts that establish them come to an end. The amounts payable or receivable are cleared to the Comprehensive Income and Expenditure Statement upon extinguishment. In line with regulations and statutory guidance, the impact of premiums is spread over future financial years. These provisions are effected in the Movement in Reserves Statement on the General Fund Balance, after debits and credits have been made to the Comprehensive Income and Expenditure Statement. The adjustments made in the Movement in Reserves Statement are managed via the Financial Instruments Adjustment Account.

Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics. There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL)
- fair value through other comprehensive income (FVOCI)

The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

Where loans are made at less than market rates (soft loans), a loss is recorded in the CIES (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the CIES at a marginally higher effective rate of interest than the rate receivable, with the difference serving to increase the amortised cost of the loan in the Balance Sheet.

Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the CIES to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement. Any gains and losses that arise on the de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

Financial Assets Measured at Fair Value through Profit of Loss

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- **Level 1 inputs** – quoted prices (unadjusted) in active markets for identical assets that the Council can access at the measurement date.
- **Level 2 inputs** – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
- **Level 3 inputs** – unobservable inputs for the asset.

For pooled investment funds (i.e. money market fund, collective investment scheme as defined in section 235 (1) of the Financial Services and Markets Act 2000, investment scheme approved by the Treasury under section 11(1) of the Trustee Investments Act 1961 (local authority schemes)) regulations allow a statutory override (for a period of 5 years from 1/4/18) any unrealised gains or losses can be transferred via the Movement in Reserves Statement to a Pooled Investment Funds Adjustment Account in the Balance Sheet.

Any gains and losses that arise on de-recognition of the asset are debited or credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Expected Credit Losses

The Council recognises expected credit losses (impairments) on all of its financial assets held at amortised cost or FVOCI either on a 12-month or lifetime basis. Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses. The expected credit loss model applies to financial assets measured at amortised cost and FVOCI, trade receivables, lease debtors, third party loans and financial guarantees.

A simplified approach is applied to trade receivables and lease debtors whereby consideration of changes in credit risk since initial recognition are not required and losses are automatically recognised on a lifetime basis. A collective assessment is made for groups of instruments where reasonable and supportable information is not available for individual instruments without undue cost or effort. The aim will be to approximate the result of recognising lifetime expected credit losses if significant increases in credit risk since recognition had been measurable for the individual instruments.

Loans have been grouped into three types for assessing loss allowances:

Group 1 – loans made to individual organisations. Loss allowances for these loans can be assessed on an individual basis.

Group 2 – loans supported by government funding. As the loan repayments are recycled and the contract allows for a level of default then no additional impairment loss is required.

Group 3 - car loans to employees. Loss allowances are based on a collective assessment.

Impairment losses are debited to the Financing and Investment Income and Expenditure line in the CIES. For assets carried at amortised cost, the credit entry is made against the carrying amount in the Balance Sheet. For assets carried at FVOCI, the credit entry is recognised in Other Comprehensive Income against the Financial Instruments Revaluation Reserve. For loan commitments and financial guarantee contracts, the loss allowance is recognised as a provision.

Impairment losses are not applicable to FVPL assets as the future contractual cash flows are of lesser significance and instead current market prices are considered to be an appropriate reflection of credit risk, with all movements in fair value, including those relating to credit risk, impacting on the carrying amount and being posted to the Surplus or Deficit on the Provision of Services as they arise. Impairment losses on loans supporting capital purposes, lease debtors and share capital are not a proper charge to the General Fund balance and any gains or losses can be reversed out through the Movement in Reserves Statement to the Capital Adjustment Account.

2.10 Fair Value Measurement

The Council measures some of its assets and liabilities at fair value at the end of the reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

a) in the principal market for the asset or liability, or
b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The Council uses External Valuers to measure the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Council external Valuers takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Valuers uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of the Council's fair value measurement of its assets and liabilities are categorised within the fair value hierarchy as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date.
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – unobservable inputs for the asset or liability.

2.11 Government Grants and Other Contributions

Whether paid on account, by instalments or in arrears, Government grants and third party contributions and donations are recognised as income at the date that the Council satisfies the conditions of entitlement to the grant/contribution, when there is reasonable assurance that the monies will be received.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried on the Balance Sheet as creditors. When conditions are satisfied the grant or contribution is credited to the relevant service line or taxation and non-specific grant income on the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

2.12 Property Plant and Equipment

Property plant and equipment consists of assets that have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis. They exclude assets which are held purely for investment purposes (Investment properties) and assets which the Council is actively seeking to sell (Assets available for sale).

Categories

- Council Dwellings – council houses owned by the Council.
- Land and buildings – properties owned by the Council, other than those in another category shown below, or Investment Properties.
- Vehicles, plant and equipment – individual items or groupings of items which are purchased from capital resources.
- Community assets – properties such as parks, which are used for the community as a whole, with no determinable market value in their present use, and which are not likely to be sold.
- Surplus assets – individual properties which the Council has determined to be surplus to operational requirements, but which are not actively being marketed.
- Assets under construction – capital expenditure on an asset before it is brought into use.

Recognition

Expenditure on the acquisition, creation or enhancement of property plant and equipment is capitalised on an accruals basis, provided that it yields benefits to the Council and the services that it provides for more than one financial year. Expenditure that secures but does not extend the previously assessed standards of performance of an asset (e.g. repairs and maintenance) is charged to the Comprehensive Income and Expenditure Statement as it is incurred. Assets valued at less than £10,000 are not included on the balance sheet, provided that the total excluded has no material impact.

Measurement

Assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use. Assets are then carried in the Balance Sheet using the following measurement bases:

- Council dwellings – current value, based on the market value for social housing in existing use (EUV-SH).
- Land and buildings – current value, usually based on the market value for the existing use (EUV). Some specialised properties, where the valuer cannot identify a market for the asset, are instead valued on the basis of depreciated replacement cost (DRC).
- Vehicles, plant and equipment – current value, for which depreciated historic cost is normally used as a proxy.
- Community Assets – historic cost.
- Surplus assets - fair value, based on the highest and best use from a market participant's perspective.
- Assets under construction – historic cost.

We revalue assets included in the Balance Sheet at current value when there have been material changes in the value, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Gains are credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of an impairment loss previously charged to a service revenue account.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

The values of each category of assets and of material individual assets are reviewed at the end of each financial year for evidence of reductions in value. Where impairment is identified as part of this review or as a result of a valuation exercise, this is accounted for as follows:

Where there is no balance in the revaluation reserve or insufficient balance the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Account. Where there is a balance of revaluation gains in the revaluation reserve the carrying amount of the asset is written off against that balance (up to the amount of the accumulated gains).

Where an impairment loss is charged to the Comprehensive Income and Expenditure Statement but there were accumulated revaluation gains in the Revaluation Reserve for that asset, an amount up to the value of the loss is transferred from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and Non-Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is re-valued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale, adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

When an asset is disposed of or decommissioned, the Comprehensive Income and Expenditure Statement is debited or credited with the net loss or gain on disposal. This net sum consists of two elements: the net book value written out of the balance sheet, and the sale proceeds. Although these amounts appear in the Comprehensive Income and Expenditure Statement, neither of them are properly debited nor credited to the General Fund or to the Housing Revenue Account. Further adjustments are therefore made through the Movement in Reserves Statement to reverse the effect on the General Fund and the Housing Revenue Account:

- Net book value written out – a transfer to credit the General Fund or the Housing Revenue Account and to debit the Capital Adjustment Account.
- Sale proceeds - a transfer is made to debit the General Fund and credit the Capital Receipts Reserve. A proportion of receipts relating to housing disposals are payable to the Government, and a transfer is made from the Capital Receipts Reserve to the General Fund to allow for this. The remainder of the proceeds remain in the Capital Receipts Reserve, and can only be used to reduce debt or to finance capital expenditure.

Any balance relating to the asset held in the Revaluation Reserve is also transferred to the Capital Adjustment Account.

Disposals for less than £10,000 are treated as revenue income within the Cost of Services in the Comprehensive Income and Expenditure Statement.

In some cases the receipt of income from asset disposals is delayed until a future financial year. In such cases a credit is made to the Deferred Capital Receipts Reserve, matched by a long-term or short term debtor. The income from these disposals cannot be used for debt reduction or capital investment until it is actually received.

Depreciation

Depreciation is provided for on all assets with a determinable finite life by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following basis:

- Land – not subject to depreciation
- Council dwellings – initially calculated as a straight-line allocation over the life of the property as estimated by the valuer.
- Buildings – straight-line allocation over the life of the property as estimated by the valuer.
- Vehicles, plant and equipment depreciated over the life of the type of asset, normally between 3 and 25 years.
- Community assets – not subject to depreciation.
- Surplus assets – not subject to depreciation.
- Assets under construction – not subject to depreciation.

Depreciation on Council Dwellings is a proper charge to the Housing Revenue Account balance, but a corresponding transfer is made from the Capital Adjustment Account to the Major Repairs Reserve to finance capital investment.

Depreciation on other assets is charged to the Cost of Services in the Comprehensive Income and Expenditure Statement, but a not a proper charge against the General Fund or to the Housing Revenue Account. A transfer is therefore made from the Capital Adjustment Account to the General Fund or the Housing Revenue Account to reverse the impact.

Where new assets are acquired or brought into use, depreciation is charged from the start of the following year. Depreciation is charged for the full final year when assets are sold.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Componentisation

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Council Dwellings are componentised by reference to the 30 year business plan which identifies the key components to be replaced at regular intervals over the life of the asset, costs of all capital works and their projected timing. The major components are identified and depreciated over their useful economic life and any residual is treated as an extended life asset which is depreciated over 60 years.

2.13 Infrastructure Assets

Infrastructure assets are 'inalienable' assets, expenditure on which is only recoverable by continued use of the asset created, with no prospect of sale or alternative use. Examples include highways, bridges, coastal defences, water supply and drainage systems. Eastbourne Borough Council is not the local highway authority under the Highways Act 1980 and this statutory duty is with East Sussex County Council. The County Council maintain the highways network infrastructure assets including carriageways, footways and cycle tracks, structures, street lighting, street furniture (e.g. illuminated traffic signals, bollards), traffic management systems and land which together form a single integrated network. However, the borough council still has significant infrastructure assets due to its groyne sea defences. In addition, there are some minor access roads and paved areas.

Recognition

Expenditure on the acquisition or replacement of components of the network is capitalised on an accrual basis, provided that it is probable that the future economic benefits associated with the item will flow to the council and the cost of the item can be measured reliably. Measurement Infrastructure assets are generally measured at depreciated historical cost. However, this is a modified form of historical cost - opening balances for highways infrastructure assets were originally recorded in balance sheets at amounts of capital undischarged for sums borrowed as at 1 April 1994 which was deemed at that time to be historical cost. Where impairment losses are identified, they are accounted for by the carrying amount of the asset being written down to the recoverable amount.

Depreciation

Depreciation is provided on the parts of the infrastructure assets that are subject to deterioration or depletion and by the systematic allocation of their depreciable amounts over their useful lives. Annual depreciation is the depreciation amount allocated each year. Useful lives of the various parts of infrastructure assets are assessed by the finance team using industry standards where applicable as follows:

Asset	Useful Life
Sea Defences	40 years
Access Roads	40 years
Paved Areas	40 years

Disposals and derecognition

When a component of the Network is disposed of or decommissioned, the carrying amount of the component in the Balance Sheet is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement, also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). The written-off amounts of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are transferred to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Regulations

Under accounting regulations, that came into force from 25 December 2022, an accounting practice that allows the council to elect to treat any component of any infrastructure which are owned as having a value of nil when it is replaced and therefore there is no requirement to remove any amount from its balance sheet in respect of the disposal of that component. The regulations will apply to all financial years up to and including 2024/25. The council is not required to but has elected to apply this accounting treatment.

2.14 Heritage Assets

The Council maintains an art collection and a local history collection which are held in support of the Council's objective to increase the knowledge, understanding and appreciation of the arts and the history of the local area. Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment, except for the frequency of revaluations. Some of the measurement rules are relaxed in relation to Heritage Assets as detailed below. The Council's Heritage Assets are accounted for as follows:

Art Collection

The art collection includes paintings and sketches and is reported in the Balance Sheet at insurance value, which was based on the external valuation carried out in 2012/13. The art collection will be revalued every 10 years, with an annual impairment review. The art collection is deemed to have indeterminate life and a high residual value, hence we do not consider it appropriate to charge depreciation.

Acquisitions are made by purchase or donations. Acquisitions are initially recognised at cost and donations are recognised at valuation with valuations provided by the external valuers and with reference to appropriate commercial markets for the paintings using the most relevant and recent information.

Local History Collection

The Local History Museum, which comprises of the Eastbourne Archaeological Collection, The Eastbourne Local History Collection, The Eastbourne Photographic and Postcard Collection and The Eastbourne Local History and Archaeology Library and Research Resource is recognised on the balance sheet at insurance value as cost is not readily available and the Council believes that the benefits of obtaining the valuation for these items would not justify the cost. The collection has been acquired mainly by donation over 100 years ago with some additional items being donated and purchased over the years.

Heritage Assets – General

The carrying amounts of Heritage Assets are reviewed where there is evidence of impairment for Heritage Assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment – see note 2.12. We will occasionally dispose of Heritage Assets which have a doubtful provenance or are unsuitable for public display. The proceeds of such items are accounted for in accordance with the Council's general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts (see note 2.12).

2.15 Investment Property

Investment properties are those assets that are held solely to earn rentals or for capital appreciation, or both. Properties that are used to facilitate the delivery of a service or to support Council policy objectives fall under the category of property, plant and equipment (see Note 2.12) and not investment property. Investment properties are initially measured at cost and subsequently at fair value being the price that would be received to sell such an asset in orderly transactions between market participants at the measurement date. As a non-financial asset, Investment Properties are measured at highest and best use. Properties are not depreciated but are re-valued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal. Rentals received in relation to investment properties are credited to the Cost of Services within the Comprehensive Income and Expenditure Statement However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and the Capital Receipts Reserve.

2.16 Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance, normally comprising computer software. Internal costs incurred in developing such software are capitalised if they meet criteria to establish that these costs are an essential element of preparing the asset for use.

The initial value of intangible assets is amortised to the Comprehensive Income and Expenditure Statement over the estimated period of their useful life. This is normally taken as a period of 3-10 years, but an annual review is undertaken and the life is amended where necessary. The value of intangible assets is also reviewed on an annual basis, and an additional adjustment is made for impairment where necessary.

The calculated amounts for amortisation and impairment are charged to the Cost of Services in the Comprehensive Income and Expenditure Statement, but they are not proper charges against the General Fund. A transfer is therefore made from the Capital Adjustment Account to the General Fund to reverse the impact.

2.17 Leases

Definition of a Lease

A lease is an agreement whereby the lessor conveys to the lessee, in return for a payment or a number of payments, the right to use an asset (property, plant and equipment, investment properties, non-current assets available for sale or intangible assets) for an agreed period of time. A finance lease is a lease that transfers substantially all of the risk and rewards incidental to ownership to the lessee. Any lease that does not come within this definition of a finance lease is accounted for as an operating lease.

The Council may also enter into an agreement which, while not itself a lease, nevertheless contains a right to use an asset in the same way as a lease. Such agreements are treated as either finance leases or operating leases as set out below.

The Council reviews all of its leases to determine how they stand against various criteria which distinguish between finance and operating leases. In undertaking this review, however, the Council operates a de minimis level, so that all leases with a term of less than 10 years, or for assets valued at less than £10,000 are treated within the accounts as an operating lease.

Finance Leases – Council Acting as Lessee

Where the Council uses or occupies an asset held under a finance lease, the asset is recognised as such in the appropriate line in the balance sheet, subject to the de minimis limit noted in 2.12 above. The value recognised is the fair value, or (if lower) the present value of the minimum lease payments. This value is offset on the balance sheet by a creditor or long term liability for the leasing charge.

Lease payments are apportioned between interest payable as the finance charge and the reduction of the outstanding liability. The finance charge is calculated to produce a constant periodic rate of interest on the remaining balance of the liability.

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases – Council Acting as a Lessee

Lease payments for operating leases are recognised as an expense on a straight-line basis over the lease term, even if this does not match the pattern of payments. (e.g. if there is a rent-free period at the commencement of the lease.)

Operating leases – Council acting as a lessor

Income from operating leases is recognised on a straight-line basis over the lease term, even if this does not match the pattern of payments. (e.g. if there is a premium paid at the commencement of the lease.)

2.18 Overheads

Support service costs (e.g. HR, Accountancy, Property) are included as part of the Corporate Services Directorate and are no longer recharged across services.

2.19 Provisions

The Council recognises provisions to represent liabilities of uncertain timings or amounts. Provisions in the balance sheet represent cases where:

- The Council has a present obligation as a result of a past event;
- It is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation;
- A reliable estimate can be made of the amount of the obligation.

2.20 Reserves

The Council maintains two groups of reserves, usable and unusable.

Usable reserves comprise the following:

- Capital Receipts Reserve: proceeds from the sales of Property, Plant and Equipment are initially credited to the Comprehensive Income and Expenditure Statement, but are transferred to this reserve. The Council is obliged to pay over a proportion of proceeds received from the sale of Housing Revenue Account assets: this is paid from the Comprehensive Income and Expenditure Statement, but a corresponding transfer is made from the Capital Receipts Reserve to ensure that this liability does not fall upon the General Fund. The remaining amounts in this reserve can then only be used to support capital expenditure.
- Capital Grants and Contributions Unapplied Reserve: similarly the Council receives grants and contributions towards capital expenditure, and, if there are no conditions preventing their use, these are also credited to the Comprehensive Income and Expenditure Statement and immediately transferred into the Capital Grants and Contributions Unapplied Reserve until required to finance capital investment.
- Earmarked Reserves: the Council may set aside earmarked reserves to cover specific projects or contingencies. These are transferred from the General Fund or the Housing Revenue Account, and amounts are withdrawn as required to finance such expenditure. There are no restrictions on the use of earmarked reserves, and unspent balances can be taken back to the General Fund in the same way.
- Housing Revenue Account: this is required to be maintained separately by legislation, to ensure that the provision of council housing is financed primarily from rental income and not from Council Tax.
- Major Repairs Reserve: this was established by the Local Authorities (Capital Finance and Accounts) Regulations 2000. An amount equal to the total depreciation for the year for HRA properties is transferred to the reserve from the Capital Adjustment Account, and an amount equal to the Major Repairs Allowance can be used to finance capital investment.
- General Fund: this represents all other usable reserves, without legal restrictions on spending, which arise from annual surpluses or deficits.

Unusable Reserves consist of those which cannot be used to finance capital or revenue expenditure:

- Collection Fund Adjustment Account: the net amount of the Council's share of Council Tax collectable for the year is credited to the Comprehensive Income and Expenditure Statement, but only the amount previously estimated and formally notified can be added to the General Fund. The difference between the two amounts is credited or debited to the Collection Fund adjustment account, and cannot be used until the following financial year.
- Revaluation Reserve: this consists of accumulated gains on individual items of Property, Plant and Equipment. Any subsequent losses on valuation can be set against previous gains on the same asset.
- Capital Adjustment Account: this receives credits when capital is financed from revenue resources or other usable reserves, and receives debits to offset depreciation and other charges relating to capital which are not chargeable against the General Fund.
- Pensions Reserve: this is a statutory reserve to offset the Pension Liability assessed on an accounting and actuarial basis, and to ensure that variations in this liability do not affect the General Fund.
- Deferred Capital Receipts Reserve: this holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.
- Accumulated Absence Account: this represents the estimated value of annual leave accrued but not taken by staff as at 31 March.

2.21 Revenue Expenditure Financed From Capital Under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of non-current assets, is charged as expenditure to the relevant service revenue account in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources, a transfer to the Capital Adjustment Account then reverses out the amounts charged, so there is no impact on the level of Council Tax.

2.22 Charges to Revenue for Non-current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- depreciation attributable to the assets used by the relevant service;
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off;
- amortisation of intangible assets attributable to the service.

The council is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance Minimum Revenue Provision (MRP), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

2.23 Value Added Tax

Value Added Tax (VAT) has not been included in the income and expenditure of the accounts unless it is irrecoverable.

2.24 Inventories and Long Term Contracts

Where the value is significant to an operation, inventories are included in the Balance Sheet at the lower of cost and net realisable value.

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

2.25 Interests in Companies and Other Entities

The Council has a material interest in five companies; Eastbourne Homes Ltd (EHL), Eastbourne Housing Investment Company Ltd (EHIC), Investment Company Eastbourne (ICE), Eastbourne Downs Water Company (EDWC) and South East Environmental Services Ltd (SEESL). These companies are wholly owned subsidiaries of the Council and the Council is therefore required to prepare Group Accounts. EHL is limited by guarantee and therefore no value is recognised for the investment in the Council's own single entity accounts. There have been no transactions for EDWC which was dormant during 2020/21.

Aspiration Homes LLP (AH) is a limited liability Partnership owned equally by Eastbourne BC and Lewes DC. It was set up during 2017/18 for the purpose of developing housing.

The Council also holds an immaterial associate interest in CloudConnX with 48% of voting B Shares. As these are not material they have not been consolidated into the Group Accounts.

2.26 Revenue Recognition

Since January 2018, the Council accounts for revenue recognition in accordance with IFRS 15 - Revenue Recognition from Contracts with Customers and IPSAS 23 Revenue from Non-Exchange Transactions (Taxes and Transfers). Prior to this revenue was recognised under IAS 18 – Revenue. Under IFRS15, The principles of revenue recognition are determining if the transaction is an exchange or non exchange transaction. With non exchange transactions there is no or only nominal consideration in return. The obligating event is often determined by statutory prescription (e.g. council tax, VAT or a fine for breach of law) or may be a donation or bequest. For exchange transactions, assets or services and liabilities of approximately equal value are exchanged. There is a contract which creates right and obligations. Performance obligations in the contract have to be measured and the transaction price allocated to these obligations. Revenue is recognised when the performance obligations are satisfied. Examples include fees and charges for services, sale of goods and services provided by the Council.

3. ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

At the balance sheet date, the following new standards and amendments to existing standards have been published but not yet adopted by the Code of Practice of Local Authority Accounting in the United Kingdom:

- Definition of a Business: Amendments to IFRS 3 Business Combinations;
- Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7;
- Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16.

It is considered that the impact of these new standards on the Council's accounts will not be material.

4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in Note 2, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgement made in the Statement of Accounts are:

- There is a high degree of uncertainty about future levels of funding for local Government. However, the Council has determined that as at 31 March 2021 this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision. COVID-19 has had a significant impact upon the Council's financial position and provision of services, and the Council is continuing to review the impact on its facilities and services in future periods.
- The Chief Finance Officer conducts an annual review using the criteria set out in IAS 37, to decide what, if any, provision should be included in the accounts for: liabilities of uncertain timing or amount (provisions); or liabilities whose occurrence will only be confirmed by one or more uncertain future events (contingent liabilities). Contingent liabilities have been estimated based on past experience and legal advice provided.
- As described in the group accounts, the Council's wholly owned subsidiary Investment Company Eastbourne Limited ('ICE') has the option to acquire 49.5% of the shares of Infrastructure Investments Leicester Limited ('IIL') for £1 at any time, as well as contractual rights over the management of that company and its property, St George's Tower ('the Property'), under a Development and Management Agreement. The Council is the ultimate guarantor for both of these guarantees, and under the arrangement ICE has agreed to pay the Council an initial £2m guarantee fee, the annual guarantee fee received from IIL, and the disposal proceeds received on eventual sale of the Property.
- The Council has assessed that these potential voting rights and contractual rights give it joint control over IIL and has accounted for its interest in that entity as a joint venture. The Council therefore have rights to the net assets of IIL and these are consolidated into the Council's Group Accounts under the equity method per IAS 28 Investments in Associates and Joint Ventures. Under this method, the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the Council's share of the net assets of IIL. The initial investment of £3.500m at May 2018, has been adjusted to £3.311m at 31 March 2021 (£3.797m at 31 March 2020).
- If the judgement had been that the Council did not have control over IIL, the Council would account for the investment in IIL as an investment at cost, and the call option as a derivative financial instrument.

5. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31 March 2021 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Property, Plant and Equipment - Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets. If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £330,000 for every year that useful lives had to be reduced.

Land and buildings are revalued every five years but a revaluation review is carried out annually which provides an indexation to be applied to some assets. Indexation is applied to a class of assets but does not take into account any individual assets and therefore the net book value at year end for some assets may change when a new professional valuation is carried out.

The carrying value of PPE at 31 March 2021 was £324.0m (Group position £325.2m).

Pensions Liability - Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages and mortality rates. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied. The effects on the net pension's liability of changes in individual assumptions can be measured. For instance, a 0.1% decrease in the real discount rate assumption would result in an increase in the pension obligation of £4.8m, a 1 year increase in member life expectancy would increase the pension obligation by £11.9m, a 0.1% decrease in the Long Term Salary Increase Rate would decrease the pension liability by £5.0m and a 0.1% decrease in the Pension Increase Rate would increase the pension obligation by £4.4m. See Note 30.7.

There is a high level of uncertainty about the implications of Britain leaving the European Union. At the current time there are three possible scenarios: a 'no deal' Brexit, an agreement with a transition period and an extension to EU membership of unknown length. It is not possible to predict which path will be taken and whether asset values and the discount rate will consequently change. The assumption has been made that this will not significantly impair the value of the Council's assets or change the discount rate. However, this assumption needs to be revisited and reviewed regularly. Higher impairment allowances may need to be charged in the future if asset values fall. If the discount rate changes, the size of the net pension liability will also vary.

The carrying value of the pension liability at 31 March 2021 was £68.5m (Group position £68.5m).

The Virgin Media vs NTL Pension Trustees II Limited case has the potential to impact benefits due under defined benefit pension schemes. At present, the impact on the pension scheme and the Council's liabilities is not known, and will be assessed as more information becomes available.

Arrears - A review of the arrears balances has resulted in £6.1m being calculated as an appropriate expected credit loss. However, in the current economic climate it is not certain that such an allowance would be sufficient.

The Council had a balance of current and long term debtors at 31 March 2021 of £89.9m.

Business Rates - Since the introduction of Business Rate Retention Scheme effective from 1 April 2013, Local authorities are liable for successful appeals against business rates charged to businesses in 2012/13 and earlier financial years in their proportionate share. Therefore, a provision has been recognised for the best estimate of the amount that businesses have been overcharged up to 31 March 2021. The estimate has been calculated using the Valuation Office (VAO) ratings list of appeals and the analysis of successful appeals to date when providing the estimate of total provision up to and including 31 March 2021. There is a risk that future appeals will exceed the estimation.

The appeals provision at 31 March 2021 was £0.8m.

Infrastructure Company Eastbourne Limited and Infrastructure Investments Leicester Limited – As a result of the arrangement with IIL described in the group accounts, the Council has been required to make a number of estimates and judgements in valuing the related loan and rental guarantees and contract receivable (shown in Note 25 and 26). The loan guarantee and rental guarantee have been valued on initial recognition based on the amounts received and receivable under the agreement, discounted to present value. In determining these accounting entries, the Council has assumed:

- That the initial values of the guarantee fee (of £5.5m from IIL to ICE and £2m from ICE to the Council) and price paid for the share option over IIL (£3.5m) were at fair value.
- The value of the Property at May 2018, without the benefit of the rental guarantee, was £38.75m, based upon a valuation performed at the time.
- The growth in the value of the property over the 30 year life of the agreement (assumed to be 2% p.a. or less) will mean the value of the property on sale will be greater than £35m and below the £70m level at which the Council would receive an additional share of proceeds, and so the Council will receive £35m from the eventual disposal proceeds.
- Inflation (which affects the guarantee fee received each year, as well as guaranteed amounts) will be 2% p.a. over the life of the agreement.
- The appropriate discount rate for future cashflows is 4.2% p.a (4.7% 2019/20).
- Assumptions about the annual probability of default and recovery on default for loans to property companies.

The present value of amounts receivable at inception has been recognised as a contract receivable and the discount is being unwound over the life of the agreement, less amounts received and adjustments for expected credit loss. The loan guarantee has been valued at initial recognition based upon the probability of default, recovery on default, and the guaranteed amount over the life of the agreement, with the residual value attributed to the initial value of the rental guarantee.

Both the loan guarantee and rental guarantee are being amortised over the 30 year life of the agreement. Subsequent measurement of the contract receivable is on a fair value basis, as the Council is exposed to risks that are not associated with standard receivable instruments, including fluctuations in property valuations. The on-going measurement of these assets and liabilities will require reassessment of these assumptions each year.

The fair value of the guarantee at 31 March 2021 was measured at £21.3m, a decrease of £0.6m on the £20.7m from the previous year. The fair value of the long term debtor at 31 March 2021 was £17.8m, an increase of £2.6m from the previous year. An annual guarantee fee of £0.3m was received during 2020/21.

As discussed in Note 17, the valuation of properties are not reported at 31 March 2021 as subject to “material valuation uncertainty” as per the RICS Red Book. The exception is retail and specific assets/sectors which continue to be faced with an unprecedented set of circumstances caused by Covid-19 and an absence of relevant/sufficient market evidence on which to base judgements. This may affect the valuation of the investment property held by IIL, and so the value recognised for the Council’s investment in the Joint Venture.

Business Support Grant Funding from Department for Business, Energy and Industrial Strategy (BEIS)

As part of the COVID-19 response, the government announced a range of grant schemes to support businesses to be administered by local billing autorities e.g. the Small Business Grant Fund, Retail, Hospitality and Leisure Grant Fund and multiple Local Restrictions grants. Billing authorities are responsible for paying over the grants to the businesses and are then reimbursed by government using a grant under Section 31 of the Local Government Act 2003. Some of the schemes are fully reimbursed, others are a set allocation. The eligibility criteria for these schemes are set out in government guidance and billing authorities are required to use their business rates system to identify the properties that meet the eligibility criteria. However, these grants are not Collection Fund transactions. Billing authorities have used their judgement to assess whether they should be accounting for the S31 grants paid to them by BEIS and the distribution of the grants to eligible business, as either principal or agent transactions in accordance with CIPFA Code.

6. EVENTS AFTER THE REPORTING PERIOD

The financial statements and notes have not been adjusted for the following event, which took place after 31 March 2021, as it provides information that is relevant to the understanding of the Council's financial position but do not relate to conditions at that date.

- On 16 January 2024, the Council requested Exceptional Financial Support from the Department of Levelling Up, Housing and Communities in respect of financial years 2023/24 and 2024/25, as a result of the increased costs of temporary housing accommodation. On 27 February 2024, the Secretary of State approved, subject to certain conditions, a capitalisation direction of £3m for 2023/24 and £3m for 2024/25.

6.a. MATERIAL ITEMS OF INCOME & EXPENDITURE

- The Council's revenue accounts include salary costs relating to Lewes District Council (LDC) and Eastbourne Homes Ltd which are recharged to them, but are shown net in the Comprehensive Income and Expenditure Statement (CIES). Other costs included in the CIES relating to LDC include costs for Joint Transformation Programme which have been recharged to LDC.

- Business Support Grant Funding from Department for Business, Energy and Industrial Strategy (BEIS) – see paragraph above under section 5.

- Collection Fund (timing difference) - during 2020/21, local authorities received section 31 grants to offset the reliefs given to businesses during lockdown. Under current collection fund accounting rules, the s31 grants received this year will not be discharged against the Collection Fund deficit until 2021/22, thereby inflating General Fund balances at the end of the 2020/21 financial year. This could lead to potentially misleading 2020/21 accounts, showing a significant increase in available reserves that are not actually available but earmarked against the following year's collection fund deficit. The appropriate action is to transfer the grant income to an earmarked reserve within the General Fund.

- In May 2018, the Council's wholly owned investment company, Investment Company Eastbourne Limited (ICE), entered into a deal with a private company in respect of a property in Leicester. ICE is acting as the principal guarantor of a £48m refinancing loan to a private company, with the Council being the ultimate guarantor. ICE is also providing a rental guarantee in respect of shortfalls of rental income, again with the Council being the ultimate guarantor. In return for providing this guarantee, ICE has received an initial guarantee fee and will receive an annual guarantee fee. The Council has received £2.0m as the ultimate guarantor.

- Disposal of Equity Shareholdings in Doro AB - In 2014, the Council sold its Welbeing shares and received an offer from Doro AB (a listed company in Sweden) of which fifteen percent of the offer were paid in shares in Doro, and as part of the offer Doro continue to have the Council as a minority shareholder. The disposal of Doro shares generated a capital receipt of £1.68m, which will be applied against the future Council's capital programme, reduce the need for borrowing and save on interest costs that would otherwise have arisen.

7. EXPENDITURE AND FUNDING ANALYSIS

7.a. The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the council's directorates. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

2019/20 Net Expenditure Chargeable to the General Fund and HRA Balances	2019/20 Adjustments between Funding and Accounting Basis	2019/20 Net Expenditure in the Comprehensive Income and Expenditure Statement		2020/21 Net Expenditure Chargeable to the General Fund and HRA Balances	2020/21 Adjustments between Funding and Accounting Basis	2020/21 Net Expenditure in the Comprehensive Income and Expenditure Statement
£000	**£000**	**£000**		**£000**	**£000**	**£000**
3,990	2,624	6,614	Corporate Services	3,190	4,670	7,860
5,353	4,572	9,925	Service Delivery	7,544	3,435	10,979
2,155	3,808	5,963	Regeneration and Planning	1,918	626	2,544
4,037	41,799	45,836	Tourism and Enterprise	2,256	1,940	4,196
(5,709)	(13,223)	(18,932)	Housing Revenue Account	(4,106)	(17,244)	(21,350)
-	-	-	Capitalisation Direction	-	4,585	4,585
9,826	**39,580**	**49,406**	**Cost of Services**	**10,802**	**(1,988)**	**8,814**
(7,093)	(2,466)	(9,559)	Other Income and Expenditure	(26,046)	15,065	(10,981)
2,733	**37,114**	**39,847**	**(Surplus) or Deficit on the Provision of Services**	**(15,244)**	**13,077**	**(2,167)**
(10,329)			**Opening General Fund and HRA Balance at 1 April**	**(6,025)**		
2,733			(Surplus) / Deficit on General Fund and HRA for year	(15,244)		
1,571			Transfer to / (from) Earmarked Reserves	12,554		
(6,025)			**Closing General Fund and HRA Balances at 31 March**	**(8,715)**		

Note:

For a split between the balance on the General Fund and Housing Revenue Account see the Movement in Reserves Statement.

The Covid-19 pandemic and associated lockdown significantly affected the council's financial position and its ability to generate income through its tourism offer, its investments and through other fees and charges. The council therefore applied for Exceptional Financial Support from the Ministry of Housing, Communities and Local Government (MHCLG).

MHCLG issued a Capitalisation Direction, of up to £6.8m for 2020/21 and up to £6.0m for 2021/22, permitting the council to treat revenue expenditure as capital expenditure. The council has treated £4.585m of expenditure in this way, of which £3.550m related to Tourism and £1.035m to redundancy costs.

The relevant expenditure continues to be recognised as an expense within the Comprehensive Income and Expenditure Statement (where it has been presented in its own line within Cost of Services). The expenditure is then treated as 'revenue expenditure funded from capital under statute' (REFCUS), and therefore is adjusted for in the Movement in Reserves Statement by crediting the General Fund and debiting the Capital Adjustment Account. This adjustment is shown in Note 7 Expenditure and Funding Analysis as part of the Adjustments between Funding and Accounting Basis as an Adjustment for Capital Purposes, and in Note 8 Adjustments between Accounting Basis and Funding Basis under Regulations as part of the Revenue Expenditure Funded from Capital Under Statute. The Revenue Expenditure Funded from Capital Under Statute forms part of the Capital Financing Requirement disclosed in Note 16 Summary of Capital Expenditure and Financing.

7.b Note to the Expenditure and Funding Analysis

2019/20					2020/21			
Adjustments for Capital Purposes	**Net Change for Pensions Adjustments**	**Other Statutory Adjustments**	**Total Adjustments**		**Adjustments for Capital Purposes**	**Net Change for Pensions Adjustments**	**Other Statutory Adjustments**	**Total Adjustments**
£000	**£000**	**£000**	**£000**		**£000**	**£000**	**£000**	**£000**
1,570	1,054	-	2,624	Corporate Services	2,260	2,359	51	4,670
2,560	2,013	-	4,573	Service Delivery	1,791	1,611	33	3,435
3,187	621	-	3,808	Regeneration and Planning	115	493	18	626
41,269	530	-	41,799	Tourism and Enterprise	1,387	472	81	1,940
(13,223)	-		(13,223)	Housing Revenue Account	(17,244)	-	-	(17,244)
-	-	-	-	Capitalisation Direction	4,585	-	-	4,585
35,363	**4,218**	**-**	**39,581**	**COST OF SERVICES**	**(7,106)**	**4,935**	**183**	**(1,988)**
(3,247)	1,519	(739)	(2,467)	Other Income and Expenditure	2,272	1,615	11,178	15,065
32,116	**5,737**	**(739)**	**37,114**	**Difference between General Fund and HRA surplus or deficit and Comprehensive Income and Expenditure Statement surplus or deficit on the provision of services**	**(4,834)**	**6,550**	**11,361**	**13,077**

- **Adjustments for Capital Purposes** – this column adds in depreciation and impairment and revaluation gains and losses in the services line and for:

  Other Operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.

  Financing and investment income and expenditure – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.

  Taxation and non-specific grant income and expenditure – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non-Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

- **Net change for Pensions Adjustments** – Net change for the removal of pensions contributions and the addition of IAS 19 employee Benefits pension related expenditure and income.

  For Services this represents the removal of the employer pension contributions made by the Council as allowed by statute and the replacement with current service costs and past service costs.

  For Financing and Investment income and expenditure – the net interest on defined benefit liability is charged to the CIES.

- **Other Adjustments –** differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute.

  The charge under Taxation and non-specific grant income and expenditure represents the difference between what is chargeable under statutory regulations for council tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

7.c Expenditure and Income analysed by Nature

The authority's expenditure and income is analysed as follows:

2019/20 £000		2020/21 £000
	Expenditure	
15,952	Employees benefits expenses	18,300
85,554	Other services expenses	83,094
35,111	Depreciation, amortisation, impairment losses and reversals	(1,519)
3,878	Interest payments	3,410
230	Precepts and levies	234
281	Payments to the Housing Capital Receipts Pool	248
3,318	Fair value movement in Financial Guarantees	581
298	Loss on the disposal of investments	-
5,740	Loss on the disposal of assets	5,983
150,362	**Total expenditure**	**110,331**
	Income	
(35,591)	Fees, charges and other service income	(31,443)
(3,705)	Interest and investment income	(3,805)
(23,734)	Income from Council Tax and non-domestic rates	(12,739)
(44,861)	Government Grants and Contributions	(62,634)
-	Gain on the disposal of investments	(952)
(2,624)	Gain on the disposal of assets	(925)
(110,515)	**Total income**	**(112,498)**
39,847	**(Surplus) or Deficit on the Provision of Services**	**(2,167)**

7.d Segmental Income

Fees, Charges and Other Service Income received is analysed below:

2019/20 £000		2020/21 £000
(205)	**Corporate Services**	(62)
	Service Delivery	
(125)	Local Land Charges	(157)
(130)	Recycling Credits	-
(433)	Car Parks	(242)
(696)	Green Waste	(691)
(1,262)	Recovery of Housing Benefit Overpayments	(1,196)
(333)	Summons and Liability Orders	17
(2,404)	Bed and Breakfast charges	(2,098)
(1,823)	Crematorium and Cemetery fees	(1,926)
(1,218)	Other Service Income	(1,136)
(8,424)		**(7,429)**
	Regeneration and Planning	
(288)	Development Control	(314)
(919)	Other Service Income	(987)
(1,207)		**(1,301)**
	Tourism and Enterprise	
(407)	Seafront	(323)
(353)	Tourism	(40)
(644)	Events	(179)
(5,739)	Theatres	(3,556)
(213)	Leisure & Sports	(352)
(93)	Other Service Income	(28)
(7,449)		**(4,478)**
(15,361)	**Housing Revenue Account**	(15,774)
(2,945)	**Trading Accounts and Investment Properties**	(2,399)
(35,591)	**Total**	**(31,443)**

8. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

	General Fund Balance	HRA Balance	Major Repairs Reserve	Capital Receipts	Capital Grants & Contributions Unapplied
	£000	£000	£000	£000	£000
2019/20 Transactions:					
ADJUSTMENT TO THE REVENUE RESOURCES					
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements					
• Pensions costs (transferred to/from the Pensions Reserve	(5,737)	-	-	-	-
• Council tax and NDR (transferred to/from Collection Fund Adjustment Account)	739	-	-	-	-
• Holiday Pay (transferred to/from the Accumulated Absences Reserve)	-	-	-	-	-
• Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (those items are charged to the Capital Adjustment Account):					
- Charges for depreciation and credits for impairment reversals of non-current assets	(45,121)	12,493	-	-	-
- Movements in the fair value of investment properties	1,349	-	-	-	-
- Movements in the fair value of investments	(299)	-	-	-	-
- Amortisation of intangible assets	(921)	(26)	-	-	-
- Revenue expenditure funded from capital under statute	(2,874)	-	-	-	-
- Amounts of non current assets written out on disposal or sale as part of the gain or loss on disposal	(154)	(5,586)	-	-	-
- Capital Grants and Contributions Received	1,773	154	-	-	(1,928)
TOTAL ADJUSTMENTS TO REVENUE RESOURCES	**(51,244)**	**7,035**	**-**	**-**	**(1,928)**
ADJUSTMENTS BETWEEN REVENUE AND CAPITAL RESOURCES					
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	583	2,042	-	(2,625)	-
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	(281)	-	-	281	-
Posting of HRA resources from revenue to the Major Repairs Reserve	-	4,300	(4,300)	-	-
Statutory provision for the repayment of debt (transfer to the Capital Adjustment Account)	453	-	-	-	-

	General Fund Balance	HRA Balance	Major Repairs Reserve	Capital Receipts	Capital Grants & Contributions Unapplied
	£000	£000	£000	£000	£000
TOTAL ADJUSTMENTS BETWEEN REVENUE AND CAPITAL RESOURCES	**755**	**6,342**	**(4,300)**	**(2,344)**	**-**
ADJUSTMENTS TO CAPITAL RESOURCES					
Use of Capital Receipts Reserve to finance capital expenditure	-	-	-	3,632	-
Use of Major Repairs Reserve to finance capital expenditure	-	-	4,205	-	-
Use of Grants and Contribution to finance capital expenditure	-	-	-	-	2,584
Cash payments in relation to deferred capital receipts	-	-	-	-	-
TOTAL ADJUSTMENTS TO CAPITAL RESOURCES	**-**	**-**	**4,205**	**3,632**	**2,584**
Total Adjustments 2019/20	**(50,490)**	**13,377**	**(95)**	**1,288**	**656**
2020/21 Transactions:					
ADJUSTMENT TO THE REVENUE RESOURCES					
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements					
• Pensions costs (transferred to/from the Pensions Reserve	(6,550)	-	-	-	-
• Council tax and NDR (transferred to/from Collection Fund Adjustment Account)	(10,974)	-	-	-	-
• Holiday Pay (transferred to/from the Accumulated Absences Reserve)	(191)	-	-	-	-
• Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (those items are charged to the Capital Adjustment Account):					
- Charges for depreciation and credits for impairment reversals of non-current assets	(3,193)	15,293	-	-	-
- Movements in the fair value of investment properties	(3,233)	-	-	-	-
- Amortisation of intangible assets	(1,977)	(46)	-	-	-
- Revenue expenditure funded from capital under statute	(5,325)	-	-	-	-
- Capital Grants and Contributions Received	2,138	(1)	-	-	(2,137)
- Gains/Losses on Disposal of non current assets	(4,146)	(3,520)	-	-	-
- Gain on Disposal of Investments	952	-	-	-	-
- Expected Credit Losses	(196)	-	-	-	-
TOTAL ADJUSTMENTS TO REVENUE RESOURCES	**(32,695)**	**11,726**	**-**	**-**	**(2,137)**

ADJUSTMENTS BETWEEN REVENUE AND CAPITAL RESOURCES					
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	1,695	914	-	(2,609)	-
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	(248)	-	-	248	-
Posting of HRA resources from revenue to the Major Repairs Reserve	-	4,603	(4,603)	-	-
Statutory provision for the repayment of debt (transfer to the Capital Adjustment Account)	929	-	-	-	-
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	-	-	-	-	-
TOTAL ADJUSTMENTS BETWEEN REVENUE AND CAPITAL RESOURCES	**2,376**	**5,517**	**(4,603)**	**(2,361)**	**-**
ADJUSTMENTS TO CAPITAL RESOURCES					
Use of Capital Receipts Reserve to finance capital expenditure	-	-	-	4,073	-
Use of Major Repairs Reserve to finance capital expenditure	-	-	3,094	-	-
Use of Grants and Contribution to finance capital expenditure	-	-	-	-	2,643
Cash payments in relation to deferred capital receipts	(1)	-	-	-	-
TOTAL ADJUSTMENTS TO CAPITAL RESOURCES	**(1)**	**-**	**3,094**	**4,073**	**2,643**
Total Adjustments 2020/21	**(30,320)**	**17,243**	**(1,509)**	**1,712**	**506**

Note

Revenue Expenditure Funded from Capital Under Statute of £5.325m includes £4.585m in respect of the Capitalisation Direction, as detailed in Note 7.

9. AUDIT FEES

The Council incurred the following fees relating to statutory external audit and inspection, together with other payments to the auditors:

2019/20 £000		2020/21 £000
(10)	Fees payable to BDO LLP with regard to external audit services carried out by the appointed auditor for the year	-
19	Fees payable in respect of other services provided during the year	7
67	Fees payable to Deloitte LLP with regard to external audit services carried out by the appointed auditor for the year	52
76		**59**

10. MEMBERS' ALLOWANCES

Allowances and expenses paid to Eastbourne's twenty seven Councillors during the year amounted to:

2019/20 £000		2020/21 £000
134	Members' Allowances	131
2	Conference and Travelling Expenses	-
136		**131**

11. OFFICERS' REMUNERATION

Senior Management Remuneration

		Salary, Fees and Allowances £	Expenses Allowances £	Loss of office £	Pension Contribution £	Total £
Shared Chief Executive	2020/21	145,004	2,660	-	30,016	**177,680**
	2019/20	141,123	2,660	-	24,970	**168,753**
Deputy Chief Executive/ Director of Regeneration & Planning	2020/21	118,163	2,130	-	24,840	**145,133**
	2019/20	122,138	2,130	-	21,933	**146,201**
Chief Finance Officer	2020/21	91,775	-	-	18,952	**110,727**
	2019/20	89,318	-	-	15,765	**105,083**
Director of Service Delivery	2020/21	87,456	-	-	18,060	**105,516**
	2019/20	84,590	-	-	14,930	**99,520**
Director of Tourism and Enterprise	2020/21	98,253	-	-	20,289	**118,542**
	2019/20	95,098	-	-	16,785	**111,883**
Assistant Director of HR and Transformation	2020/21	91,775	-	-	18,952	**110,727**
	2019/20	87,992	-	-	15,531	**103,523**
Assistant Director of Corporate Governance	2020/21	45,496	2,803	10,871	9,395	**68,565**
	2019/20	78,547	-	-	13,864	**92,411**

Notes:

- The Assistant Director of Corporate Governance left employment on 23/10/20;
- The Assistant Director of Legal and Democratic Services was also a member of the Corporate Management Team but is not included in the table above as they were an employee of Lewes District Council. They left employment on 23/10/20;
- The above figures are gross of any recharges to Lewes District Council and Eastbourne Homes Limited.

Senior Management costs are apportioned as follows:

	Eastbourne Borough Council	Lewes District Council	Eastbourne Homes Ltd
Shared Chief Executive	50%	50%	-
Deputy Chief Executive	40%	40%	20%
Chief Finance Officer	40%	40%	20%
Director of Service Delivery	50%	50%	-
Director of Tourism and Enterprise	80%	20%	-
Assistant Director of Corporate Governance	90%	10%	-

The Assistant Director of Human Resources and Transformation is included in a service level agreement for Human Resources between the Council and Lewes District Council.

Remuneration Bands

The Council's other employees (excluding those in the Corporate Management table above) include employees from Lewes District Council who transferred to Eastbourne Borough Council from February 2018. Other employees who received more than £50,000 remuneration for the year (excluding employer's pension contributions) were paid the following amounts:

Remuneration Band	2019/20 Number of Employees	2020/21 Number of Employees
£50,000 - £54,999	21	21
£55,000 - £59,999	14	14
£60,000 - £64,999	6	9
£65,000 - £69,999	1	8
£70,000 - £74,999	1	1
£80,000 - £84,999	1	-
£90,000 - £94,999	-	2
£95,000 - £99,999	-	1
Total	**44**	**56**

The number of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below.

	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
							£	£
Exit package cost band (including special payments)	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21
£0 -£20,000	2	22	9	44	11	66	97,538	537,711
£20,001 - £40,000	-	4	1	19	1	23	34,442	641,404
£40,001 - £60,000	-	-	-	2	-	2		90,604
£60,001 - £80,000	-	-	-	1	-	1	-	62,018
Total cost included in bandings	**2**	**26**	**10**	**66**	**12**	**92**	**131,980**	**1,331,737**

Included in the table above are exit payments made to employees which were either fully or partly recharged to Lewes District Council and Eastbourne Homes Ltd. In 2020/21 Lewes District Council were recharged £263,857 (£62,475 2019/20) for their share of exit packages and Eastbourne Homes Ltd were recharged £27,773 (£4,483 2019/20).

12. RELATED PARTIES

12.1 Definition

The term “related party” covers relationships between the Council and body or individual where one of the parties has the potential to control or influence the Council or be controlled or influenced by the Council.

12.2 Central Government

Central Government provides much of the Council’s funding and determines its statutory framework. Details of transactions with Central Government are shown in the Comprehensive Income and Expenditure Statement, the Cash Flow Statement, and Notes 14 (grants and contributions), 25 (debtors) and 26 (creditors).

12.3 East Sussex Pension Scheme

The Council participates in the East Sussex Pension Scheme, making annual contributions to the East Sussex Pension Fund as set out in Note 30. One Member is on the Pension Fund Investment Panel.

12.4 Eastbourne Homes Limited

The responsibility for the management of Eastbourne’s council housing stock was transferred to Eastbourne Homes Limited, an arm’s length management company, on 1 April 2005. Eastbourne Homes is a company limited by guarantee without a share capital and is wholly owned by Eastbourne Borough Council. Its principal activities are to manage, maintain and improve the Council’s housing stock.

The Council pays Eastbourne Homes Limited a fee in accordance with the management agreement. In 2020/21 the fee was £7.83m, covering supervision and management and repairs (£7.65m in 2019/20). In addition, Eastbourne Homes obtains services from the Council under various Service Level Agreements. At the end of the year the Council owed Eastbourne Homes £641,000 (£641,000 at 31 March 2020), while Eastbourne Homes owed the Council £483,000 (£483,000 at 31 March 2020). The Deputy Chief Executive/Director of Regeneration & Planning for the Council also acts as Managing Director of Eastbourne Homes Limited.

The company’s accounts are consolidated into the Group Accounts. Copies of Eastbourne Homes Limited annual report and accounts can be obtained from their registered office at Town Hall, Grove Road, Eastbourne, BN21 4UG.

12.5 Members and Senior Officers

Members of the Council (27 Borough Councillors) have direct control over the Council’s financial and operating policies. The total of members’ allowances paid in 2020/21 is shown in Note 10. Seven Members were also members of East Sussex County Council. Members are obliged by the Council’s Constitution to record in a Register of Interests of Members any personal interest, financial and/or otherwise, in any business of the Council. The Register of Interests of Members, which is maintained by the Monitoring Officer, is open to public inspection at the Town Hall during office hours. In addition, Members are asked to complete an annual declaration of related party transactions to confirm whether or not they had any qualifying interests in the year. The Council awards grants to a number of organisations, e.g. Eastbourne Citizen’s Advice, in which Members have an interest. The relevant Members did not take part in any discussion or decision relating to the award of financial support which was made with proper declarations of interest.

Officers are obliged under the code of conduct in the Council’s Constitution to declare any personal interest, financial and/or otherwise, in any business of the Council. They are also required to record any gifts and/or hospitality received in a format prescribed and held by the Monitoring Officer. In addition, senior officers complete an annual declaration of related party transactions to confirm whether or not they had any qualifying interests in the year. All senior officers confirmed that they had no qualifying interests.

The Assistant Director of HR and Transformation has declared they have a close family member (i.e. partner) who is an owner of Best Demolition Limited, a local company that have undertaken a number of contracts for the Council. In 2020/21 the value of the contract works was £252,000 (£nil in 2019/20). The Assistant Director of HR and Transform would not take part in any related corporate management team discussion and therefore is unable to control or influence the awarding of such contracts.

12.6 CloudConnX

The Council is a minority (48% B class) shareholder in CloudConnX. The shares had only nominal value at the balance sheet date. In addition, as at 31 March 2021 the Council has provided a commercial loan of £321,000 (£357,000 in 2019/20). Interest is charged on the loan at 1.5% above base rate. The Council's Chief Executive has been appointed a Director of the company.

12.7 Eastbourne Housing Investment Company Limited (EHIC)

EHIC is a wholly owned subsidiary of the Council. EHIC has been set up to acquire, improve and let residential property at market rents. The Council has provided 29 (29 in 2019/20) commercial loans to EHIC totalling £23,856,350 (£23,856,350 in 2019/20) of which £23,085,550 (£20,233,050 in 2019/20) has been drawn down, for the purchase of various properties, at an interest rate of 4.5%. A working capital facility loan of £250,000 (£250,000 in 2019/20) has been agreed, at an interest rate of 2% above Base Rate. As at 31 March 2021 £247,000 (£nil in 2019/20) of the working capital facility loan had been drawn down.

The company's accounts are consolidated into the Group Accounts. Copies of Eastbourne Housing Investment Company Limited annual report and accounts can be obtained from their registered office at 1 Grove Road, Eastbourne, BN21 4TW. The Director of Regeneration & Planning and the Director of Service Delivery for the Council also act as Directors at Eastbourne Housing Investment Co Ltd.

12.8 Lewes District Council

The Council is engaging in a Joint Transformation Programme (JTP) with Lewes DC under which staff and services are being integrated. The Council now employs all of Corporate Management Team (CMT) and the majority of Lewes DC staff who were TUPE to the Council during 2017/18 and costs are recharged to Lewes DC. Staff within Legal services remain employees of Lewes DC and services are provided to both Councils and costs recharged. The recharge to Eastbourne Borough Council was £382,783 in 2020/21 (£370,614 2019/20) and to Eastbourne Homes Limited £19,901 in 2020/21 (£2,372 2019/20).

12.9 Aspiration Homes LLP

Aspiration Homes LLP (AH) is a limited liability partnership owned equally by Eastbourne BC and Lewes DC. It was set up during 2016/17 for the purpose of developing housing. The Council has provided five commercial loans to AH totalling £5,468,000 (£5,468,000 2019/20) of which £3,938,250 (£3,715,550 2019/20) has been drawn down, for the purchase of property for development, at an interest rate of 4.5%. A working capital facility loan of £100,000 has been agreed, at an interest rate of 2% above Base Rate. As at 31 March 2021 £65,000 (65,000 2019/20) of the working capital facility loan had been drawn down. The company's accounts are consolidated into the Group Accounts. Copies of Aspiration Homes LLP's annual report and accounts can be obtained from their registered office at 1 Grove Road, Eastbourne, BN21 4TW.

12.10 South East Environmental Services Limited

South East Environmental Services Limited (SEESL) is a wholly owned subsidiary of the Council. SEESL has been set up to provide waste and recycling services. The Council has provided commercial loans to SEESL for £1,600,000 (£1,600,000 2019/20) of which £1,400,000 (£1,550,000 2019/20) has been drawn down, for the purchase of equipment, at an interest rate of 2% above Base Rate. Loans of £155,000 were repaid during 2020/21.

12.11 Investment Company Eastbourne Limited

Investment Company Eastbourne Limited (ICE) is a wholly owned subsidiary of the Council. It was set up to enter into a deal with a private company in respect of a property in Leicester. There are no outstanding inter-company debts. See Group Accounts for further details.

Additional disclosure - Eastbourne Leisure Trust

The Eastbourne Leisure Trust was set up to oversee the management and operation of the Sovereign Centre and Motcombe Pool, on which it holds a 15-year lease starting in 2004. The Trust is set up as an Independent Provident Society, without any local authority members. Members of staff at these centres are jointly employed by the Trust and the contractor, Serco. During the year Eastbourne Leisure Trust paid the Council £nil (2019/20 £83,000).

13. LEASING

Operating leases – Council acting as lessor

The table below analyses future minimum lease income expiring during the periods shown below:

2019/20 Minimum Lease Income		2020/21 Minimum Lease Income
£000		£000
2,325	Within one year	2,751
7,222	Between two and five years	6,801
40,177	Later than five years	40,940
49,724	**Total**	**50,492**

The lease income relates to various land and buildings owned by the Council and leased out on varying terms and conditions. The total rental income recognised in the Comprehensive Income and Expenditure Statement for 2020/21 was £2,998,000 (£3,079,000 in 2019/20). The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

14. GRANTS AND CONTRIBUTIONS RECEIVABLE

The table below outlines Government grants and other external contributions accounted for within the Comprehensive Income and Expenditure Statement.

2019/20		2020/21
£000		£000
	Within Cost of Services	
(35,552)	DWP Benefits grants	(33,877)
(64)	Covid-19 Grants	(4,168)
(4,885)	Other grants and contributions	(5,017)
(40,501)	**Total within Cost of Services**	**(43,062)**
	Within Taxation and non-specific grant income	
(1,694)	Section 31 Grant Small Business Rate Relief	(13,031)
(183)	New Homes Bonus	(332)
(131)	Localising C Tax Support Admin Subsidy	(128)
-	Income Recovery - Sales, Fees & Charges	(3,353)
(2,255)	Grants and contributions towards capital expenditure	(2,717)
(96)	Other Grants	(11)
(4,359)	**Total within Taxation and non-specific grant income**	**(19,572)**
(44,860)	**Total Grants & Contributions**	**(62,634)**

Notes

Covid-19 Grants income above excludes income of £43.93m where the Council is acting as an intermediary agent for the government, rather than on its own behalf, for amounts paid over directly to businesses.

Additional section 31 grant was received from government in 2020/21 to compensate for the loss of business rate income arising from additional Covid-19 reliefs provided to businesses.

The Council has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver, if not spent. The balances at 31/3/21 were £107,000 (£10,000 2019/20).

15. TRANSFER TO/ FROM EARMARKED RESERVES

Transfers (to) and from General Fund and HRA earmarked reserves are as follows:

Earmarked Reserve	Balance 1 April 2019 £000	Movement 2019/20 £000	Balance 31 March 2020 £000	Movement 2020/21 £000	Balance 31 March 2021 £000
General Fund					
General	(506)	506	-	(16)	(16)
Strategic Change	(199)	(46)	(245)	4	(241)
Capital Programme	(345)	9	(336)	-	(336)
Revenue Grants	(952)	339	(613)	(1,723)	(2,336)
ICE	-	(1,750)	(1,750)	(50)	(1,800)
Commercial	-	(250)	(250)	(271)	(521)
SHEP GF Properties Major Works	(1)	-	(1)	-	(1)
Business Rates Equalisation	-	-	-	(1,104)	(1,104)
Total	**(2,003)**	**(1,192)**	**(3,195)**	**(3,160)**	**(6,355)**
Collection Fund (timing difference)	**-**	**-**	**-**	(9,056)	**(9,056)**
Total General Fund	**(2,003)**	**(1,192)**	**(3,195)**	**(12,216)**	**(15,411)**
Housing Revenue Account					
HRA Leaseholders Major Works	(747)	(365)	(1,112)	299	(813)
Riverbourne House Leaseholders	(15)	(14)	(29)	-	(29)
Housing Regeneration and Investment	(2,529)	-	(2,529)	-	(2,529)
Total HRA	**(3,291)**	**(379)**	**(3,670)**	**299**	**(3,371)**
Total Earmarked Reserves	**(5,294)**	**(1,571)**	**(6,865)**	**(11,917)**	**(18,782)**

The purpose of each earmarked reserves is set out below:

General: where the Council carries forward under spent departmental budgets to the new financial year. This reserve will be reviewed and distributed between General Fund and Strategic Change Fund as appropriate, as part of the budget setting process.

Strategic Change: to finance one off investments that are required for development or the release of ongoing efficiencies.

Capital Programme: used for financing of one-off capital schemes.

Revenue Grants: to enable grants received in one financial year to be carried forward and used to finance revenue spending in future years.

ICE: to provide resources in the event of a claim under the provision of a guarantee by ICE (as principal guarantor) and the Council (as ultimate guarantor) for the Loan, and as the timing/amount of any payments arising from both the loan guarantee and the rental guarantee are uncertain.

Commercial: for the SEESL company surplus.

SHEP GF Properties Major Works: to create a Major Works Fund for Investment properties.

Business Rates Equalisation: to mitigate the risk of appeals.

Collection Fund (timing difference): during 2020/21, local authorities received section 31 grants to offset the reliefs given to businesses during lockdown. Under current collection fund accounting rules, the s31 grants received this year will not be discharged against the Collection Fund deficit until 2021/22, thereby inflating General Fund balances at the end of the 2020/21 financial year. This could lead to potentially misleading 2020/21 accounts, showing a significant increase in available reserves that are not actually available but earmarked against the following year's collection fund deficit. The appropriate action is to transfer the grant income to an earmarked reserve within the General Fund.

HRA Leaseholders Major Works and Riverbourne House Leaseholders: for future maintenance.

Housing Regeneration and Investment: to receive any surpluses achieved over those required for the sustainability of the HRA Business Plan to be used for future investment in strategic housing related outcomes.

16. SUMMARY OF CAPITAL EXPENDITURE AND FINANCING

The Capital Financing Requirement represents the Council's net need to borrow to finance its capital investment, made up of all funding of capital from loans in previous years, less amounts set aside each year for the redemption of debt.

2019/20 £000		2020/21 £000
149,917	**Opening Capital Financing Requirement**	**172,798**
16,762	Capital Investment	8,282
2,808	Revenue expenditure financed from capital under statute	5,325
14,193	Long Term Debtors	3,134
33,763	**Total**	**16,741**
	Sources of finance	
(3,632)	Capital Receipts	(4,073)
(2,584)	Grants and Contributions towards Refcus	(2,643)
(4,204)	Major Repairs Reserve	(3,094)
(453)	Revenue Provision for Repayment of Debt	(929)
(9)	Revenue Contribution to capital	-
(10,882)	**Total Capital financing**	**(10,739)**
172,798	**Closing Capital Financing Requirement**	**178,800**
	Explanation of movements in year	
22,881	Increase in underlying need to borrowing (unsupported by government financial assistance)	**6,002**

The Capital Financing Requirement reflects various items in the Balance Sheet, as shown below:

31 March 2020 £000		31 March 2021 £000
310,481	Property Plant and Equipment	323,983
15,557	Infrastructure Assets	14,707
14,702	Heritage Assets	14,702
27,250	Investment Property	24,846
6,446	Intangible Assets	4,838
732	Long Term Investments	-
-	Assets Held for Sale	922
28,174	Loans and Advances to Third Parties	31,308
(40,238)	Revaluation Reserve	(40,333)
(190,306)	Capital Adjustment Account	(196,173)
172,798	**Capital Financing Requirement**	**178,800**

Note

Revenue Expenditure Funded from Capital Under Statute of £5.325m includes £4.585m in respect of the Capitalisation Direction, as detailed in Note 7.

17. PROPERTY PLANT AND EQUIPMENT

17.1 **Movements in 2020/21**

The table below shows the movements in the various categories for the year:

	Council Dwellings	Other Land and & Buildings	Vehicles, Plant & Equipment	Community Assets	Assets under Construction	Surplus Properties	Total
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Cost or Valuation at 1 April 2020	**194,265**	**97,113**	**10,773**	**4,131**	**8,058**	**148**	**314,488**
Additions	3,203	2,290	23	-	763	-	**6,279**
Revaluation increases recognised in the Revaluation Reserve	-	(169)	-	-	-	-	**(169)**
Revaluation increases recognised in the Deficit on the Provision of Services	15,316	15	-	-	-	-	**15,331**
De-recognition & Disposals	(3,529)	(1,837)	(502)	-	-	-	**(5,868)**
Assets reclassified	-	(104)	498	24	(1,173)	233	**(522)**
At 31 March 2021	**209,255**	**97,308**	**10,792**	**4,155**	**7,648**	**381**	**329,539**
Accumulated Depreciation and Impairment							
At 1 April 2020	**-**	**-**	**(3,444)**	**(563)**	**-**	**-**	**(4,007)**
Depreciation Charge	(4,589)	(1,624)	(826)	-	-	-	**(7,039)**
Depreciation written out on Revaluation	4,580	428	-	-	-	-	**5,008**
De-recognition & Disposals	9	-	473	-	-	-	**482**
At 31 March 2021	**-**	**(1,196)**	**(3,797)**	**(563)**	**-**	**-**	**(5,556)**
Net Book Value							
At 31 March 2021	209,255	96,112	6,995	3,592	7,648	381	**323,983**
At 31 March 2020	194,265	97,113	7,329	3,568	8,058	148	**310,481**

	Council Dwellings	Other Land & Buildings	Vehicles, Plant & Equipment	Community Assets	Assets under Construction	Surplus Properties	Total
	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation at 1 April 2019	**195,061**	**97,919**	**10,510**	**4,131**	**54,996**	**124**	**362,741**
Additions	4,440	332	1,141	-	9,211	-	**15,124**
Revaluation increases recognised in the Revaluation Reserve	-	(15,384)	-	-	-	24	**(15,360)**
Revaluation increases recognised in the Deficit on the Provision of Services	454	(41,687)	-	-	-	-	**(41,233)**
De-recognition - Disposals	(5,690)	-	(694)	-	-	-	**(6,384)**
Assets reclassified	-	55,933	(185)	-	(56,148)	-	**(400)**
At 31 March 2020	**194,265**	**97,113**	**10,772**	**4,131**	**8,059**	**148**	**314,488**
Accumulated Depreciation and Impairment							
At 1 April 2019	**(12,159)**	**(5,023)**	**(3,372)**	**(563)**	**-**	**-**	**(21,117)**
Depreciation Charge	(4,284)	(2,661)	(765)	-	-		**(7,710)**
Depreciation written out on Revaluation	16,339	7,684	-	-	-		**24,023**
De-recognition - disposal	104	-	693	-	-		**797**
At 31 March 2020	**-**	**-**	**(3,444)**	**(563)**	**-**		**(4,007)**
Net Book Value							
At 31 March 2020	194,265	97,113	7,328	3,568	8,059	148	**310,481**
At 31 March 2019	182,902	92,896	7,138	3,568	54,996	124	**341,624**

17.2 Infrastructure Assets

Infrastructure Assets are measured using the historical cost basis and carried at depreciated historical cost. Infrastructure assets include sea defences, access roads and paved areas.

	£000		£000
Cost or Valuation at 1 April 2019	**33,807**	**Cost or Valuation at 1 April 2020**	**34,256**
Additions	204	Additions	597
Revaluation increases recognised in the Revaluation Reserve	-	Revaluation increases recognised in the Revaluation Reserve	-
Revaluation increases recognised in the Deficit on the Provision of Services	-	Revaluation increases recognised in the Deficit on the Provision of Services	-
De-recognition - Disposals	(155)	De-recognition - Disposals	(597)
Assets reclassified	400	Assets reclassified	-
At 31 March 2020	**34,256**	**At 31 March 2021**	**34,256**
At 1 April 2019	**(17,862)**	**At 1 April 2020**	**(18,699)**
Depreciation Charge	(837)	Depreciation Charge	(850)
Depreciation written out to the Revaluation Reserve	-	Depreciation written out to the Revaluation Reserve	-
Impairment losses recognised in the Revaluation Reserve	-	Impairment losses recognised in the Revaluation Reserve	-
Impairment losses recognised in the Deficit on the Provision of Services	-	Impairment losses recognised in the Deficit on the Provision of Services	-
De-recognition - disposal	-	De-recognition - disposal	-
At 31 March 2020	**(18,699)**	**At 31 March 2021**	**(19,549)**
Net Book Value		**Net Book Value**	
At 31 March 2020	15,557	At 31 March 2021	14,707
At 31 March 2019	15,945	At 31 March 2020	15,557

17.3 Valuation of Property

Three of the categories shown in the tables above (council dwellings, other land and buildings and surplus properties) are subject to periodic revaluation: all such assets are revalued at 5-year intervals. These were last valued as at 31 March 2020 by the Wilks, Head & Eve. The next full revaluation, for all three categories of assets, is due to be carried out as at 31 March 2025.

The valuations are not reported as subject to 'material valuation uncertainty' as defined by RICS Valuation Global Standards. The exception is retail and specific assets/sectors such as car parks which continue to be faced with an unprecedented set of circumstances caused by Covid-19 and an absence of relevant/sufficient market evidence on which to base judgements.

	Council Dwellings	Other Land & Buildings	Vehicles, Plant & Equipment	Community Assets	Assets Under Construction	Surplus Properties	Total
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Carried at Historical Cost	-	-	10,792	4,155	7,648	-	**22,595**
Values at current value as at:							
31 March 2020	-	-	-	-	-	-	-
31 March 2021	209,255	97,308	-	-	-	381	306,944
Gross Cost/Valuation	**209,255**	**97,308**	**10,792**	**4,155**	**7,648**	**381**	**329,539**

17.4 Depreciation

The following useful lives have been used in the calculation of depreciation:

Council dwellings	60 years
Other land and buildings	15 to 60 years
Vehicles Plant and Equipment	3 to 25 years

17.5 Capital Commitments

At 31 March 2021, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment to cost £2,495,000 as detailed in the table below. Similar commitments at 31 March 2020 were £6,363,000 (including loans £5.451m).

	2020/21 £000
Loans to subsidiary companies	1,549
New Build & Asset Improvements	852
IT Recovery & Reset	64
Parks & Gardens	30
Total	**2,495**

17.6 Fair value hierarchy

The fair value hierarchy of surplus assets at 31 March are as follows:

	Quoted prices in active markets for identical assets (Level 1)	Other significant observable inputs (Level 2)	Other significant unobservable inputs (Level 3)	Total
	£000	**£000**	**£000**	**£000**
Surplus Assets NBV 31 March 2021	-	381	-	**381**
Surplus Assets NBV 31 March 2020	-	148	-	**148**

The surplus assets are measured at Level 2 in the fair value hierarchy as the measurement technique uses significant observable inputs to measure the fair value. The fair value has been derived on a comparable basis for income producing assets or residential properties (using rent yield or capital value per square metre) or derived through an assessment of prevailing land values for unconsented sites or a residual land appraisal.

For assets offering development potential (alternative use) the valuation is based on the highest value that has a reasonable prospect of securing an appropriate planning consent. Restrictions on the sale or use of an asset affect its fair value only if market participants would also be impacted by those restrictions. Highest and best use is determined only from the perspective of market participants, even if the Council intends a different use. Alternative uses of those assets are considered if there is an alternative use that would maximise their fair value. However, the Council is not required to perform an exhaustive search for other potential uses of the assets if there is no evidence to suggest that the current use of an asset is not its highest and best use.

18. HERITAGE ASSETS

Reconciliation of the carrying value of Heritage Assets held by the Council:

	Historical Collection	Art Collection	Other	Buildings	Total
Cost or Valuation	**£000**	**£000**	**£000**	**£000**	**£000**
Balance at 31 March 2019	**345**	**11,906**	**162**	**2,621**	**15,034**
Revaluations	-	-	10	(342)	**(332)**
Balance at 31 March 2020	**345**	**11,906**	**172**	**2,279**	**14,702**
Revaluations	-	-	-	-	**-**
Balance at 31 March 2021	**345**	**11,906**	**172**	**2,279**	**14,702**

The Art Collection was valued by professional external valuers in 2012/13. The Collection will be valued every 10 years and an annual review is carried out to ensure the value is not materially mis-stated. Heritage buildings were valued as at 1 April 2016 by an external professional valuer and will be revalued every 5 years. The historical collection has been valued with reference to the insurance value.

19. HERITAGE ASSETS POLICY

Acquisitions Policy

Towner, Eastbourne's contemporary art museum and centre for the visual arts in the South East, will continue to acquire objects in the following categories:

- Fine Art: paintings, watercolours, drawings, mixed media, photographs, prints and sculpture representative of the main developments in 19th and 20th century British art.
- Victorian Art: to complement the Towner Bequest.
- Works by important 20th century British artists, to enhance the exiting collection.
- Works and material by and relating to Eric Ravilious (1903-42).
- Works by South East regional artists.
- Topographical pictures relating to East Sussex and the Eastbourne area.
- European Art: to complement the existing collections, for example the Irene Law Bequest of 17th and 18th century Dutch and Flemish paintings and 18th century British art, The Lucy Carrington Wertheim Bequest of 20th century European paintings.
- Contemporary art by British and International artists complementing the existing collections.

Towner recognises its responsibility, in acquiring material, to ensure adequate conservation, documentation and proper use of such material and takes into account limitations on collecting imposed by such factors as inadequate staffing, storage and conservation resources. Acquisitions outside the current stated policy will only be made in very exceptional circumstances, and then only after proper consideration by the governing body of the museum itself, having regard to the interests of other museums.

Disposals Policy

The Council accepts the principle that there is a strong presumption against the disposal of any items in the Towner's collections. In those cases where Towner is free to dispose of an item it is agreed that any decision to sell or dispose of material from the collections should be taken only after due consideration.

Once a decision to dispose of an item has been taken, priority will be given to retaining the item within the public domain and with this in view it will be offered first, by exchange, gift or sale to Registered museums before disposal to other interested individuals or organisations is considered. Further information is available in Eastbourne Local History Museum and Towner's Acquisitions and Disposals Policy available from Towner.

20. INVESTMENT PROPERTIES

In 2020/21 the Council received £1,540,000 as rental income from investment properties, compared to £1,402,000 received in 2019/20. Investment properties are held for the purpose of generating income. There are no restrictions on the Council's ability to realise the value inherent in its investment property or of the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligation to purchase, construct or develop investment property or repairs, maintenance or enhancement.

The table below shows movements in the fair value for Investment Properties.

2019/20 £000		**2020/21 £000**
25,656	Balance at 1 April	27,250
245	Additions	992
1,349	Net gains / (losses) from fair value adjustments	(3,396)
27,250	**Balance at 31 March**	**24,846**

Fair Value Hierarchy
All the Council's investment properties have been value assessed as Level 2 on the fair value hierarchy for valuation purposes (see Note 2.10 Accounting Policy for an explanation of the fair value levels).

Valuation Techniques Used to Determine Level 2 Fair Values for Investment Property
The current value of investment property has been measured using a market approach, which takes into account quoted prices for similar assets in active markets, existing lease terms and rentals, research into market evidence including market rentals and yields, the covenant strength for existing tenants, and data and market knowledge gained in managing the Council's Investment Asset portfolio. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised as level 2 on the fair value hierarchy.

Highest and Best Use
In estimating the fair value of the Council's investment properties, the highest and best use is their current use.

Valuation Process for Investment Properties
The Council's investment property has been valued as at 31 March 2021 by Wilks Head & Eve in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

21 INTANGIBLE ASSETS

The Council accounts for its software as intangible assets to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets also cover the initial purchased licences on implementation. All software is given a finite useful life based on assessments of the period that the software is expected to be of use to the Council. The useful lives assigned to the major software suites used by the Council range between three and ten years.

The annual movements in the balance sheet figures for intangible assets are shown below:

2019/20 Gross	2019/20 Amortised	2019/20 Net Total		2020/21 Gross	2020/21 Amortised	2020/21 Net Total
£000	£000	£000		£000	£000	£000
9,000	(2,721)	**6,279**	**Balance 1 April**	10,115	(3,669)	**6,446**
			Written down to services:			
-	(921)	**(921)**	Corporate Services	-	(1,977)	**(1,977)**
-	(26)	**(26)**	Housing Revenue Account	-	(45)	**(45)**
-	(947)	**(947)**		-	(2,022)	**(2,022)**
1,114	-	**1,114**	Added during year	414	-	**414**
1	(1)	**-**	Written out on completion of expected life	(2,545)	2,545	**-**
1,115	(948)	**167**	Net transactions during the year	(2,131)	523	**(1,608)**
10,115	**(3,669)**	**6,446**	**Balance at 31 March**	**7,984**	**(3,146)**	**4,838**

The Council's Joint Transformation Programme, which started in 2016/17, makes up £3.92m (£4.27m 31/3/19) of the total and is being amortised over remaining periods of 4-7 years.

22. ASSETS HELD FOR SALE

2019/20		2020/21
£000		£000
-	**Balance at 1 April**	**-**
-	Assets newly classified as Held for Sale	922
-	**Balance at 31 March**	**922**

23. FINANCIAL INSTRUMENTS

A. Categories of Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet:

Financial Assets	**31 March 2020**	**31 March 2021**
	£000	**£000**
Fair value through profit or loss		
Long Term Investments	732	-
Long Term Debtors	-	-
Short Term Investments & Cash Equivalents	-	-
Short Term Debtors	-	-
Total	**732**	**-**
Amortised Cost		
Long Term Investments	3,500	3,500
Long Term Debtors	43,761	49,333
Short Term Investments & Cash Equivalents	3,459	4,423
Short Term Debtors	19,870	18,995
Total	**70,590**	**76,251**
Total Financial Assets	**71,322**	**76,251**
Non Financial Assets	4,550	21,532
Total	**75,872**	**97,783**

Financial Liabilities	**31 March 2020**	**31 March 2021**
	£000	**£000**
Fair value through profit or loss		
Short & Long Term Borrowings and Creditors	-	-
Amortised Cost		
Long Term Borrowings	(126,903)	(119,237)
Long Term Creditors	-	-
Short Term Borrowings	(35,638)	(40,327)
Short Term Creditors	(7,647)	(32,339)
Total Financial Liabilities	**(170,188)**	**(191,903)**
Non Financial Liabilities	(6,092)	(5,949)
Total	**(176,280)**	**(197,852)**

B. Financial Instruments Designated at Fair Value through Profit or Loss

The balance of financial assets at 31 March 2021 was £nil (£732,000 at 31 March 2020). The shares were sold during the year. There were no financial liabilities designated at fair value through profit or loss. No financial assets or liabilities were classed as fair value through other comprehensive income. No financial assets or liabilities were re-classified during the year.

C. Income, Expense, Gains and Losses

	2019/20 Surplus or Deficit on Provision of Services £000	2019/20 Other Comprehensive Income and Expenditure £000	2020/21 Surplus or Deficit on Provision of Services £000	2020/21 Other Comprehensive Income and Expenditure £000
Net (gains)/losses on:				
Financial assets measured at amortised cost	(2,308)	-	(2,571)	-
Interest revenue:				
Financial assets measured at amortised cost	(1,099)	-	(1,234)	-
Interest expense:				
Financial liabilities measured at amortised cost	3,878	-	3,410	-

D. Fair Value

The basis for recurring fair value measurements is:

- **Level 1 Inputs** – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date.
- **Level 2 Inputs** – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- **Level 3 Inputs** – unobservable inputs for the asset or liability.

There were no financial assets are measured at fair value on a recurring basis and are described in the following table, including the valuation techniques used to measure them

Recurring fair value measurements	Input level in fair value hierarchy	Valuation technique used to measure fair value	31 March 2020 £000	31 March 2021 £000
Fair value through profit or loss				
Other financial instruments	Level 1	Unadjusted quoted prices in active markets for identical shares	£732	£0

There were no transfers between levels 1 and 2 during the year. There has been no change in the valuation technique used during the year for the financial instruments. There were no instruments, measured at fair value, that were at level 3 in the hierarchy.

E. Fair Values of Financial Assets and Financial Liabilities that are not measured at fair value [but for which fair value disclosures are required]

Except for the financial assets carried at fair value, all other financial liabilities and financial assets represented by amortised cost and long-term debtors and creditors are carried on the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions:

- For loans from the PWLB payable, under debt redemption procedures, prevailing market rates have been applied to provide the fair value;
- For non-PWLB loans payable, under debt redemption procedures, prevailing market rates have been applied to provide the fair value;

- For loans receivable prevailing benchmark market rates have been used to provide the fair value;
- No early repayment or impairment is recognised;
- Where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the carrying amount or the billed amount;
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

Financial Liabilities	**31 March 2020 Carrying amount**	**31 March 2020 Fair Value**	**31 March 2021 Carrying amount**	**31 March 2021 Fair Value**
	£000	**£000**	**£000**	**£000**
Financial liabilities held at amortised cost	(126,903)	(131,511)	(119,237)	(134,233)
Long Term Creditors	-	-	-	-
Finance Lease Liabilities	-	-	-	-
Total Long Term	**(126,903)**	**(131,511)**	**(119,237)**	**(134,233)**
Short Term Borrowings and Creditors	(43,285)	(43,285)	(72,666)	(72,666)
Total Long and Short Term	**(170,188)**	**(174,796)**	**(191,903)**	**(206,899)**

The fair value of borrowings is higher than the carrying amount because the portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the prevailing rates at the Balance Sheet date. This shows a notional future loss, based on economic conditions at 31 March 2021, arising from a commitment to pay interest to lenders above current market rates.

Financial Assets	**31 March 2020 Carrying amount**	**31 March 2020 Fair Value**	**31 March 2021 Carrying amount**	**31 March 2021 Fair Value**
	£000	**£000**	**£000**	**£000**
Financial assets held at amortised cost	3,500	3,500	3,500	3,500
Long Term Debtors	43,761	43,761	49,333	49,333
Total Long Term	**47,261**	**47,261**	**52,833**	**52,833**
Short Term Investments and Debtors	23,329	23,329	23,418	23,418
Total Long and Short Term	**70,590**	**70,590**	**76,251**	**76,251**

The fair value of the financial assets is higher than the carrying amount because the portfolio of investments includes a number of fixed rate loans where the interest rate receivable is higher than the rates available for similar loans at the Balance Sheet date. This shows a notional future gain, based on economic conditions at 31 March 2021, attributable to the commitment to receive interest below current market rates. Short term debtors and creditors are carried at cost as this is a fair approximation of their value.

Fair value hierarchy of financial assets and financial liabilities that are not measured at fair value

31 March 2021	Quoted prices in active markets for identical assets (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	£000	£000	£000	£000
Financial liabilities held at amortised cost	-	(134,233)	-	(134,233)
Long Term Creditors	-	-	-	-
Finance Lease Liabilities	-	-	-	-
Total Long Term	**-**	**(134,233)**	**-**	**(134,233)**
Financial assets held at amortised cost	-	3,500	-	3,500
Long Term Debtors	-	49,333	-	49,333
Total Long Term	**-**	**52,833**	**-**	**52,833**

31 March 2020	Quoted prices in active markets for identical assets (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	£000	£000	£000	£000
Financial liabilities held at amortised cost	-	(131,511)	-	(131,511)
Long Term Creditors	-	-	-	-
Finance Lease Liabilities	-	-	-	-
Total Long Term	**-**	**(131,511)**	**-**	**(131,511)**
Financial assets held at amortised cost	-	3,500	-	3,500
Long Term Debtors	-	43,761	-	43,761
Total Long Term	**-**	**47,261**	**-**	**47,261**

The fair value for financial liabilities and financial assets that are not measured at fair value included in levels 2 and 3 in the table above have been arrived at using a discounted cash flow analysis, with the most significant inputs being the discount rate. The fair value for financial liabilities and financial assets that are not measured at fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions.

Financial Assets

- no early repayment or impairment is recognised;
- estimated ranges of interest rates at 31 March 2021 of 0.0% to 0.17% for loans receivable, based on new lending rates for equivalent loans at that date;
- the fair value of trade and other receivables is taken to be the invoiced or billed amount.

Financial Liabilities

- no early repayment is recognised;
- estimated ranges of interest rates at 31 March 2021 of 1.0% to 8.9% for loans payable based on new lending rates for equivalent.

24. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Council's activities expose it to a variety of financial risks. The key risks are:

- **Credit risk** - the possibility that other parties might fail to pay amounts due to the Council;
- **Liquidity risk** - the possibility that the Council might not have funds available to meet its commitments to make payments;
- **Re-financing risk** - the possibility that the Council might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms;
- **Market risk** - the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates or stock market movements.

Overall procedures for managing risk

The Council's overall risk management programme focuses on the unpredictability of financial markets, and seeks to minimise potential adverse effects on the resources available to fund services.

The procedures for risk management are set out through a legal framework based on the Local Government Act 2003 and associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Code of Practice on Treasury Management in the Public Services and investment guidance issued through the Act. Overall, these procedures require the Council to manage risk in the following ways:

- by formally adopting the requirements of the CIPFA Treasury Management Code of Practice;
- by the adoption of a Treasury Policy Statement and treasury management clauses within its financial regulations, standing orders and constitution;
- by approving annually in advance prudential and treasury indicators for the following three years limiting:
    - The Council's overall borrowing;
    - Its maximum and minimum exposures to the maturity structure of its debt;
    - Its management of interest rate exposure;
    - Its maximum annual exposures to investments maturing beyond a year.
- by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with government guidance.

These are required to be reported and approved at or before the Council's annual Council Tax setting budget or before the start of the year to which they relate. These items are reported with the annual treasury management strategy which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported after each year, as is a mid-year update.

The annual treasury management strategy which incorporates the prudential indicators was approved by Council on 19 February 2020 and is available on the Council website.

The key issues within the strategy were:

- The Authorised Limit for 2020/21 was set at £225m. This is the maximum limit of external borrowings or other long term liabilities;
- The Operational Boundary was expected to be £210m. This is the expected level of debt and other long-term liabilities during the year;
- The maximum amounts of fixed and variable interest rate exposure were set at 100% and 25% based on the Council's net debt;
- The maximum and minimum exposures to the maturity structure of debt (see table below).
- Risk management is carried out by a central treasury team, under policies approved by the Council in the annual treasury management strategy. The Council provides written principles for overall risk management, as well as written policies (covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash.

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Credit Risk
Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the authority's customers. This risk is minimised through the Annual Investment Strategy, which is available on the authority's website. There are significant financial risks of COVID-19 that will be felt into 2021/22 and later years due to the uncertainty surrounding its impact on residents and Council Tax collection rates, the slowdown in house building and the reduction in the Council Tax base and income and on businesses and Business Rates collection rates.

Credit Risk Management Practices
The Council's credit risk management practices are set out in the Annual Investment Strategy. With particular regard to determining whether the credit risk of financial instruments has increased significantly since initial recognition.

The Annual Investment Strategy requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poor's Credit Ratings Services. The Annual Investment Strategy also considers maximum amounts and time limits with a financial institution located in each category.

The credit criteria in respect of financial assets held by the Council are detailed below:

The Council uses the creditworthiness service provided by Link Asset Services. This service uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moody's and Standard and Poor's, forming the core element.

However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

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

The full Investment Strategy for 2020/21 was approved by Full Council on 19 February 2020 and is available on the Council's website.

Customers for goods and services are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with internal ratings in accordance with parameters set by the Council.

The Council's maximum exposure to credit risk in relation to its investments in financial institutions of £4m cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments.

A risk of irrecoverable loss applies to all of the Council's deposits, but there was no evidence at the 31 March 2021 that this was likely.

The Council has invested funds in CloudConnX Limited £357,000 (of which £36,000 has been repaid) and Sea Change Sussex £2,250,000 plus capitalised interest. The risk of these companies failing to meet their commitments is minimised by maintaining representation on the board of Welbeing and CloudConnX. The loan to CloudConnX is supported by a fixed and floating charge over the assets. The loan to Sea Change Sussex loan is fully secured by a charge over land.

The Council has provided various commercial loan facilities to Eastbourne Housing Investment Company Limited, a wholly owned subsidiary of the Council:

- £23,856,350 of which £23,085,550 has been drawn down, for the purchase and refurbishment of properties, at an interest rate of 3% - 4.5%. The loans are secured by a first charge on the properties purchased;
- £250,000 working capital facility, unsecured at an interest rate of 2% above Base Rate, £247,000 of which was drawn down as at 31 March 2021.

The Council has provided various commercial loan facilities to Aspiration Homes LLP, a joint venture with Lewes District Council:

- £5,468,000 of which £4,095,250 has been drawn down, for the development of new properties, at an interest rate of- 4.5%. The loans are secured by a first charge on the properties purchased;
- £100,000 working capital facility, unsecured at an interest rate of 2% above Base Rate, of which £65,000 was drawn down as at 31 March 2021.

The Council has provided a commercial loan facility to South East Environmental Services Limited, a wholly owned subsidiary of the Council, totalling £1,600,000 of which £1,400,000 has been drawn down for the purchase of waste fleet vehicles. The loan is unsecured and interest is charged at the rate of 2% above Base Rate. Loans of £155,000 were repaid during 2020/21.

Amounts Arising from Expected Credit Losses (ECL)

The changes in loss allowance during the year are as follows:

	12 Month ECL	Lifetime ECL	Lifetime ECL - Simplified Approach	Total
	£000	**£000**	**£000**	**£000**
Opening balance 1 April 2020	-	-	(4,878)	(4,878)
Change in Credit Loss	(6)	(189)	(1,035)	(1,230)
Closing balance 31 March 2021	**(6)**	**(189)**	**(5,913)**	**(6,108)**

12 Month ECL includes some third party loans. Lifetime ECL includes some third party loans, treasury investments and non debtor system invoices. Lifetime ECL simplified includes debtor system invoices.

The table below summarises the credit risk exposures of the Council’s investment portfolio at 31 March by the type of counterparty:

Credit Rating	31 March 2020 £000	31 March 2021 £000
Banks, Building Societies & Corporates		
AAA	-	-
AA	-	-
A	3,459	4,423
Money Market Funds - AAA	-	-
Local Authorities - Unrated	-	-
Total	**3,459**	**4,423**

Collateral – During the reporting period the council held no collateral as security.

Liquidity risk

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management system, as required by the CIPFA Treasury Management Code of Practice. This seeks to ensure that cash is available when needed.

The Council has ready access to borrowings from the money markets to cover any day to day cash flow need, and the PWLB and money markets for access to longer term funds. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

The maturity analysis of financial assets is as follows:

	31 March 2020 £000	31 March 2021 £000
Less than one year	26,829	26,918
More than ten years	43,761	49,333
Total	**70,590**	**76,251**

Refinancing and Maturity risk
The Council maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer-term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

The approved treasury indicator limits for the maturity structure of debt and the limits placed on investments placed for greater than one year in duration are the key parameters used to address this risk. The Council approved treasury and investment strategies address the main risks and the central treasury team address the operational risks within the approved parameters.

This includes:

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and
- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs, and the spread of longer-term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

The maturity analysis of financial liabilities is as follows, with the maximum and minimum limits for fixed interest rates maturing in each period (approved by Council in the Treasury Management Strategy:

	Approved Minimum Limit %	Approved Maximum Limit %	31 March 2020 £000	31 March 2021 £000
Less than one year	0%	75%	45,285	72,666
Between one and two years	0%	75%	761	3,000
Between two and five years	0%	75%	3,380	761
Between five and ten years	0%	75%	1,712	1,331
More than ten years	0%	75%	119,050	114,145
Total			**170,188**	**191,903**

Market risk

Interest rate risk - The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:

- Borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise;
- Borrowings at fixed rates – the fair value of the borrowing will fall (no impact on revenue balances);
- Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise; and
- Investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances).

Borrowings are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in the Other Comprehensive Income and Expenditure Statement.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. The central treasury team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance, during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rates borrowing would be postponed.

According to this assessment strategy, at 31 March 2021, if all interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

	£000
Increase in interest payable on variable rate borrowings	462
Increase in interest receivable on variable rate investments	(79)
Impact on Surplus or Deficit on the Provision of Services	**383**
Decrease in fair value of fixed rate borrowings liabilities (No impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure)	(23,847)

Price risk

The Council does not generally invest in equity shares or marketable bonds However during 2019/20 did have shareholdings to the value of £732,000 (£1,030,000 in 2018/19) in Doro. The shareholding was part of the settlement relating to the sale of the Council's interest in Greencoat House Ltd (Welbeing) on 31st May 2018. The shares were sold during 2020/21.

Foreign exchange risk

The Council had a shareholding in Doro in Swedish Krona as part of the settlement in the sale of Greencoat House Ltd (Welbeing). This had an exposure to loss and gain arising from movements in exchange rates. The shares were sold during 2020/21. The Council has no other financial assets or liabilities denominated in foreign currencies and therefore has no exposure to loss arising from movements in exchange rates.

25. DEBTORS

Short Term debtors outstanding as at 31 March are:

31 March 2020 £000		31 March 2021 £000
	Financial Assets	
2,660	Trade Receivables	4,427
17,210	Other Receivables	14,567
19,870	**Total**	**18,994**
	Non Financial Assets	
362	Prepayments	654
3,399	Debtors for Local Taxation	19,679
789	Other Receivables	1,200
4,550	**Total**	**21,533**
24,420	**Total**	**40,527**

Debtors for Local Taxation at 31 March 2021 includes £14,265,00 Business Rates due from government.

Long-term debtors outstanding as at 31 March are:

31 March 2020 £000		31 March 2021 £000
28,556	Other Receivables	31,557
15,205	ICE/IIL Guarantee	17,776
43,761	**Total**	**49,333**

Under long term debtors for public corporations and other trading organisation the Council has investment of:

- £321,000 (2019/20 £357,000) in a company that will be providing telecommunication services primarily to the business sector in the locality. The Council currently has a charge over the assets of the company.
- £850,000 loan funding in 2014/15 provided in partnership with East Sussex County Council to East Sussex Energy Infrastructure and Development Ltd (trading as Sea Change Sussex) for the purchase of a site at Sovereign Harbour, with repayment due in 2024. Capitalised interest has been added to this loan bringing the total outstanding to £1,019,614.
- £1,400,000 loan funding in 2015/16 to East Sussex Energy Infrastructure and Development Ltd (trading as Sea Change Sussex) for the development of the Innovation Mall (Pacific House) at Sovereign Harbour, with repayment is due in 2024. Capitalised interest has been added bringing the total outstanding to £1,654,997.
- £24,106,350 loan facility was agreed with Eastbourne Housing Investment Company, a wholly owned subsidiary of the council for the purchase and redevelopment of various properties. As at 31 March 2021 a sum of £23,332,550 was drawn down. These loans are due for repayment on a variety of dates, the last due date being in 2059.
- £5,568,000 loan facility was agreed with Aspiration Homes LLP, a partnership wholly owned by The Council and Lewes District Council for the purchase and redevelopment of various properties. As at 31 March 2021 a sum of £4,160,250 was drawn down. This loan is due for repayment in 2058. These loans are due for repayment on a variety of dates, the last due date being in 2059.

- £1,600,000 loan facility was agreed with South East Environmental Services Limited, a wholly owned subsidiary of the council for the purchase waste fleet vehicles. As at 31 March 2021 a sum of £1,245,000 was drawn down. This loan is due for repayment in 2030.

- £17,775,808 long term contract receivable (plus £109,167 short term receivable) relating to a guarantee arrangement provided to IIL Limited in respect of an investment property in Leicester as detailed in Notes 4 and 5.

26. CREDITORS

Short term creditors between different groupings of creditor as at 31 March are:

31 March 2020 £000		31 March 2021 £000
	Financial Liabilities	
(726)	Trade payables	(1,082)
(7,824)	Other payables	(16,873)
(8,550)	**Total**	**(17,955)**
	Non Financial Liabilities	
(4,676)	Income in Advance	(4,283)
(513)	Creditors for Local Taxation	(16,050)
-	Other payables	-
(5,189)	**Total**	**(20,333)**
(13,739)	**Total**	**(38,288)**

Creditors for Local Taxation at 31 March 2021 includes £14,651,000 share of Business Rates s31 grant payment to central government. Other Payables includes £9,307,000 Covid-19 grants refund to central government.

Public corporations and trading organisations includes all commercial trading organisations in both the public and private sectors.

Other Long Term Liabilities

- £20,647,898 liability for a rental guarantee and £630,481 liability for a loan guarantee provided to IIL Ltd, a total of £21,278,380, in respect of an investment property in Leicester as detailed in Notes 4 and 5.
- There are no other Long term creditors.

27. PROVISIONS

Provisions represent amounts set aside to meet potential future liabilities. Provisions as at 31 March 2021 are:

	Balance 1 April 2020 £000	Additions £000	Amounts used £000	Balance 31 March 21 £000
Business Rate Appeals	(835)	(27)	-	(862)
MMI Insurance	-	(27)	-	(27)
Total	**(835)**	**(54)**	**-**	**(889)**

Business Rates Appeals is to provide for the settlement of rateable value appeals made to the valuation office.

Municipal Mutual Insurance Limited (MMI) outstanding insurance claims.

28. USABLE RESERVES

The table below sets out details of the movements and balances on individual usable reserves The reasons for maintaining each reserve are set out in detail in Note 2.19, and the annual movements for usable reserves are shown in the Movement in Reserves Statement. Details of Earmarked Reserves are shown at note 15.

31 March 2020 £000		31 March 2021 £000
(142)	General Fund Balances	(3,265)
(5,883)	HRA Balances	(5,450)
(6,865)	Earmarked Reserves	(18,782)
(1,150)	Major Repairs Reserve	(2,575)
(6,257)	Capital Receipts Reserve	(5,266)
(1,948)	Capital Grants Unapplied Account	(1,442)
(22,245)	**Total Usable Reserves**	**(36,780)**

Major Repairs Reserve

The Major Repairs Reserve controls the application of the Major Repairs Allowance (MRA). The MRA is restricted to being applied to new capital investment in HRA assets or the financing of historical capital expenditure by the HRA. The balance shows the MRA that has yet to be applied at the year end.

2019/20 £000		2020/21 £000
(1,055)	**Balance at 1 April**	**(1,150)**
(4,300)	Posting of HRA resources from the Major Repairs Reserve	(4,603)
4,205	Use of the Major Repairs Reserve to finance capital expenditure	3,094
-	Transfer to HRA Balances	84
(1,150)	**Balance at 31 March**	**(2,575)**

Capital Receipts Reserve

The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year end.

2019/20 £000		2020/21 £000
(7,545)	**Balance at 1 April**	**(6,257)**
(2,625)	Amounts receivable during the year	(2,609)
3,632	Amounts applied to finance new capital investment	4,073
281	Payments to Housing Capital Receipts Pool	248
-	Transfer from HRA Balances	(721)
(6,257)	**Balance at 31 March**	**(5,266)**

Capital Grants Unapplied Account

The Capital Grants Unapplied Account holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure.

2019/20 £000		2020/21 £000
(2,604)	**Balance at 1 April**	**(1,948)**
(2,255)	Amounts receivable during the year	(2,716)
2,584	Amounts applied to finance new capital investment	2,643
327	Transfer to Revenue	579
(1,948)	**Balance at 31 March**	**(1,442)**

29. UNUSABLE RESERVES

The table below sets out details of the movements and balances on individual unusable reserves: the "Total" figures are those included in the "Unusable Reserves" column of the Movement in Reserves Statement.

31 March 2020 £000		31 March 2021 £000
(1)	Deferred Capital Receipts Reserve	-
119	Collection Fund Adjustment Account	11,093
(40,238)	Revaluation Reserve	(40,333)
(190,306)	Capital Adjustment Account	(195,977)
49,938	Pension Reserve	68,477
44	Accumulated Absence Account	235
(180,444)	**Total Unusable Reserves**	**(156,505)**

Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of noncurrent assets but for which cash settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

2019/20 £000		2020/21 £000
(2)	**Balance at 1 April**	**(1)**
-	Transfer of deferred sales proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-
1	Transfer to the Capital Receipts Reserve upon receipt of cash	1
(1)	**Balance at 31 March**	**-**

Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax and non-domestic rates income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers and business rates payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

2019/20 £000		2020/21 £000
858	**Balance at 1 April**	**119**
(739)	Amount by which council tax and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rates income calculated for the year in accordance with statutory requirements	10,974
119	**Balance at 31 March**	**11,093**

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment and Heritage Assets. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost;
- used in the provision of services and the gains are consumed through depreciation;
- disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

2019/20 £000		2020/21 £000	2020/21 £000
(49,872)	**Balance at 1 April**		**(40,238)**
8,822	Revaluation of assets	(418)	
8,822	(Surplus) or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		**(418)**
812	Difference between fair value depreciation and historical cost depreciation	323	
-	Accumulated gains on assets sold or scrapped	-	
812	Amount written off to the Capital Adjustment Account		**323**
(40,238)	**Balance at 31 March**		**(40,333)**

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert current value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement. The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

2019/20 £000		**2020/21 £000**	**£000**
(219,761)	**Balance at 1 April**		**(190,306)**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
32,629	Charges for depreciation and impairment of non-current assets	(12,100)	
947	Amortisation of intangible assets	2,023	
2,874	Revenue expenditure funded from capital under statute	5,325	
-	Expected Credit Losses	196	
5,740	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	7,666	
42,190			**3,110**
(812)	Adjusting amounts written out of the Revaluation Reserve		(323)
41,378	**Net written out amount of the cost of non-current assets consumed in the year**		**2,787**
	Capital financing applied in the year:		
(3,632)	Use of the Capital Receipts Reserve to finance new capital expenditure	(4,073)	
(4,205)	Use of the Major Repairs Reserve to finance new capital expenditure	(3,094)	
(998)	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	-	
(1,585)	Application of grants to capital financing from the Capital Grants Unapplied Account	(2,643)	
(453)	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	(929)	
-	Capital expenditure charged against the General Fund and HRA balances	-	
(10,873)			**(10,739)**
(1,349)	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		3,233
299	Movements in the market value of Investments debited or credited to the Comprehensive Income and Expenditure Statement		(952)
(190,306)	**Balance at 31 March**		**(195,977)**

Pension Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2019/20 £000		2020/21 £000
56,167	**Balance at 1 April**	**49,938**
(11,966)	Re-measurement of the net defined benefit liability/(asset)	11,989
10,130	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	11,162
(4,393)	Employer's pensions contributions and direct payments to pensioners payable in the year	(4,612)
49,938	**Balance at 31 March**	**68,477**

Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Accounts.

2019/20 £000		2020/21 £000
44	**Balance at 1 April**	**44**
(44)	Settlement or cancellation of accrual made at the end of the preceding year	(44)
44	Amounts accrued at the end of the current year	235
44	**Balance at 31 March**	**235**

30. POST EMPLOYMENT BENEFITS

30.1 Participation in defined benefit pension plan

As part of the terms and conditions of employment of its employees, the Council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments (for those benefits) and to disclose them at the time that employees earn their future entitlement.

The Council participates in two post-employment schemes:

- The Local Government Pension Scheme, administered locally by East Sussex County Council. This is a funded defined final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

- Arrangements for the award of discretionary post-retirement benefits upon early retirement. This is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pension liabilities, and cash has to be generated to meet the actual pension payments as they eventually fall due. The Council also has liabilities for discretionary payments for added years, etc. These are charged directly to the accounts of the Council, as they are not a charge upon the Pension Fund.

The East Sussex Pension Scheme is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the pensions committee of East Sussex County Council. Policy is determined in accordance with the Pensions Funds Regulations. The investment managers of the fund are appointed by the committee.

The principal risks to the Council of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (i.e. large-scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund and Housing Revenue Account the amounts required by statute as described in the accounting policies note 2.6.

30.2 Transactions relating to post-employment benefits

We recognise the cost of retirement benefits in the cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However the charge we are required to make against Council Tax is based on the contributions payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund and Housing Revenue Account via the Movement in Reserves Statement.

The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

2019/20 £000		2020/21 £000
	Service Cost comprising:	
8,571	Current Service Costs	9,640
157	Past Service Costs	-
	Financing & Investment Income & Expenditure	
1,402	Net Interest Expense	1,358
-	Administration expenses	164
10,130	**Total Post-employment Benefits charged to the Surplus or Deficit on the Provision of Services**	**11,162**
	Other Post-employment Benefits charged to the Comprehensive Income & Expenditure Statement	
22,529	Return on Plan Assets (excluding the amount included in the net interest expense)	(28,611)
(6,187)	Actuarial Gains arising on changes in demographic assumptions	(3,222)
(18,971)	Actuarial (Gains) and losses arising on changes in financial assumptions	46,442
(9,337)	Other	(2,620)
(11,966)	**Other Comprehensive Income & Expenditure**	**11,989**
(1,836)	**Total Post-employment Benefits charged to the Comprehensive Income & Expenditure Statement**	**23,151**
	Movement in Reserves Statement	
10,130	Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post-employment benefits in accordance with the Code	11,162
(4,393)	Actual amount charged to the General Fund Balance for pensions in the year	(4,612)
5,737	**Net adjustment in Movement in Reserves Statement**	**6,550**

Note – 2020/21 figures have combined funded and unfunded totals.

30.3 Pensions Assets and Liabilities recognised in the balance Sheet

The amount included in the Balance Sheet for the Council's obligation in respect of its defined plans is as follows:

31 March 2020 £000		31 March 2021 £000
145,813	Fair value of employer assets	176,034
(191,782)	Present value of funded liabilities	(240,515)
(3,969)	Present value of unfunded liabilities	(3,996)
(49,938)	**Net liability arising from defined benefit obligation**	**(68,477)**

30.4 Reconciliation of the Movements in the Fair Value of the Scheme Assets

2019/20 £000		2020/21 £000
164,979	Opening fair value of assets	145,813
3,961	Interest income	2,402
-	Administration expenses	(164)
4,077	Contributions from employer - Funded	4,612
316	Contributions from employer - Unfunded	-
1,287	Contributions from employees into the scheme	1,365
(5,962)	Benefits paid - Funded	(6,605)
(316)	Benefits paid - Unfunded	-
	Re-measurement gains / (losses)	
(22,529)	Return on assets less interest	28,611
145,813	**Closing fair value of scheme assets**	**176,034**

30.5 Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)

2019/20 £000		2020/21 £000
(221,146)	**Opening balance at 1 April**	**(195,751)**
(8,571)	Current service costs	(8,577)
(5,363)	Interest costs	(3,760)
(1,287)	Contributions from scheme participants	(1,365)
(157)	Past service costs	(1,063)
5,962	Benefits paid - funded	6,295
316	Benefits paid - unfunded	310
	Re-measurement gains / (losses)	
6,187	Change in demographic assumptions	3,222
18,971	Change in financial assumptions	(46,442)
9,337	Experience on defined benefit obligation	2,620
(195,751)	**Closing Balance at 31 March**	**(244,511)**

30.6 Local Government Pension Scheme Assets comprised:

2019/20 £000	%		2020/21 £000	%
121,831	84	Equities	133,434	76
21,197	14	Bonds	26,361	15
2,321	2	Property	13,245	7
464	-	Cash	2,994	2
145,813	**100**	**Total Assets**	**176,034**	**100**

Note
The bid values are estimated where necessary. The individual percentages shown are to the nearest percentage point for each asset class and may not sum to 100%. The final asset allocation of the Fund assets as at 31 March 2021 may be different from that shown due to estimation techniques.

The detail of assets as at 31 March 2021, representing the percentages of the total Fund held in each asset class (split by those that have a quoted market price in an active market, and those that do not) is:

Asset Breakdown	% Quoted	% Unquoted
Index Linked Government Securities		
UK	-	3.1
Overseas	-	-
Corporate Bonds		
UK	-	10.6
Overseas	-	-
Equities		
UK	-	-
Overseas	-	44.4
Property		
All	-	7.5
Others		
Absolute return portfolio	-	23.2
Private Equity	-	8.2
Infrastructure	-	0.3
Other	-	1.0
Cash / Temporary Investments	1.4	-
Net Current Assets		
Debtors	0.3	-
Creditors	-	-
Total	**1.7%**	**98.3%**

30.7 Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions on mortality rates, salary levels, etc. The liabilities have been assessed by Barnett Waddingham (who replaced Hymans Robertson), an independent firm of actuaries, being based on the latest full valuation of the scheme as at 31 March 2019. The main assumptions used in their calculations are:

The significant assumptions used by the actuary have been:

Life Expectancy from age 65	31 March 2020	31 March 2021
Retiring today		
Males	21.6	21.1
Females	23.9	23.7
Retiring in 20 years		
Males	22.5	21.9
Females	25.3	25.0

Financial Assumptions	31 March 2019	31 March 2020	31 March 2021
Discount rate	2.4%	2.3%	2.0%
Pension increases	2.5%	1.9%	2.8%
Salary increases	2.9%	1.9%	2.8%

The duration of the Council's funded liabilities is 20 years.

The estimation of the defined benefit obligation is sensitive to the actuarial assumption set out in the table above. (See also Note 5) The sensitivity analyses below have been determined based on reasonably possible changes to the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

Sensitivity Analysis	£000	£000	Change £000	Change %
Adjustment to discount rate	**0.0%**	**-0.1%**		
Projected value of total obligation	244,511	249,355	4,844	2.0%
Adjustment to long term salary increase	**0.0%**	**-0.1%**		
Projected value of total obligation	244,511	249,209	4,968	1.9%
Adjustment to pension increases and deferred revaluation	**0.0%**	**-0.1%**		
Projected value of total obligation	244,511	240,100	(4,411)	-1.8%
Adjustment to life expectancy assumptions	**None**	**+1 year**		
Projected value of total obligation	244,511	256,449	11,938	4.9%

30.8 Impact on the Council's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The County Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 20 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed as at 31 March 2022.

The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales may not provide benefits in relation to service after 31 March 2017. The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants.

The Council anticipates paying £3,880,000 expected contributions to the scheme in 2021/22.

31. CASH FLOW STATEMENT

The surplus/deficit on the provision of services has been adjusted for the following non cash movements:

2019/20 £000		2020/21 £000
7,736	Depreciation	7,888
24,894	Impairment and (reversal) of impairment and valuation movements	(19,988)
947	Amortisation	2,023
-	Increase in impairment for bad debts	196
(4,258)	Increase / (Decrease) in creditors	23,289
(5,165)	(Increase) / Decrease in Debtors	40
(9)	(Increase) / Decrease in Inventories	35
5,737	Movement in pension liability	6,550
5,740	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	7,666
(116)	Other non-cash items charged to the net surplus or deficit on the provision of services (including Financial Guarantee)	345
35,506	**Adjustment for Non-Cash Movements included in the provision of services**	**28,044**

The surplus on the provision of services has been adjusted for the following items that are investing and financing activities:

£000		£000
-	Proceeds from short and long term investments	-
(2,624)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(2,608)
(2,583)	Other items for which the cash effects are investing or financing activities	(2,643)
(5,207)	**Adjustment for items that are investing and financing activities**	**(5,251)**

£000	Investing Activities	£000
(18,972)	Purchase of property, plant and equipment, investment property and intangible assets	(7,983)
-	Purchase of short-term and long-term investments	-
(14,268)	Other payments for investing activities	(3,755)
2,624	Proceeds from sales of property, plant and equipment, investment property and intangible assets	2,609
-	Proceeds from short and long term investments	-
2,588	Other receipts from investing activities	3,296
(28,028)	**Net cash flows from investing activities**	**(5,833)**

£000	Financing Activities	£000
85,875	Cash receipts of short and long-term borrowing	32,286
(47,328)	Repayment of short and long-term borrowing	(35,000)
248	Other payments for financing activities	(15,449)
38,795	**Net cash flows from financing activities**	**(18,163)**

Reconciliation of Liabilities arising from Financing Activities	1 April 2020 £000	Financing Cash Flows £000	Non Cash Changes £000	31 March 2021 £000
Short Term Borrowings	(35,638)	(4,953)	264	(40,327)
Long Term Borrowings	(126,903)	7,666	-	(119,237)
Net cash outflow from financing activities	**(162,541)**	**2,713**	**264**	**(159,564)**

32. CONTINGENT ASSETS AND LIABILITIES

Contingent Liabilities

Municipal Insurance Limited

The Council's former insurers were Municipal Mutual Insurance Limited (MMI) until the company ceased to provide new cover in 1994. A Scheme of Arrangements was set up with the aim of funding any claims that were outstanding at that time. The scheme allows for a claw back of payments already made under the scheme if the outstanding claims cannot be fully funded by the company. The maximum possible claw back for the Council was set at £470,000. The Directors of MMI 'triggered' the Scheme of Arrangement under Section 425 of the Companies Act 1985 (now Section 899 of the Companies Act 2006) on 13 November 2012. Ernst & Young are now responsible for the management of the MMI business, affairs and assets. Ernst & Young have carried out a review of MMI assets and liabilities. A payment of £70,437 was made during 2013/14, £46,958 during 2015/16 and £83,245 during 2019-20 (total £200,640) by the Council and the balance of £269,360 will continue to be a contingent liability.

Towner Trust

On 1st July 2014, 16 staff employed by the council who were members of the LGPS were TUPE to the Towner Trust. The council retains a liability of any deficit that may arise in the future from the pension liability of the Towner Trust. The value of any future liability cannot be accurately determined.

Eastbourne Borough Football Club (EBFC)

As freeholder of the EBFC football pitch, the Council has provided a guarantee for EBFC in respect of a finance agreement to improve the football pitch. The maximum liability is £500,000.

Bedfordwell Road

The Council purchased land at Bedfordwell Road on 24 March 2018. Overage, capped at £1m, may be payable under certain circumstances.

Investment Company Eastbourne Limited (ICE)

In May 2018, the Council's wholly owned investment company, ICE, entered into a deal with a private company in respect of a property in Leicester. ICE is acting as the principal guarantor of a £48m refinancing loan to a private company, with the Council being the ultimate guarantor. ICE is also providing a rental guarantee in respect of shortfalls of rental income, again with the Council being the ultimate guarantor. In return for providing this guarantee, ICE has received an initial guarantee fee and will receive an annual guarantee fee. Whilst the Council will be potentially liable to pay Canada Life future payments if a default event occurs, it is unclear when exactly this type of event would occur and therefore difficult to establish what the potential liability would be. The timing and amount of any payments arising from both the loan guarantee and the rental guarantee are uncertain, as they could result from a number of default or income shortfall events. However, a default event would also give rise to circumstances that are reflected as a Contingent Asset. As at 31st March 2021 there were no conditions or events which would trigger any liability.

27 Arundel Road, Eastbourne

The Council have a headlease on this property and also an underlease. If the property were to change from its existing social benefit use or be sold then the Council would have to repay a £483,000 capital grant back to Homes England.

Contingent Assets

Overpaid VAT

A number of Councils are in the process of legal action against Royal Mail and HM Revenue and Customs to recover VAT on postal services. The Council has claims for VAT on Postal Services. The case is currently subject to legal decision.

Investment Company Eastbourne Limited (ICE)

At the end of the loan term, and assuming no default event occurs, the property will be jointly marketed and sold, with ICE being entitled to stipulated amounts and proportions of the net sale proceeds. The timing and value of the net sale proceeds are both uncertain. ICE also has two options which allow it to acquire 49.5% of the shares of the company for £1 at any time, and 100% of the shares of the company, or the property, in the event of a default on the loan. The timing of these events, and the value of the shares and the property at that time, are uncertain.

HOUSING REVENUE ACCOUNT (HRA)

2019/20 £000		2020/21 £000
	Income	
(13,823)	Dwelling Rents	(14,427)
(113)	Non-Dwelling Rents	(178)
(1,383)	Charges for Services and Facilities	(1,147)
(36)	Contributions Towards Expenditure	(15)
(15,355)	**Total Income**	**(15,767)**
	Expenditure	
3	Repairs and Maintenance	2
8,612	Supervision and Management	9,064
211	Rents, rates, taxes and other charges	516
(12,467)	Depreciation, Amortisation and Impairment Reversals of Non Current Assets	(15,247)
(23)	Movement in the allowance for bad debts	(5)
22	Debt Management Costs	23
(3,642)	**Total Expenditure**	**(5,647)**
(18,997)	**Net Income for HRA Services as included in the whole authority Income and Expenditure Statement**	**(21,414)**
65	HRA services share of Corporate and Democratic Core	64
(18,932)	**Net Income for HRA Services**	**(21,350)**
3,544	(Gain)/loss on sale of HRA assets	2,606
1,883	Interest Payable and Similar Charges	1,596
(32)	Interest and Investment Income	(1)
(154)	Capital Grants and Contributions Received	1
(13,691)	**Surplus for the Year**	**(17,148)**

MOVEMENT ON THE HRA STATEMENT

2019/20 £000	2019/20 £000		2020/21 £000	2020/21 £000
	(5,947)	**Housing Revenue Account opening balance**		**(5,883)**
(13,691)		**(Surplus)/Deficit on HRA Income and Expenditure Statement**	**(17,148)**	
		Adjustments between accounting and funding basis:		
-		Capital expenditure financed by the HRA	-	
154		Capital Grants and Contributions received	(1)	
(5,586)		Reverse non-current assets written off on disposal	(3,520)	
2,042		Proceeds from sales of non-current assets	914	
12,466		Transfer from Capital Adjustment Account	15,247	
4,300		Transfer to Major Repairs Reserve	4,603	
(315)			**95**	
379		Transfers (to) / from earmarked reserves	338	
	64	**Increase in year on HRA**		**433**
	(5,883)	**Housing Revenue Account closing balance**		**(5,450)**

The Housing Revenue Account (HRA) records revenue income and expenditure relating to the Council's own housing stock. The account is "ring fenced" as there are statutory controls over the transfers which can be made between the HRA and the Council's General Fund. It shows the major elements of housing revenue expenditure - maintenance, administration and capital financing costs - and how these are met by rents and other income.

The Council has transferred responsibility for the management of its housing stock to Eastbourne Homes Limited as outlined in Note 12.4 above.

NOTES TO THE HOUSING REVENUE ACCOUNT

1. HOUSING STOCK

The Council's housing stock consisted of:

31 March 2020		31 March 2021
	Houses and Bungalows	
16	- one bedroom	16
517	- two bedrooms	516
1,107	- three bedrooms	1,202
51	- four or more bedrooms	51
1,691	**Total Houses and Bungalows**	**1,785**
	Flats	
1,025	- one bedroom	1,025
533	- two bedrooms	533
4	- three or more bedrooms	4
129	- bed-sits	129
1,691	**Total Flats**	**1,691**
3,382	**Total Dwellings**	**3,476**

In addition the Council has shared ownership arrangements covering 19 full property equivalents (19 at 31 March 2020). The Council no longer has any properties under short-term property leases.

The Council's Balance Sheet includes the following HRA assets:

	31 March 2020	31 March 2021
	£000	£000
Dwellings	194,265	209,255
Other Land and Buildings	1,181	1,161
Total	**195,446**	**210,416**

2. VACANT POSSESSION VALUE OF DWELLINGS

The Council's stock of council dwellings was re-valued by Wilks, Head & Eve as at 31 March 2020, which resulted in a market vacant possession value of the housing stock at 31 March 2020 of £569m. The vacant possession of garages is £2.6m. The regional adjustment factor used for dwellings at 'social rent' is 67% thereby reducing the balance sheet value of these dwellings to 33% of their open market value. The Government considers that the difference between this figure and the Balance Sheet figure shown above represents the economic cost to Government of providing council housing at less than open market rents. For the 31 March 2021 valuation, the previous years valuation was subject to a market review by the valuers, with houses increasing by 8% in value and flats by 6.5%.

3. MAJOR REPAIRS RESERVE (MRR)

This reserve was established by the Local Authorities (Capital Finance and Accounts) Regulations 2000. An amount equal to the total depreciation for the year for HRA properties is transferred to the reserve from the Capital Adjustment Account; where capital expenditure is funded from the MRR the MRR is debited and the Capital Adjustment Account credited.

2019/20 £000		2020/21 £000
(1,055)	**Balance as at 1 April**	**(1,150)**
4,205	Financing of Capital Expenditure	3,094
(4,300)	Depreciation	(4,603)
-	Transfer to revenue	84
(1,150)	**Balance as at 31 March**	**(2,575)**

4. CAPITAL EXPENDITURE AND FINANCING

The table below summarises the total capital expenditure for the year, and the sources of finance.

2019/20 £000		2020/21 £000
4,529	**Total Capital Expenditure**	**6,834**
	Funding:	
-	Borrowing	2,954
-	Government Grant	-
171	Capital Receipts	545
4,205	Major Repairs Reserve	3,094
-	Revenue	-
153	Contributions	241
4,529	**Total Funding**	**6,834**

5. CAPITAL RECEIPTS FROM ASSET DISPOSALS

2019/20 £000		2020/21 £000
1,929	Right to Buy Sales of Houses and Flats	825
98	Other Sales	89
15	Repayment of Right to Buy Discount	-
2,043	**Total**	**914**

6. DEPRECIATION

2019/20 £000		2020/21 £000
4,284	Dwellings	4,589
16	Other Land and Buildings	14
4,300	**Total**	**4,603**

7. REVALUATION OF HRA STOCK

A market review of the HRA stock was carried out by Wilks Head & Eve as at 31 March 2021 (a full revaluation was carried out at 31 March 2020), which resulted in an increase in value of £15m. The current market value of HRA stock is disclosed in Note 1 above.

8. RENT ARREARS

Rent arrears at 31 March 2021 amounted to £1,257,000 (£1,025,000 at 31 March 2020). These sums include the overpayment of Housing Benefit prior to 2004/05 and former tenants' arrears. During 2020/21 former tenant arrears of £6,000 were written off (£5,000 in 2019/20). The Council has an impairment allowance for doubtful debts of £182,000 at 31 March 2021 (£187,000 at 31 March 2020).

COLLECTION FUND REVENUE ACCOUNT

2019/20 Business Rates and Council Tax £000		2020/21 Business Rates £000	2020/21 Council Tax £000	Total £000
	Income			
68,338	Income collectable from Council Tax	-	71,054	71,054
776	Hardship Grant Funding	-	776	776
36,272	Income collectable from Non-Domestic Rates	10,697	-	10,697
412	Transitional Relief	123	-	123
	Contribution towards previous year's Collection Fund Deficit			
913	Central Government	126	-	126
(172)	East Sussex County Council	(54)	351	297
673	Eastbourne Borough Council	15	60	75
(39)	Sussex Police and Crime Commissioner	-	46	46
(4)	East Sussex Fire Authority	(14)	23	9
107,169	**Total Fund Income**	**10,893**	**72,310**	**83,203**
	Expenditure			
	Precepts, Demands and Shares			
8,789	Central Government	18,770	-	18,770
59,021	East Sussex County Council	3,379	51,995	55,374
24,047	Eastbourne Borough Council	15,016	8,772	23,788
6,601	Sussex Police and Crime Commissioner	-	6,967	6,967
5,014	East Sussex Fire Authority	375	3,329	3,704
103,472		**37,540**	**71,063**	**108,603**
129	Business Rates Costs of Collection	129	-	129
	Charges to Collection Fund			
364	Allowance for Appeals	257	-	257
909	Write-offs of uncollectable amounts	246	126	372
519	Allowance for impairment of doubtful debts	248	825	1,073
1,921		**880**	**951**	**1,831**
	Apportionment of previous year's Collection Fund Surplus			
-	East Sussex County Council	-	-	-
-	Eastbourne Borough Council	-	-	-
-	Sussex Police and Crime Commissioner	-	-	-
-	East Sussex Fire Authority	-	-	
-		**-**	**-**	**-**
105,393	**Total Fund Expenditure**	**38,420**	**72,014**	**110,434**
(1,776)	**Movement on Fund Balance**	**27,527**	**(296)**	**27,231**
	COLLECTION FUND BALANCE			
1,899	**Balance at 1st April**	331	(208)	123
(1,776)	(Surplus)/Deficit for the year	27,527	(296)	27,231
123	**Balance as at 31st March**	**27,858**	**(504)**	**27,354**

NOTES TO THE COLLECTION FUND

1. INCOME FROM COUNCIL TAX

Amounts receivable from Council Taxpayers:

		2020/21 £000
Gross amount of Council Tax		**91,299**
Less:	Council Tax Support Scheme	(9,067)
	Discounts	(8,591)
	Exemptions	(2,486)
	Disabled Relief	(101)
Net Yield from Council Tax		**71,054**

Council Tax Base

The Council's tax base (i.e. the number of chargeable dwellings in each valuation band (adjusted for dwellings where discounts apply) converted to an equivalent number of band D dwellings), was calculated as follows:

Band	Chargeable Dwellings	Est Taxable Properties	Ratio to Band D	Band D Equivalent	Yield £000
A Dis Red	14	9	5/9	5	10
A	8,405	5,143	6/9	3,429	6,992
B	12,894	9,785	7/9	7,611	15,519
C	10,594	8,744	8/9	7,772	15,849
D	8,507	7,440	9/9	7,440	15,171
E	4,478	4,070	11/9	4,974	10,144
F	2,019	1,873	13/9	2,705	5,517
G	1,115	1,030	15/9	1,717	3,501
H	51	44	18/9	88	179
	48,077	**38,138**		**35,741**	**72,882**
Less average 2.5% reduction to allow for collection losses				(893)	(1,822)
Council Tax Base				**34,848**	**71,060**

The estimated and actual tax base figures can vary due to the various effects of banding appeals, new properties, demolished properties and entitlements to discounts.

Comparison of Actual versus Theoretical Gross Yields:

Tax base (as above)	A	34,848.6
Band D Council Tax 2020/21 (Budget report)	B	£2,039.17
Theoretical gross yield	A x B	£71,062,223
Actual gross yield (as above)	C	£71,054,323
Theoretical gross yield - actual gross yield	**(A x B) – C**	**£7,900**

2. INCOME FROM BUSINESS RATE PAYERS

The Council collects Non-Domestic Rates for its area based on local rateable values provided by the Valuation Office Agency multiplied by a uniform business rate set nationally by Central Government. The table below shows the total rateable value and multipliers.

		2019/20	2020/21
Total non-domestic rateable value	**£m**	93.6	93.1
Multiplier	**p**	50.4	51.2
Multiplier (Small businesses)	**p**	49.1	49.9
Product	**£m**	36.3	10.7

The gross yield before adjustments represents potential income at a point in time, i.e. the financial year end, and differs from bills issued during the year due to relief for empty properties, transitional relief, charity relief, and changes in rateable value and property base movements.

The business rates share payable in 2020/21 was estimated before the start of the financial year as £37.5m. These sums have been paid into 2020/21 and charged to the collection fund in year. The council's share is £15.0m.

3. PRECEPTS AND DEMANDS ON THE COLLECTION FUND

Authority	COUNCIL TAX			NON-DOMESTIC BUSINESS RATES		
	Precept	Distribution of prior years deficit	Total	Share	Distribution of prior years surplus	Total
	£000	£000	£000	£000	£000	£000
Eastbourne Borough Council	8,772	(60)	8,712	15,016	(15)	15,001
Central Government	-	-	-	18,770	(126)	18,644
East Sussex County Council	51,995	(351)	51,644	3,379	54	3,433
Sussex Police	6,967	(46)	6,921	-	-	-
East Sussex Fire Authority	3,329	(23)	3,306	375	14	389
Total	**71,063**	**(480)**	**70,583**	**37,540**	**(73)**	**37,467**

When the retained business rates income scheme was introduced, Central Government set a baseline funding level for each authority identifying the expected level of retained business rates and a top up or tariff amount to ensure that all authorities receive the baseline amount. Tariffs due from authorities payable to Central Government are used to finance the top-ups to those authorities who do not achieve their targeted baseline funding. Any sums above the baseline funding are subject to a levy payment, for this Council this is 50%. The amounts for this Council are as follows:

	2019/20 £000	2020/21 £000
Actual Business Rate income due	16,710	16,255
Tariff payment	(12,362)	(11,089)
	4,348	**5,166**
Baseline Funding	(3,593)	(3,653)
Amount above (below) baseline	**755**	**1,513**

4. COLLECTION FUND BALANCE

The table below shows the balances on the Collection Fund and how they relate to each precepting authority:

	COUNCIL TAX		BUSINESS RATES	
	31 March 20 £000	31 March 21 £000	31 March 20 £000	31 March 21 £000
Eastbourne Borough Council	(27)	(61)	146	11,143
Central Government	-	-	83	13,930
East Sussex County Council	(151)	(368)	85	2,506
Sussex Police Authority	(20)	(52)	-	-
East Sussex Fire Authority	(10)	(23)	17	279
Surplus (Deficit)	**(208)**	**(504)**	**331**	**27,858**

The preceptors' share of the deficit on the Collection Fund is shown in the Council's balance sheet as part of the debtor's figures. This Council's share is included on the balance sheet under Collection Fund adjustment account.

GROUP ACCOUNTS

Introduction

The purpose of the main accounting statements is as set out in the accounting statements above for the Council alone. The accounting Code of Practice requires the same disclosures to be made for group accounts as for the Council's own accounts. Where notes have not been included in the group accounts, the impact is not considered to be material.

The valuations are not reported as subject to 'material valuation uncertainty' as defined by RICS Valuation Global Standards. The exception is retail and some specific assets/sectors which continue to be faced with an unprecedented set of circumstances caused by Covid-19 and an absence of relevant/sufficient market evidence on which to base judgements.

Group accounts are prepared to combine the accounts of the Council and its associated companies. Transactions and indebtedness between the Council and the companies are eliminated in the preparation of these accounts.

Eastbourne Homes Limited and Eastbourne Housing Investment Company Limited are wholly owned subsidiaries of the Council, and group accounts are therefore prepared to combine the accounts of the Council and the two companies. Transactions and indebtedness between the Council and the companies have been eliminated in the preparation of these accounts.

Eastbourne Homes Limited (EHL)

EHL is a private limited company and was incorporated on 24 January 2005 and commenced trading on 1 April 2005. The principal activity is to maintain, manage and improve the housing stock on behalf of the Council. One of the seven Board Directors of EHL are residents in properties maintained by Eastbourne Homes and owned by Eastbourne Borough Council. These residents have a standard tenancy agreement and fulfil the same obligations and receive the same service as all other residents of Eastbourne.

South East Independent Living Limited (SEILL)

South East Independent Living Limited (SEILL) is a private limited company, was incorporated on 30 September 2013. This company is wholly owned by EHL and their accounts have been incorporated with the accounts of EHL. The principal activity of SEILL is the delivery of a short term housing floating support service for people of 65 and over who live in Eastbourne, Lewes or Wealden district.

Eastbourne Housing Investment Company Limited (EHIC)

EHIC is a private limited company and was incorporated on 1 May 2015 and commenced trading in November 2015. There are five Directors made up of three Members, one senior Council officers and one EHL Director This company is wholly owned by the Council.

South East Environmental Services Limited (SEESL)

South East Environmental Services Limited, a private limited company, was incorporated on 31 August 2018. It is a wholly owned by the Council and has been set up to provide waste and recycling services. SEESL has been consolidated in the Group Accounts from 2020/21 and therefore opening balances have been restated.

Aspiration Homes LLP (AH)

Aspiration Homes LLP is a limited liability partnership incorporated 30 June 2017 and commenced trading 21 December 2017. AH registered office is Town Hall, Grove Road, Eastbourne, East Sussex, BN21 4UG. There is an Executive Committee made up of 6 members (3 EBC and 3 LDC). AH is jointly owned by Eastbourne BC and Lewes DC with joint control. It has therefore been consolidated into the group accounts as a joint venture under the equity method with each authority including their share of rights to the net assets of the company.

Summarised financial information

	2020/21	2019/20
	£'000	**£'000**
Profit and Loss		
Operating Profit	£246	£811
Profit before Members' Shares	£66	£681
Balance Sheet		
Current Assets	£77	£483
Non-Current Assets	£6,829	£5,781
Current Labilities	£362	£242
Non-Current Liabilities	£5,153	£4,695
Other Financial Information		
Cash and cash equivalents	£78	£463
Trade Creditors	-	-
Depreciation and amortisation	-	-
Interest income	-	-
Interest expense	£195	£130
Interest Tax Expense or Income	-	-

Investment Company Eastbourne Limited (ICE) and Infrastructure Investments Leicester Limited (IIL)

In May 2018, the Council's wholly owned the Investment Company Eastbourne Limited entered into a deal with a private company, Infrastructure Investments Leicester Limited, in respect of a property in Leicester. IIL registered office is Bay Lodge, 36 Harfield Road, Uxbridge, Middlesex, UB8 1PH. ICE is acting as the principal guarantor of a £48m refinancing loan to a private company, with the Council being the ultimate guarantor.

ICE is also providing a rental guarantee in respect of shortfalls of rental income, again with the Council being the ultimate guarantor. In return for providing this guarantee, ICE has received an initial guarantee fee and will receive an annual guarantee fee. The timing and amount of any payments arising from both the loan guarantee and the rental guarantee are uncertain, as they could result from a number of default or income shortfall events. However, this supports the Council income generation activities to help provide services and improve their financial position. A default event would also give rise to an entitlement to receive 100% of the shares of IIL or the Property. As at 31st March 2020 there were no conditions or events which would trigger any liability.

IIL owns and operates the Property, known as St George's Tower, which is a large and predominately commercial building in Leicester. IIL also acts as a landlord and leases the building to a number of tenants, which include a hotel, a gym, student facilities and commercial offices. IIL is a privately-owned company, which was incorporated and is registered in England. IIL refinanced its previous loans from Investec Bank and Leicester City Council with a £48m, 30-year loan provided by Canada Life (the Loan) in respect of the Property (the Scheme). As part of the refinancing arrangements, Eastbourne Borough Council (the Council) was approached by the Shareholders to provide a guarantee in respect of the Loan via a special purpose vehicle, ICE, which is a wholly owned subsidiary of the Council. ICE acts as the principal guarantor, with the Council being the ultimate guarantor (the Guarantee).

In return for providing the Guarantee, ICE received from IIL a £5.5m initial guarantee fee upfront and will receive a £0.3m annual guarantee fee (which is indexed annually on RPI but up to a 4.4% cap). ICE paid a £2m initial guarantee fee to the Council and pays the annual guarantee fee on to the Council. The Council (as ultimate guarantor), ICE and IIL entered into a Development and Asset Management Agreement (DAMA) which outlines the responsibilities of each party with respect to the management of the Property and the guarantee fees attributable to ICE. Under the DAMA, ICE will receive the guarantee fee before any payment of the asset management fee.

As part of the Guarantee arrangement, ICE purchased a share option from the IIL's for a sum of £3.5m, whereby ICE is entitled to acquire, at any time (irrespective of whether the loan is in default), 49.5% of the issued share capital of IIL for £1, and to receive 100% of the shares of the company, or the property, in the event of a default on the loan. At the end of the loan term, and assuming no default event occurs, the property will be jointly marketed and sold. ICE is entitled to a preferential priority waterfall on the sale, after 30 years, i.e., first £35m to go to ICE, the balance up to £70m is to the remaining shareholders of IIL and any amount over £70m will be split equally across all shareholders of IIL.

IIL is accounted for as a joint venture under the equity method in the Group Accounts. The £3.5m investment in the joint venture was recognised at cost in May 2018. The investment has subsequently been adjusted to £3.797m for the Council's 49.5% share of IIL's post acquisition gains or losses for the period to March 2020 (£3.436m March 2019). As noted on page 97, there is a 'material valuation uncertainty' over property valuations, which affects the value of the St Georges Tower investment property, and so the equity accounted investment value of the investment in the Group accounts.

The loan guarantee and rental guarantee are shown as Other Long Term Liabilities in Note 25. The contract receivable in respect of the transaction is shown in Note 24 within Long-Term Debtors. The first instalment of the annual income fee was paid in 2019/20. In accounting for the transaction the Council has made a number of critical judgements and estimates which are disclosed in Notes 4 and 5.

Summarised financial information

	2020/21	**2019/20**
	£'000	**£'000**
Profit and Loss		
Operating Profit	1,334	1,329
Loss before Tax	996	573
Loss after Tax	1,771	717
Balance Sheet		
Current Assets	1,843	1,922
Non-Current Assets	54,732	53,672
Current Labilities	6,959	4,062
Non-Current Liabilities	43,231	44,151
Other Financial Information		
Cash and cash equivalents	1,208	1,596
Trade Creditors	24	64
Depreciation and amortisation	36	35
Interest income	-	-
Interest expense	3,401	1,902
Interest Tax Expense or Income	-	-

IIL has a financial year end of 31 December which is different to that of the Council which is 31 March. In applying the equity method for consolidation, the IIL accounts for a nine month period from 1 April 2020 to 31 December 2020 and a three month period from 1 January 2021 to 31 March 2021 have been used.

CloudConnX Limited

The Council owns 48% of the B shares in CloudConnX and has significant influence over the company but not control. The accounts have not been included in the Group accounts as the effect is not material.

Eastbourne Downs Water Company Limited (EDWC)

EDWC, a private limited company, was incorporated 24 August 2016. The company is wholly owned by Eastbourne Borough Council. There have been no transactions during the period to 31 March 2020 and the company is currently dormant. The principal activity of EDWC will be to supply water to Downland Farms. The company is exempt from the requirement to prepare individual accounts under section 394A, or to file individual accounts under 448A of the Companies Act 2006.

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GROUP MOVEMENT IN RESERVES STATEMENT

	EBC Usable Reserves	EBC Unusable Reserves	Total EBC Reserves	Share of Reserves of Subsidiaries and Joint Ventures	Total Group Reserves
	£000	**£000**	**£000**	**£000**	**£000**
Balance at 1 April 2019	**(26,826)**	**(212,566)**	**(239,392)**	**(2,671)**	**(242,063)**
Movement in Reserves 2019/20					
Total Comprehensive Income and Expenditure	39,847	(3,144)	36,703	(611)	**36,092**
Adjustments between accounting basis & funding basis under regulation	(35,266)	35,266	**-**	-	**-**
Transfers (to)/from Earmarked Reserves	-	-	**-**		**-**
Decrease / (Increase) in Year	**4,581**	**32,122**	**36,703**	**(611)**	**36,092**
Balance at 31 March 2020	**(22,245)**	**(180,444)**	**(202,689)**	**(3,282)**	**(205,971)**
Movement in Reserves 2020/21					
Total Comprehensive Income and Expenditure	(2,167)	11,571	9,404	(994)	**8,410**
Adjustments between accounting basis & funding basis under regulation	(12,368)	12,368	-	-	**-**
Transfers (to)/from Earmarked Reserves	-	-	**-**	-	**-**
Decrease / (Increase) in Year	**(14,535)**	**23,939**	**9,404**	**(994)**	**8,410**
Balance at 31 March 2021	**(36,780)**	**(156,505)**	**(193,285)**	**(4,276)**	**(197,561)**

GROUP COMPREHENSIVE INCOME & EXPENDITURE STATEMENT

2019/20				2020/21		
Expend £000	**Income £000**	**Net £000**		**Expend £000**	**Income £000**	**Net £000**
8,181	(1,567)	6,614	Corporate Services	13,056	(5,196)	7,860
59,658	(49,780)	9,878	Service Delivery	55,289	(44,342)	10,947
7,370	(1,405)	5,965	Regeneration and Planning	4,737	(2,193)	2,544
54,233	(8,397)	45,836	Tourism and Enterprise	8,898	(4,702)	4,196
4,993	(22,701)	(17,708)	Housing Revenue Account	(5,630)	(16,811)	(22,441)
-	-	-	Capitalisation Direction	4,585	-	4,585
134,435	**(83,850)**	**50,585**	**Cost of Services**	**80,935**	**(73,244)**	**7,691**
230	-	230	Levy Payable	235	-	235
281	-	281	Payments to housing capital receipts pool	248	-	248
5,740	(2,624)	3,116	Losses / (Gains) on sale and de-recognition of non-current assets	4,299	(925)	3,374
			Losses / (Gains) on sale of shares	1,683	-	1,683
6,251	**(2,624)**	**3,627**	**Other Operating Expenditure**	**6,465**	**(925)**	**5,540**
3,878	-	3,878	Interest payable & similar charges	3,410	-	3,410
298	-	298	Fair Value movement in shares	-	(952)	(952)
			Expected Credit Losses	196	-	196
3,318	-	3,318	Fair Value of Financial Guarantee contract	581	-	581
1,407	-	1,407	Net Interest on the Net Defined Benefit Liability	1,522	-	1,522
-	(3,083)	(3,083)	Interest receivable & Other Investment Income	-	(3,127)	(3,127)
(1,286)	(2,663)	(3,949)	Investment Properties	3,824	(2,897)	927
1,937	(1,543)	394	Trading Accounts	1,463	(859)	604
9,552	**(7,289)**	**2,263**	**Financing and Investment Income and Expenditure**	**10,996**	**(7,835)**	**3,161**
-	(4,359)	(4,359)	Non-specific grants and contributions	-	(19,572)	(19,572)
-	(8,618)	(8,618)	Council Tax income	-	(8,745)	(8,745)
12,011	(15,117)	(3,106)	Business Rates Retention	12,234	(3,993)	8,241
12,011	**(28,094)**	**(16,083)**	**Taxation and non-specific grant income**	**12,234**	**(32,310)**	**(20,076)**
		40,392	**(Surplus) / Deficit on Provision of Services**			**(3,684)**
		(1,305)	Joint Ventures accounted for on an equity basis			283
		401	Tax Expenses			179
		39,488	**Group (Surplus) or Deficit on Provision of Services**			**(3,222)**
		8,822	(Surplus) or Deficit on revaluation of Property, Plant and Equipment Assets			(418)
		(12,233)	Re-measurement of the net defined benefit liability			12,067
		(3,411)	**Other Comprehensive Income and Expenditure**			**11,649**
		36,077	**Total Comprehensive Income and Expenditure**			**8,427**

GROUP BALANCE SHEET

31 March 2020 £000		Notes	31 March 2021 £000	£000
310,481	Property, Plant & Equipment	2	325,165	
15,557	Infrastructure Assets		14,707	
14,702	Heritage Assets		14,702	
49,722	Investment Property	3	50,790	
6,446	Intangible Assets		4,838	
732	Long Term Investments		-	
4,983	Investment in Joint Ventures		4,551	
23,528	Long Term Debtors	4	24,756	
426,151	**Long Term Assets**			**439,509**
-	Assets Held for Sale		922	
141	Inventories		130	
21,924	Short Term Debtors	4	39,633	
7,367	Cash and Cash Equivalents		7,021	
29,432	**Current Assets**			**47,706**
(35,638)	Short Term Borrowing		(40,327)	
(15,645)	Short Term Creditors	5	(39,294)	
(835)	Short Term Provisions		(889)	
(10)	Revenue Grants Receipts in Advance		(106)	
(52,128)	**Current Liabilities**			**(80,616)**
-	Long Term Creditors		-	
(126,903)	Long Term Borrowing		(119,237)	
(20,697)	Other Long Term Liabilities		(21,278)	
(49,884)	Long Term Liabilities Pensions	6	(68,523)	
(197,484)	**Long Term Liabilities**			**(209,038)**
205,971	**NET ASSETS**			**197,561**
(25,527)	Usable Reserves			(41,056)
(180,444)	Unusable Reserves			(156,505)
(205,971)	**TOTAL RESERVES**			**(197,561)**

GROUP CASH FLOW STATEMENT

2019/20 £000		2020/21 £000
(39,503)	Net Surplus / (Deficit) on the provision of services	3,222
45,231	Adjustment to net surplus or deficit on the provision of services for non-cash movements	25,489
(5,207)	Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(5,251)
521	**NET CASH OUTFLOWS / (INFLOWS) FROM OPERATING ACTIVITIES**	**23,460**
(38,141)	Investing Activities	(6,053)
38,795	Financing Activities	(18,163)
1,175	**NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS**	**(756)**
6,192	Cash and cash equivalents at the beginning of the reporting period	7,367
	add SEESL Cash and cash equivalents balance at 1/4/20	410
	Restated Cash and cash equivalents at the beginning of the reporting period	**7,777**
7,367	**CASH AND CASH EQUIVALENTS AT THE END OF THE REPORTING PERIOD**	**7,021**

NOTES TO THE GROUP ACCOUNTING STATEMENTS

1. ACCOUNTING POLICIES

The accounting policies set out in Note 2 to the Eastbourne Borough Council accounts also apply to the Group Accounts. Where required, the accounts of subsidiaries have been adapted to align them with the Council's policies.

2. PROPERTY, PLANT AND EQUIPMENT

The table below shows the reconciliation of opening and closing balances and the movements in various categories for the year.

	Council Dwellings	Other Land & Buildings	Vehicles, Plant & Equipment	Community Assets	Assets under Construction	Surplus Properties	Total
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Cost or Valuation at 1 April 2020	**194,265**	**97,113**	**10,773**	**4,131**	**8,058**	**148**	**314,488**
SEESL	**-**	114	1,648	-	-	-	1,762
Restated Cost or Valuation at 1 April 2020	**194,265**	**97,227**	**12,421**	**4,131**	**8,058**	**148**	**316,250**
Additions	3,203	2,290	23	-	763	-	**6,279**
Revaluations recognised in the Revaluation Reserve	-	(169)	-	-	-	-	**(169)**
Revaluations recognised in the Deficit on the Provision of Services	15,316	15	-	-	-	-	**15,331**
De-recognition - Disposals	(3,529)	(1,837)	(502)	-	-	-	**(5,868)**
Assets reclassified	-	(104)	498	24	(1,173)	233	**(522)**
At 31 March 2021	**209,255**	**97,422**	**12,440**	**4,155**	**7,648**	**381**	**331,301**
Accumulated Depreciation and Impairment							
At 1 April 2020	**-**	**-**	**(3,444)**	**(563)**	**-**	**-**	**(4,007)**
SEESL		(9)	(246)	-	-	-	(255)
Restated at 1 April 2020	**-**	**(9)**	**(3,690)**	**(563)**	**-**	**-**	**(4,262)**
Depreciation Charge	(4,589)	(1,633)	(1,142)	-	-	-	**(7,364)**
Depreciation written out to the Revaluation Reserve	4,580	428	-	-	-	-	**5,008**
De-recognition - disposal	9	-	473	-	-	-	**482**
At 31 March 2021	**-**	**(1,214)**	**(4,358)**	**(563)**	**-**	**-**	**(6,135)**
Net Book Value							
At 31 March 2021	209,255	96,208	8,081	3,592	7,648	381	**325,165**
Restated at 31 March 2020	194,265	97,218	8,731	3,568	8,059	148	**311,988**
At 31 March 2020	194,265	97,113	7,328	3,568	8,059	148	**310,481**

Movements in 2019/20:

	Council Dwellings	Other Land & Buildings	Vehicles, Plant & Equipment	Community Assets	Assets under Construction	Surplus Properties	Total
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Cost or Valuation at 1 April 2019	**195,061**	**97,919**	**10,510**	**4,131**	**54,996**	**124**	**362,741**
Additions	4,440	332	1,141	-	9,211	-	**15,124**
Revaluations recognised in the Revaluation Reserve	-	(15,384)	-	-	-	24	**(15,360)**
Revaluations recognised in the Deficit on the Provision of Services	454	(41,687)	-	-	-	-	**(41,233)**
De-recognition - Disposals	(5,690)	-	(694)	-	-	-	**(6,384)**
Assets reclassified	-	55,933	(185)	-	(56,148)	-	**(400)**
At 31 March 2020	**194,265**	**97,113**	**10,772**	**4,131**	**8,059**	**148**	**314,488**
Accumulated Depreciation and Impairment							
At 1 April 2019	**(12,159)**	**(5,023)**	**(3,372)**	**(563)**	**-**	**-**	**(21,117)**
Depreciation Charge	(4,284)	(2,661)	(765)	-	-	-	**(7,710)**
Depreciation written out to the Revaluation Reserve	16,339	7,684	-	-	-	-	**24,023**
De-recognition - disposal	104	-	693	-	-	-	**797**
At 31 March 2020	**-**	**-**	**(3,444)**	**(563)**	**-**	**-**	**(4,007)**
Net Book Value							
At 31 March 2020	194,265	97,113	7,328	3,568	8,059	148	**310,481**
At 31 March 2019	182,902	92,896	7,138	3,568	54,996	124	**341,624**

The valuations are not reported as subject to 'material valuation uncertainty' as defined by RICS Valuation Global Standards. The exception is retail and some specific assets/sectors which continue to be faced with an unprecedented set of circumstances caused by Covid-19 and an absence of relevant/sufficient market evidence on which to base judgements.

3. INVESTMENT PROPERTIES

The table below shows the movements in the fair value for Investment Properties.

2019/20 £000		2020/21 £000
36,754	**Balance at 1 April**	**49,722**
10,358	Additions	4,157
2,610	Net gains / (losses) from fair value adjustments	(3,089)
49,722	**Balance at 31 March**	**50,790**

Note
Loan drawdown facilities are available from the Council (parent company) to enable the purchase of assets.

4. SHORT TERM DEBTORS

Short term debtors outstanding as at 31 March are:

31 March 2020 £000		31 March 2021 £000
1,283	Trade Receivables	3,533
362	Prepayments	654
5,850	Debtors for Local Taxation	19,679
14,429	Other Receivables	15,767
21,924	**Total**	**39,633**

Long term debtors outstanding as at 31 March are:

31 March 2020 £000		31 March 2021 £000
23,528	Other Receivables	24,756
23,528	**Total**	**24,756**

Includes receivables in relation to the ICE/IIL guarantees.

5. SHORT TERM CREDITORS

The table below analyses the short-term liabilities between different groupings of creditor.

31 March 2020 £000		31 March 2021 £000
(726)	Trade Payables	(1,082)
(4,676)	Receipts in Advance	(4,283)
(513)	Creditors for Local Taxation	(16,050)
(9,730)	Other Payables	(17,879)
(15,645)	**Total**	**(39,924)**

6. POST EMPLOYMENT BENEFITS

6.1 Participation in defined liability pension plan

Details of the Council's participation in the East Sussex Pension Fund are set out in Note 30, including additional disclosure requirements. The Group includes employees of Eastbourne Homes Limited that have the same access to the benefits of the scheme.

6.2 Transactions relating to post-employment benefits

The following transactions have been made in the Group Comprehensive Income and expenditure statement:

2019/20 £000		2020/21 £000
	Service Cost comprising:	
8,636	Current Service Costs	9,691
160	Past Service Costs	-
-	Administration Expense	165
	Financing & Investment Income & Expenditure	
1,407	Net Interest Expense	1,356
10,203	**Total Post-employment Benefits charged to the Surplus or Deficit on the Provision of Services**	**11,212**
	Other Post-employment Benefits charged to the Comprehensive Income & Expenditure Statement	
	Re-measurement of the net defined benefit liability comprising:	
22,697	Return on Plan Assets (excluding the amount included in the net interest expense)	(28,789)
(6,308)	Actuarial Gains arising on changes in demographic assumptions	(2,943)
(19,001)	Actuarial Gains and losses arising on changes in financial assumptions	46,428
(9,621)	Other	(2,629)
(12,233)	**Other Comprehensive Income & Expenditure**	**12,067**
(2,030)	**Total Post-employment Benefits charged to the Comprehensive Income & Expenditure Statement**	**23,279**
	Movement in Reserves Statement	
10,203	Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post-employment benefits in accordance with the Code	11,212
(4,425)	Actual amount (charged)/ credited to the General Fund Balance for pensions in the year	(4,640)
5,778	**Net adjustment in Movement in Reserves Statement**	**6,572**

6.3 Pensions Assets and Liabilities recognised in the balance sheet

The amount included in the Balance Sheet for the Group obligation in respect of its defined plans is as follows:

31 March 2020 £000		31 March 2021 £000
146,741	Fair value of employer assets	177,181
(192,656)	Present value of funded liabilities	(241,708)
(3,969)	Present value of unfunded liabilities	(3,996)
(49,884)	**Net liability arising from defined benefit obligation**	**(68,523)**

7. CASH AND CASH EQUIVALENTS

The deficit on the provision of services has been adjusted for the following non cash movements:

2019/20	Adjustment to Net Deficit on the provision of services for non-cash movements	2020/21
£000		**£000**
7,736	Depreciation	7,888
23,633	Impairment and (reversal) of impairment and valuation movements	(19,663)
947	Amortisation	2,023
-	Increase in Impairment Allowance	196
(3,575)	Increase / (Decrease) in Creditors	21,930
6,001	(Increase) / Decrease in Debtors	(1,636)
(9)	(Increase) / Decrease in Inventories	45
5,470	Movement in pension liability	6,628
(902)	Share of Joint Ventures	432
5,740	Carrying amount of non-current assets sold or de-recognised	7,666
190	Other non-cash items (including Financial Guarantee)	(20)
45,231	**Adjustment for Non-Cash Movements included in the provision of services**	**25,489**

The deficit on the provision of services has been adjusted for the following items that are investing and financing activities:

£000		**£000**
-	Proceeds from short term and long term investments	-
(2,624)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(2,608)
(2,583)	Other items for which the cash effects are investing or financing activities	(2,643)
(5,207)	**Adjustment for items that are investing and financing activities**	**(5,251)**

£000	**Investing Activities**	**£000**
(29,085)	Purchase of property, plant and equipment, investment property and intangible assets	(11,302)
-	Purchase of short-term and long-term investments	-
(14,268)	Other payments for investing activities	(656)
2,624	Proceeds from sales of property, plant and equipment, investment property and intangible assets	2,609
-	Proceeds from short term and long term investments	-
2,588	Other receipts from investing activities	3,296
(38,141)	**Net cash flows from investing activities**	**(6,053)**

£000	**Financing Activities**	**£000**
85,875	Cash receipts of short and long-term borrowing	32,286
(47,328)	Repayment of short and long-term borrowing	(35,000)
248	Other (receipts) / payments from financing activities	(15,449)
38,795	**Net cash flows from financing activities**	**(18,163)**

Reconciliation of Liabilities arising from Financing Activities	**1 April 2020**	**Financing Cash Flows**	**Non Cash Changes**	**31 March 2021**
	£000	**£000**	**£000**	**£000**
Short Term Borrowings	(35,638)	(4,953)	264	(40,327)
Long Term Borrowings	(126,903)	7,666	-	(119,237)
Net cash outflow from financing activities	**(162,541)**	**2,713**	**264**	**(159,564)**

8. TRANSACTIONS BETWEEN EASTBOURNE BOROUGH COUNCIL AND EASTBOURNE HOMES LIMITED, EASTBOURNE HOUSING INVESTMENT COMPANY LIMITED, ASPIRATION HOMES LIMITED LIABILITY PARTNERSHIP AND SOUTH EAST ENVIRONMENTAL SERVICES LIMITED

Eastbourne Homes Limited

EHL receive a fee in accordance with an agreement to manage and maintain the Council's housing stock, including capital works. EHL obtained services from the Council under various Service Level Agreements. These include finance and financial systems, parks & gardens and information technology.

	2019/20 £000	2020/21 £000
Income		
Housing Management contract	7,650	7,834
Other contracts	2	2
Expenditure		
Service Level Agreements	700	870
Fees payable to the Council	2,536	2,603
Recharges		
Capital Works at cost	4,480	3,140
Debtors		
Amounts due from the Council	2,684	2,102
Creditors		
Amounts due to the Council	2,580	391

South East Independent Living Limited

SEILL has net assets at 31 March 2021 of £297,692 (£307,670 at 31 March 2020) and turnover of £860,593 (£852,188 2019/20).

Eastbourne Housing Investment Company Limited

EHIC has net assets at 31 March 2021 of £1,821,327 (£1,397,436 at 31 March 2020) and turnover of £1,048,931 (£635,655 2019/20). EHIC are provided with loans and working capital from the Council with a balance of £23,335,550 as at 31 March 2021 (£20,483,050 as at 31 March 2020).

Aspiration Homes LLP

AH has net assets at 31 March 2021 of £1,391,934 (£1,325,999 at 31 March 2020) and turnover of £244,868 (£284,069 2019/20). AH are provided with loans and working capital from the Council with a balance of £4,160,250 as at 31 March 2021 (£3,780,550 as at 31 March 2020).

South East Environmental Services Limited

SEESL had net assets at 31 March 2021 of £12,877 (£16,612 at 31 March 2020) and turnover of £4,271,859 (£3,359,907 2019/20). SEESL are provided with loans from the Council with a balance of £1,245,000 as at 31 March 2021 (£1,555,000 as at 31 March 2020).

GLOSSARY

This glossary helps to define some of the terms and phrases found in these accounts.

Accounting Period
The length of time covered by the accounts, in the case of these accounts the year from 1 April to 31 March.

Accrual
A sum included in the accounts to cover income or expenditure attributable to the accounting period for goods or services, but for which payment has not been received/made, by the end of that accounting period.

Actuarial Gains and Losses
Changes in the estimated value of the pension fund because events have not coincided with the actuarial assumptions made or the assumptions themselves have changed.

Balances
These represent the accumulated surplus of revenue income over expenditure.

Budget
An expression, mainly in financial terms, of the Council's intended income and expenditure to carry out its objectives.

Budget Requirement
The amount each local authority estimates as its planned spending, after deducting funding from reserves and any income expected to be collected (excluding Council Tax and Government Grants). This requirement is then offset by Government Grant, the balance being the amount needed to be raised in Council Tax.

Capital Charge
A charge to service revenue accounts to reflect the cost of non-current assets (previously referred to as fixed assets) used in the provision of services.

Capital Expenditure
Expenditure on the acquisition of non-current assets (fixed assets) that will be of use or benefit to the Council in providing its services for more than one year. Capital expenditure also includes Revenue expenditure financing from Capital under Statue.

Capital Adjustment Account
The capital adjustments account records the resources set aside to finance capital expenditure and offsets the write-down of the historical cost of fixed assets as they are consumed by depreciation and impairments or by disposal.

Capital Receipts
Income received from the sale of capital assets. Legislation requires a proportion of capital receipts from the sale of Council houses to be paid over to a national pool.

Cash Equivalents
Generally short term, highly liquid investments readily convertible into cash.

Chartered Institute of Public Finance and Accountancy (CIPFA)
CIPFA is the main professional body for accountants working in the public service. It draws up the Accounting Code of Practices and issues professional guidance that is used to compile these accounts.

Collection Fund
A fund administered by the Council as a "Charging Authority". The Council Tax and Non-Domestic Rates are paid into this fund. The Council Tax and NDR demand of the Council and the precepts of other public bodies are paid out of the fund. Any surplus or deficit is shared between the various authorities.

Corporate and Democratic Core
These are the activities that a local authority engages in specifically because it is a democratically elected decision making body. These costs are not apportioned to services but are shown here. Examples of costs are Councillors' allowances, Committee support and time spent by professional officers in giving policy advice.

Creditors
The amounts owed by the Council at the Balance Sheet date in respect of goods and services received before the end of the accounting period but not paid for.

Current Service Cost
The increase of the present value of a defined benefit scheme's liabilities expected to arise from employee service in the accounting period.

Debtors
Amounts owed to the Council but unpaid at the Balance Sheet date.

Depreciation
The measure of the cost or revalued amount of the benefit of the fixed asset that have been consumed during the period.

Expected Rate of Return on Pensions Assets
The average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

Fees and Charges
The income raised by charging for goods, services or the use of facilities.

General Fund
The main revenue fund of the Council which is used to meet the cost of services paid for from Council Tax, Government Grant and fees and charges.

Heritage Asset
A tangible asset with historical, artistic, scientific, technological or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

Housing Revenue Account
A separate account, maintained by law, which accounts for the income and expenditure related to the Council's housing stock. The General Fund cannot subsidise the Housing Revenue Account and vice versa.

Intangible Assets
Non-current assets (fixed assets) that do not have physical substance but are identifiable and controlled by the Council. Examples are software and licences.

Leasing
A method of acquiring the use of capital assets for a specified period for which a rental charge is paid.

Levy
A contribution payable by law to Internal Drainage Boards for land drainage.

Minimum Revenue Provision
An amount to be set aside each year from revenue to repay the principal amounts of external loans outstanding.

Non-Current Asset
Assets that yield benefits to the Council and the services it provides for a period of more than one year. Examples include land, buildings and vehicles.

Non Domestic Rates (NDR) (also known as Business Rates)
Non Domestic Rates are levied on businesses within its area by the Billing Authority and the proceeds are paid into its Collection Fund for distribution to precepting Authorities and for use by its own General Fund.

Precept
The amount levied by various Authorities that is collected by the Council on their behalf. The precepting Authorities in Eastbourne are East Sussex County Council, Sussex Police Authority and East Sussex Fire.

Provisions
Amounts set aside to meet costs which are likely or certain to be incurred, but are uncertain in value or timing.

Public Works Loans Board
A Government body that provides loans to local authorities.

Reserves
The accumulated surplus income in excess of expenditure, which can be used to finance future spending and is available to meet unforeseen financial problems. Earmarked Reserves are amounts set aside for a specific purpose in one financial year and carried forward to meet expenditure in future years.

Revaluation Reserve
The revaluation reserve reflects the unrealised element of the cumulative balance of revaluation adjustments.

Revenue Expenditure
The day to day spending on employment costs, other operating costs (accommodation, supplies and services etc.) net of income for fees and charges etc.

Revenue Expenditure financed from Capital under Statute (Refcus)
Expenditure that can be classified as capital expenditure but which does not result in the acquisition of a tangible or physical asset.

Revenue Support Grant
Central Government financial support towards the general expenditure of local authorities.

Specific Government Grants
Central Government financial support towards particular services which is "ring fenced", i.e. can only be spent on a specific service area or items.

Transfer of Undertakings Protection of Employment Regulations (TUPE)
The law that protects employees, and their benefits, when their employment changes hands. TUPE regulations govern the transfer of employees from one company to another.

Our Ref:

Dear Sirs,

This representation letter is provided in connection with your audit of the financial statements of Eastbourne Borough Council and its subsidiaries (the "Council" and together the "Group") for the year ended 31 March 2021 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of the Council and the Group as of 31 March 2021 and of the results of its operations, other recognised gains and losses and its cash flows for the year then ended in accordance with the applicable law and the CIPFA /LASAAC Code of Practice on Local Authority Accounting.

We confirm, to the best of our knowledge and belief, the following representations.

Financial statements

1. We understand and have fulfilled our responsibilities for the preparation of the financial statements in accordance with the applicable law and the CIPFA /LASAAC Code of Practice on Local Authority Accounting 2020/21 which give a true and fair view.

2. Significant assumptions used by us in making accounting estimates, including those measured at fair value and assessing the impact of Covid-19 on the Group are reasonable. We have specifically considered the impact of Covid-19 and we do not consider that any matters arising in relation to this have impacted the measurement of items as of 31 March 2021. We have made the relevant disclosures regarding the impact of this subsequent to this date in both the narrative and notes to the Statement of Accounts.

3. The assumptions and judgements used by us specifically in valuing the loan and rental guarantees and related receivables associated with the arrangements entered into by group company Infrastructure Company Eastbourne Ltd, with Infrastructure Investments Leicester Ltd as the counterparty, are reasonable and reflect our best judgement of assumptions at inception of the agreement and, at 31 March 2021, including in accounting for the Joint Venture interest in the group accounts.

4. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of *IAS24 "Related party disclosures".*

5. All events subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.

6. The effects of uncorrected misstatements and disclosure deficiencies are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the

uncorrected misstatements and disclosure deficiencies are detailed in the appendix to this letter.

7. We confirm that the financial statements have been prepared on the going concern basis and disclose in accordance with IAS 1 all matters of which we are aware that are relevant to the Council and the Group's ability to continue as a going concern, including principal conditions or events and our plans. We do not intend to liquidate the Group or cease operations as we consider we have realistic alternatives to doing so. We are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the Council and the Group's ability to continue as a going concern. We confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including our plans for future actions.

8. The measurement processes, including related assumptions and models used to determine accounting estimates in the context of applicable financial reporting framework are appropriate and have been applied consistently.

9. The assumptions appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity where relevant to the accounting estimates and disclosures.

10. The disclosures related to accounting estimates under the entity's applicable financial reporting framework are complete and appropriate.

11. There have been no subsequent events that require adjustments to the accounting estimates and disclosures included in the financial statements.

12. The Group has satisfactory title to all assets and there are no liens or encumbrances on the Group's assets and assets pledged as collateral.

13. We have recorded or disclosed, as appropriate, all liabilities both actual and contingent.

14. We are not aware of any deficiencies in internal control other than as raised in audit process, by internal audit, or disclosed in the Annual Governance Statement and Addendum to the Annual Governance Statement.

15. We have reviewed our provisioning for NNDR, Council tax and HRA debtor provisioning, and consider the assumptions in respect of recoverability to reflect our best assessment of the recoverable amount of these balances.

16. All minutes of member and management meetings during and since the financial year have been made available to you.

17. With respect to the revaluation of properties in accordance with the Code:
    a) the measurement processes used are appropriate and have been applied consistently, including related assumptions and models; the assumptions

appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity where relevant to the accounting estimates and disclosures;

b) the disclosures are complete and appropriate.
c) there have been no subsequent events that require adjustment to the valuations and disclosures included in the financial statements. The information supplied for the valuation of the Group's property and investment property assets includes up to date rental and other relevant data to inform the valuation, and there are no circumstances we are aware of that would impact upon the valuation of assets (such as issues with condition) that have not been shared with the valuer.
d) we have considered the movement in property values between 31 December 2020 and 31 March 2021 and do not consider this material to the financial statements.

A national issue emerged in 2023 regarding the use of Reinforced Autoclaved Aerated Concrete (RAAC) in public sector buildings. Buildings with this material have been found to be structurally unsound and, in some instances, were closed due to safety concerns. We reviewed the work performed by the Council to consider the potential for presence of RAAC in the Council's estate, and assessment of the risk against the value of properties not yet inspected and consider the risk in remaining assets to be inspected to be immaterial to the financial statements.

We have considered the valuation of the Group's Property, Plant and Equipment, and are not aware of any circumstances indicating volatility in asset values for properties not revalued in the year that might indicate a valuation is required.

We have considered the valuation of the Group's Property, Plant and Equipment, and we are not aware of any other errors or inconsistencies, and the overall valuation movement recognised is in line with that expected from the work of the valuer.

18. We have reconsidered the remaining useful lives of the Group's Property, Plant and Equipment and confirm that the present rates of depreciation are appropriate to amortise the cost or revalued amount less residual value over the remaining useful lives.

19. Except as disclosed in Note 17 to the accounts, as at 31 March 2021 there were no significant capital commitments contracted for by the Group.

20. We are not aware of events or changes in circumstances occurring during the period which indicate that the carrying amount of fixed assets or goodwill may not be recoverable.

21. We confirm that:

- all retirement benefits and schemes, including UK, foreign, funded or unfunded, approved or unapproved, contractual or implicit have been identified and properly accounted for;

- all settlements and curtailments have been identified and properly accounted for;
- all events which relate to the determination of pension liabilities have been brought to the actuary's attention;
- the actuarial assumptions underlying the valuation of the scheme liabilities (including the discount rate used) accord with the directors' best estimates of the future events that will affect the cost of retirement benefits and are consistent with our knowledge of the business;
- the future salary increase assumption is reasonable and in line with our intentions;
- the actuary's calculations have been based on complete and up to date member data as far as appropriate regarding the adopted methodology; and
- the amounts included in the financial statements derived from the work of the actuary are appropriate.

22. We confirm that all of the disclosures within the Narrative Report and Annual Governance Statement and Addendum to the Annual Governance Statement, and in the remuneration disclosures within the financial statements, have been prepared in accordance with the relevant legislation and guidance.

Information provided

23. We have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- additional information that you have requested from us for the purpose of the audit; and;
- unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

24. All transactions have been recorded and are reflected in the financial statements and the underlying accounting records.

25. We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error and we believe we have appropriately fulfilled those responsibilities.

26. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

27. We are not aware of any fraud or suspected fraud that affects the Council or Group and involves:

(i) management;

(ii) employees who have significant roles in internal control; or

(iii) others where the fraud could have a material effect on the financial statements.

28. We confirm that:

(i) we consider that the G*roup* has appropriate processes to prevent and identify any cyber breaches other than those that are clearly inconsequential; and

(ii) we have disclosed to you all cyber breaches of which we are aware that have resulted in more than inconsequential unauthorised access of data, applications, services, networks and/or devices.

29. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

30. We have disclosed to you all known instances of non-compliance, or suspected non-compliance, with laws, regulations, and contractual agreements whose effects should be considered when preparing financial statements

31. We have disclosed to you the identity of the Group's related parties and all the related party relationships and transactions of which we are aware.

32. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the applicable financial reporting framework. No other claims in connection with litigation have been or are expected to be received.

33. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.

We confirm that the above representations are made on the basis of adequate enquiries of management and staff (and where appropriate, inspection of evidence) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully

Signed on behalf of Eastbourne Borough Council

Appendix 1

Schedule of Uncorrected Misstatements

Description	Income Statement DR / (CR) £000	Net Asset DR / (CR) £000	Prior year reserves DR / (CR) £000	Useable reserves DR / (CR) £000
Uncorrected Misstatements in the current year				
Classification of ICE debtor between long and short-term debtors		109 (109)		
Understatement of IAS 19 Pension Fund Level 3 Assets	(1,060)	1,060		
Understatement of revaluation gains and impairments losses	124 (124)			
Overstatement of property valuation due to methodology applied on an asset	1,000	(1,000)		
Overstatement of valuation due to index applied to garage portfolio	105	(105)		
Overstatement of Assets Held For Sale	268	(268)		
Prepayment items incorrectly expensed	(421)	421		(421)
Understatement of Pensions Service costs	230	(230)		
Understatement of Pensions in respect of Goodwin	250	(250)		
Sub total	**372**	**(372)**		**(421)**
Misstatements identified in prior year that remain uncorrected				
Housing Rent arears debtor balance not linked to specific individual invoices		(135)	135	135
Capitalisation of rental reductions on leaseholders	(200)		200	200
Sub total	**(200)**	**(135)**	**335**	**335**
Grand Total	**172**	**(507)**	**335**	**(86)**

Report To:	**Audit & Governance Committee**
Date:	**24 September 2024**
Report Title:	**External Audit Update**
Report of:	**Homira Javadi, Director of Finance and Performance (S151 Officer)**
Ward(s):	**All**
Purpose of report:	**To provide an update on progress to complete the external audit of outstanding draft financial statements for years 2021/22, 2022/23 & 2023/24 and expectations for completion of audits for years 2024/25 to 2027/28**
Officer Recommendations:	**To note the report and associated appendices.**
Reasons for recommendations:	**The Council is required to produce an Annual Statement of Accounts in line with the Accounts and Audit Regulations**
Contact Officer(s):	**Name: Steven Houchin** **Post title: Deputy Chief Finance Officer** **e-mail: steven.houchin@lewes-eastbourne.gov.uk** **Telephone number: 07591 838068**

1. Background

1.1 The Government abolished the Audit Commission in 2012, and its audit practice was outsourced to private audit firms. The regulations for this Act disbanded the residual Audit Commission and introduced a new local audit framework. The Government's closure of the Audit Commission was expected to save over £1bn.

Public Sector Audit Appointments Limited (PSAA)

1.2 Public Sector Audit Appointments Limited (PSAA) was incorporated by the Local Government Association (LGA) in August 2014.

1.3 In July 2016, the Minister of State for Housing Communities and Local Government specified PSAA as an appointing person for principal local government and police bodies for audits from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015.

1.4 Acting in accordance with this role PSAA is responsible for appointing an auditor and setting scales of fees for relevant principal authorities that have chosen to opt into its national scheme.

1.5 PSAA produces quarterly reports on the contracted firms, building up information as the year progresses. The data pack covers audit opinions, approved fee variations and electors' objections as at 30 June 2024.

Audit Year Publishing Date	Number of Opted In Bodies	Percentage of audits completed by publishing date	Number of audits outstanding per financial year as at 30 June 2024
2022/23	467	1%	299
2021/22	467	12%	160
2020/21	474	9%	65
2019/20	478	45%	25
2018/19	486	57%	7
Total Oustanding Audits Nationally			**556**

1.6 In total 556 audit opinions were recorded as delayed as at 31 March 2023 (excluding three opinions outstanding at one authority for 2015/16 to 2017/18).

2. Publication of 2023/24 Draft Financial Statements

2.1 The draft statement of accounts for the year ended 31 March 2024 have not yet been completed due to delays in previous years' audits. As a result, the Council is not yet able to commence the period for the exercise of public inspection. The Council will publish the draft 2023/24 statements as soon as reasonably practicable, following which the period for the public inspection will commence.

3. External Audit Backstop Update

3.1 On 30th July 2024 all Chief Financial Officers in England received a letter from the new Minister of State for Housing, Communities and Local Government, Jim McMahon OBE MP confirming that a written update had been provided to Parliament with an update on the arrangements to tackle the local backlog of audits in England (known as the "Backstop"). A copy of the letter is included in this report (Appendix A).

3.2 The letter confirmed the minister's intention to lay secondary legislation to provide for an initial backstop date of 13 December 2024 for the completion of all outstanding audits up to the financial year 2022/23.

3.3 It is expected the proposed backstop date will result in modifications or disclaimers of audit opinion for many local authorities. The Council would be required to publish their unaudited accounts for financial years 2022/23 and any prior year accounts that require adjustments as a result of the recently audited 2020/21 financial statements, giving time for the required 30-day Public Inspection Period and for external auditors to give their opinion on those accounts by the 13 December 2024.

3.4 Appendix B of this paper is a report from the Councils outgoing external auditors, Deloittes, setting out its plan for the completion of audits for years 2021/22 and 2022/23 audits.

4. Audit of 2023/24 Financial Statements.

4.1 The letter from the Minister of State also confirms the revised deadline for the publication of audited financial statements for the year 2023/24. The revised deadline has been confirmed as 28 February 2026.

4.2 Grant Thornton will give a verbal update setting out its plan for the completion of the 2023/24 audit and progress to date.

5. Future Audits

5.1 Finally the letter from the Sectary of Stage sets out the proposed date for the publication of the draft financial statements and publication of audited financial statements.

5.2 For financial years 2024/25 to 2027/28, the date by which councils should publish draft financial statements will change from 31 May to 30 June following the financial year to which they relate.

5.3 For financial years 2024/25 to 2027/28, the date by which councils should publish final audited financial statements are as follows:

Financial Year	Backstop Date
2024/25	27 February 2026
2025/26	31 January 2027
2026/27	30 November 2027
2027/28	30 November 2028

6. Financial Appraisal

6.1 There are no direct financial considerations arising from this report. However, there are significant financial implications caused by the delay in the audit of the accounts.

7. Risk Management Implications

7.1 There are no implications arising from this report.

8. Equality Analysis

8.1 This is a routine report for which a detailed Equality Analysis is not required to be undertaken.

9. Legal Implications

9.1 The Accounts and Audit Regulations 2015 require the Statement of Accounts to be considered and approved by way of a committee resolution and thereafter published. Further comments from the Legal Services Team is not necessary for this routine monitoring report.

10. Environmental sustainability implications

10.1 There are no environmental implications from this report.

11. Appendices

11.1 **Appendix A** – Letter from Minister of State for Housing, Communities and Local Government, Jim McMahon OBE MP

Appendix B – Deloitte EBC Planning report to the Audit and Governance Committee on the 2020/21, 2021/22 and 2022/23 audits

12. Background Papers

12.1 None.

Jim McMahon OBE MP
Minister of State
2 Marsham Street
London
SW1P 4DF

Ministry of Housing, Communities & Local Government

To All Chief Executives, Chief Financial Officers, Local Authority Leaders and Local Audit Firm Partners

30 July 2024

Dear all,

ACTION TO TACKLE THE LOCAL AUDIT BACKLOG IN ENGLAND

I am writing to you today to inform you that I have, today, provided Parliament with a written update on the decisive action I have taken to tackle the local audit backlog in England. The statement can be found here: https://questions-statements.parliament.uk/written-statements/detail/2024-07-30/hcws46.

Effective local audit ensures transparency and accountability for public money spent on these vital services and builds public confidence. The Government inherited a broken local audit system in England, with a significant and unacceptable backlog of unaudited accounts, which will likely rise again to around 1,000 later this year. This situation undermines trust and transparency in the way taxpayers' money is being spent. The delays that were seen under the last government mean that local bodies and their auditors cannot focus on up-to-date accounts, where assurance is most valuable.

To tackle the backlog, I intend to lay secondary legislation when parliamentary time allows to provide for an initial backstop date of 13 December 2024 for financial years (FYs) up to and including 2022/23 and five subsequent backstop dates:

Financial Year	Backstop date
2023/24	28 February 2025
2024/25	27 February 2026
2025/26	31 January 2027
2026/27	30 November 2027
2027/28	30 November 2028

Subject to parliamentary approval, for financial years 2024/25 to 2027/28, the date by which local bodies should publish 'draft' (unaudited) accounts will change from 31 May to 30 June following the financial year to which they relate. This will give those preparing accounts more time to ensure they are high-quality accounts. A new suite of guidance is planned by the NAO and Financial Reporting Council (FRC) on these measures, and we continue to work with other organisations to consider what guidance would be most constructive and helpful for local bodies.

We expect that there will be full assurance, with “clean” opinions for many bodies by the first backstop date of 13 December 2024. However, due to the time constraints, auditors are likely to issue ‘disclaimed’ audit opinions (no assurance) on many accounts – early indications are that this could be several hundred in this first phase which may, in the short term, cause additional concern. I recognise that aspects of these proposals are uncomfortable, however, given the scale of the failure in the local audit system the Government inherited meant that we have had to take this difficult decision to proceed. Without this action by the Government, audits would continue to be delayed and the system will move even further away from timely assurance.

The Ministry will continue to work with the FRC and other key organisations across the local audit sector to support local bodies, auditors and the wider world to understand what the different types of modified opinions mean. As I set out in my statement, local bodies should not be unfairly judged based on disclaimed or modified opinions caused by the introduction of backstop dates that are largely beyond their control and auditors will be expected to clearly set out the reasons for the issuing of such opinions to mitigate the potential reputational risk that local bodies may face.

The Government will communicate the necessity of these steps and emphasise the context for modified or disclaimed opinions and all the key organisations. This will include some Q&A drop-in sessions followed by a webinar. Dates and invitations for these will be circulated shortly, and I hope you will all be able to attend to hear directly about the measures.

I recognise the commitment and hard work of all your finance teams to continue and strengthen their essential work to produce high quality accounts in a timely manner. I also recognise the commitment and hard work of auditors working to provide quality external assurance, as we move to restore a system of high-quality, timely financial reporting and audit, while managing the impact of this in a sustainable way.

It is my aspiration, and one I know is also supported by all the key organisations in the audit world, that it is in the public interest for the audit system for local public bodies in England to recover as quickly as possible once the backlog has been cleared. This means disclaimed opinions driven by backstop dates should in most cases be limited to the next two years (up to and including the 2024/25 backstop date of 27 February 2026), with only a small number of exceptional cases, due to specific individual circumstances, continuing thereafter.

This action to tackle the backlog, while vital, does not provide a long-term, sustainable solution to the wider, broken local audit system. The Government will need to undertake significant reform to overhaul the system, as we committed to in our manifesto. This will allow us to get the house in order, open the books, and repair the foundations of local government, and I will work with partners over the coming months to explore how best to achieve this.

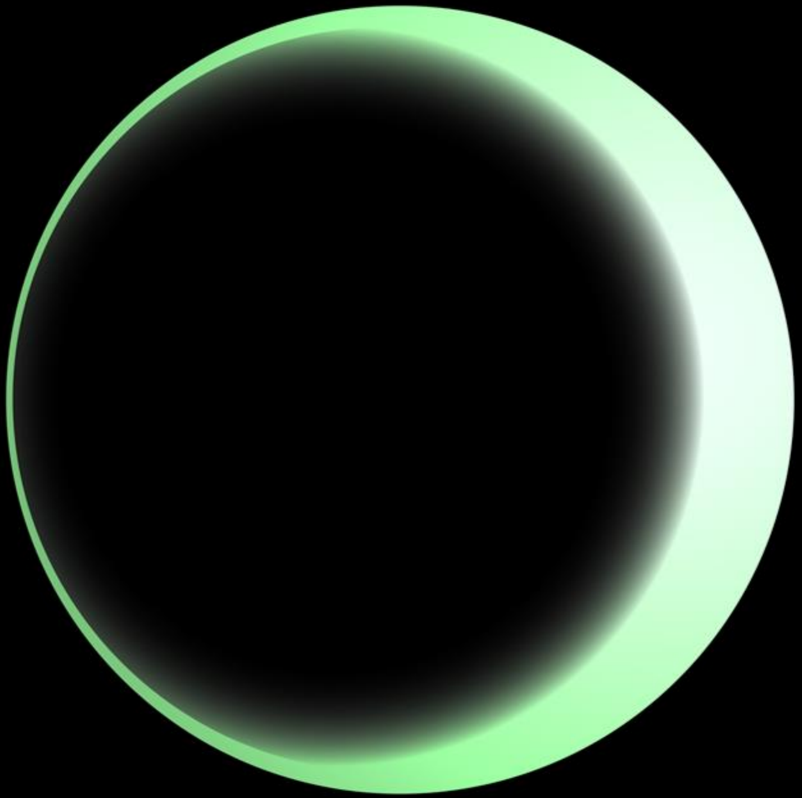
Finally, I know the hard work is often unseen and too often not acknowledged, can I ask that you relay my appreciation to finance teams, key audit partners and others for the work they have done so far in what has been an extremely demanding period, and for the work they will do in the coming months and years.

Jim McMahon.

Jim McMahon OBE MP

Minister of State for Housing, Communities and Local Government

Deloitte.



Eastbourne Borough Council

Planning report to the Audit Committee on the 2021/22 and 2022/23 audits - issued on 4 September for meeting on 24 September 2024

Contents

Impact of the backstop provisions

The Government has announced a legislative backstop date of 13 December 2024.

This report sets out how the accounts and audit process will operate for the Eastbourne Borough Council ("the Council") for the financial years 2021/22 and 2022/23, in accordance with the "backstop" provisions that the Ministry for Housing, Communities and Local Government ("MHCLG") and the National Audit Office ("NAO") have announced and are in the process of enacting. Although Parliamentary processes mean these provisions are not yet published in their final form, and the effective date of legislation when opinions can be issued has not yet been confirmed, we have set out our understanding of their impact and the plan for the accounts and audit processes required to be completed before at the latest 13 December 2024. This report should be read alongside management's paper setting out their plan for the actions required through to the backstop date. The issues leading to delays in the 2020/21 audit were included in our report dated 4 September 2024.

Impact of the backstop provisions

Under the backstop provisions, local authorities will be required to publish their statement of accounts and audit report by the backstop date. For financial years up to 31 March 2023, this will be 13 December 2024.

Due to the time available to complete the audits of the Council for the financial years 2021/22 and 2022/23, it will not be possible to complete all audit work required under auditing standards before that date.

Under auditing standards, and as envisaged in the backstop proposals, we expect that we will need to include in our audit report a disclaimer of opinion in respect of the remaining financial years. This is because we will be unable to obtain sufficient appropriate audit evidence by the backstop date, and that the areas affected would be so material and so pervasive that we would be unable to form a view as to whether the financial statements give a true and fair view. Our audit report will state that this disclaimer of opinion is due to the backstop provisions.

Actions required of the Council

The backstop provisions do not affect the responsibilities of the Council for the preparation, publication and approval of the financial statements. Auditors are only able to provide an audit report, even if modified or disclaimed, on a set of accounts which have been certified by the Section 151 Officer, subject to the statutory 30 working-day inspection period and approved as final by those charged with governance.

The Council has not yet published the draft statement of accounts for 2022/23 and has not prepared group accounts for 2021/22. The Council will need to do so, and the statutory 30 working-day public inspection period will need to have been completed for 2022/23, before the Council can approve the accounts for signing. Subsequent to the finalization of the 2020/21 audit, the Council will need to update the 2021/22 draft statement of accounts with the updated prior year comparatives and other matters from 2020/21.

Impact of the backstop provisions (continued)

Impact upon our audit procedures

Actions required by the auditor

There are three principal responsibilities of a local authority auditor:

1. The audit of the statement of accounts,
2. Work in respect of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources ("Value for Money"), and
3. Consideration of any objections raised by electors.

Our understanding is that, under the backstop provisions, the auditor will need to have completed their consideration of any objections which may be material to the financial statements, and either completed their work in respect of Value for Money arrangements or determined that any remaining work will not have a material impact on the financial statements, prior to issue of their audit report (even if they have been unable to complete their financial statement audit).

We have set out on page 7-10 our planned procedures in respect of the financial statement audit, and on page 11 in respect of our Value for Money responsibilities.

If any objections are received during the inspection period for the 2022/23 statement of accounts, then we will need to consider these and their materiality, the nature and extent of our procedures depending upon the objections.

We will communicate our findings from our work to the Audit Committee.

If we identify any misstatements or disclosure deficiencies from our procedures, we will communicate these to management and will include any uncorrected items in our final report to the Audit Committee. If there are any known material misstatements, then we would expect these to be corrected in the final statement of accounts. If we are aware of any material uncorrected misstatements, we will need to include details of these misstatements in our audit report (in addition to our disclaimer of opinion).

We will also issue an Auditor's Annual Report, including our Value for Money commentary, which we expect we will issue on a combined basis covering 2020/21, 2021/22 and 2022/23.

Interaction with the incoming auditor and the 2023/24 accounts and audit process

The Council has not yet published its draft 2023/24 statement of accounts for inspection, which was required to be published by 30 June 2024.

We will co-operate with Grant Thornton, your appointed auditor for 2023/24 onwards, in the handover of the audit of the Council.

Responsibilities of the Council

The Council remains responsible for the preparation, publication and approval of the statement of accounts

Responsibilities of the Council

The Council are responsible for ensuring that there is an appropriate internal control environment that enables the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Prior to publication of the final signed financial statements, the Council need to have:

- Prepared the statement of accounts;
- Completed internal reviews and other procedures required as part of the Council's internal controls over financial reporting (with recommended minimum checks detailed on page 17);
- Published the draft statement of accounts for public inspection;
- Completed the 30 working-day public inspection period;
- Amended the draft statement of accounts for any material matters identified or which the Council considers requires correction; and
- Approved the statement of accounts.

As the table on the next page shows, to meet the backstop timetable, there is significant work that will be required by the Council to update the 2021/22 financial statements and prepare the 2022/23 financial statements, before we will be able to undertake work upon them.

Although the procedures that we will be performing (as set out on page 7-10) do not include substantive testing of balances, we have identified material misstatements in previous years through this type of procedure on the financial statements (including internal inconsistencies, casting errors, and omitted disclosures.) The Council remains responsible for preparation of a statement of accounts that complies with the requirements of the CIPFA Code of Practice on Local Authority Accounting, and which gives a true and fair view. If misstatements, disclosure deficiencies, or other issues are identified in the draft statement of accounts, these will potentially require investigation and correction by management before approval of the final statement of accounts, and therefore any issues will need to be considered and addressed on a timely basis to achieve the planned timetable to the backstop date.

We note that any work required in respect of consideration of potentially material objections will need to have been completed before we can issue our audit report. We will therefore need timely responses from management to enable us to complete our work in this area if any objections are received.

Responsibilities of the Council

Significant work is required by the Council ahead of the backstop date

The table below summarises the status of preparation and publication for inspection of the open years of account:

	2021/22	2022/23
Draft accounts prepared	Yes	No
Draft accounts consistent with the audited 2020/21 accounts	No	Not yet prepared.
Draft accounts include group accounts	No	Not yet prepared.
Other known issues with draft of accounts	Not yet updated for matters from 2020/21 accounts	Not yet prepared.
Updated draft required before can begin audit procedures	Yes	Not yet prepared.
Publication and inspection process		
Accounts published for public inspection	Yes	No
Public inspection period completed	Yes	No
Objections received	No	Unknown – inspection period not complete

MHCLG has stated that it is expected that Councils should have sufficient internal controls and processes to provide assurance to the Section 151 Officer that the accounts present a true and fair view and enable approval of the accounts. The Audit Committee may wish to receive a paper from management on the assurances in place including over significant estimates and judgements as part of the approval of the final accounts.

Overview of planned financial statement procedures

Overview of planned procedures

Due to the time available to complete the audits of the Council for the financial years 2021/22 and 2022/23, it will not be possible to complete all audit work required under auditing standards before that date. We have set out in the table below an overview of the key aspects of the work that we plan to complete:

Area	Planned procedures
Initial planning activities	We will complete our overall assessment of engagement risk, which will also inform our planned Value for Money procedures. We will perform our engagement acceptance and continuance procedures, including in respect of independence. We will determine materiality for each of the audits once updated 2021/22 accounts and draft 2022/23 accounts are available.
Risk assessment procedures, including understanding of the Council and its environment, and of internal control.	We have an existing understanding of the Council and its environment, and of its internal control, from previous years' audits. For the open years of account, there is insufficient time prior to the backstop date to complete the audit testing required to respond to identified risks of material misstatement. We therefore have not completed, nor plan to complete, all risk assessment procedures as required by ISAs (UK). Similarly, we have not completed , nor plan to complete group planning procedures including risk assessment procedures, identification of significant components and group audit scoping. As part of our procedures on the financial statements (discussed on the next page), we will perform overall analytical procedures on the draft statement of accounts.
Fraud enquiries	We plan to complete the fraud inquiries required under ISA (UK) 240, as detailed on page [18].
Overall audit procedures that also impact upon our Value for Money procedures	There are a number of areas of audit procedures which also inform our Value for Money work. We will complete procedures in these areas including: • Review of minutes of the Council and its principal committees; • Review of the work of internal audit;

Overview of planned financial statement procedures

Area	Planned procedures
Significant risks	We have not completed the risk assessment procedures required by ISAs to identify any significant risks for the financial years subject to audit, and as noted above do not anticipate doing so as there will be insufficient time to complete the audit testing required to respond to identified risks of material misstatement. The significant risks which we had identified in respect of the 2020/21 audit, and which the Audit Committee may wish to consider the internal assurances in place in respect of for the open years of account, were: • Management override of controls (a presumed risk for all audits); • Cut off and completeness of expenditure via accruals and provisions; and • Valuation of property assets. We had rebutted the presumed risk of fraud in revenue recognition for 2020/21 but have not determined whether this would be a risk for subsequent years. Other areas of audit focus in the 2020/21 audit which we reported on to the Audit Committee, and which may remain relevant to subsequent years, (but which had not been identified as significant risks) included: • Group accounts and consolidation • Accounting for the ICE transaction arrangements • Infrastructure assets • Accounting for expenditure under the capitalization direction • Impact of the Covid-19 pandemic on reporting and other areas of our audit, including in respect of Covid-19 grants The Audit Committee may also wish to consider how these matters have been treated in open years of account, in particular in respect of balances related to the ICE transaction, and the pension liability given significant movements in valuations in the period experienced by most organisations, including in some cases moving to an asset position (which requires consideration of whether the full value of the asset can be recognised).
Testing of account balances, classes of transactions, and disclosures	We do not plan to perform our audit testing of underlying balances, transactions or disclosures. As noted above, there is not sufficient time to complete work in sufficient areas before the backstop date to be able to form an audit opinion.

Overview of planned financial statement procedures

Area	Planned procedures
Financial statements	We will obtain an understanding of management's process for the preparation of the financial statements, including any updates to the originally published accounts necessary for findings from previous audits. We will review the draft financial statements, including performing overall analytical procedures. We will agree the primary statements (comprehensive income and expenditure statement, balance sheet, statement of cashflows, and movement in reserves statement), the Housing Revenue Account, and the Collection Fund to supporting accounting records. We will agree the Group primary statements to consolidation working papers, and consider whether they contain the expected entities and adjustments based upon our understanding of the Group from previous periods. We will agree the opening balances and comparative figures to the prior year financial statements. We will perform a "call and cast" of the financial statements for internal consistency and arithmetic accuracy. We will review the financial statements against the requirements of the CIPFA disclosure checklist and International Financial Reporting Standards. If we identify any apparent errors, omissions, or inconsistencies that are not clearly trivial, we will discuss these with management and request correction of identified misstatements (including disclosure deficiencies). We will report uncorrected misstatements, or corrected misstatements that we consider to be significant, to the Audit Committee.
Compliance with laws and regulations	We will inquire of management and those charged with governance whether the Council is in compliance with applicable laws and regulations. We will inspect any correspondence with regulators.
Evaluation of misstatements	We will evaluate any misstatements and disclosure deficiencies identified, and consider whether any uncorrected items are individually or in aggregate material to the financial statements.
Annual Governance Statement	We will review the Council's Annual Governance Statement to consider whether it is misleading or inconsistent with other information known to us from our audit work (including from our Value for Money procedures).

Overview of planned financial statement procedures

Area	Planned procedures
Internal control findings	We will not be performing our usual procedures to understand the Council's internal controls and will be not be performing our audit testing of balances, which are typically how we identify control findings. However, if we identify any matters through our planned procedures, we will communicate them to management and the Audit Committee, in accordance with ISA (UK) 265. We have reported a number of control deficiencies and recommendations to the Council from our previous audits, most recently in our report of 4 September 2024 on the 2020/21 audit, which we have summarised on page 16. Given the extent of planned procedures, we will not be evaluating the extent to which management have implemented their responses to these recommendations. The Audit Committee may wish to receive an update from management on progress against our previous recommendations as part of their approval of the financial statements.
Subsequent events	We will inquire of management whether there are any subsequent events that affect the open years of account, and if so whether and how they have been reflected in the financial statements.
Reporting to those charged with governance	We have included in this planning report those matters which we are required to report to you under auditing standards. We will include in our final report our findings from the procedures performed, and any other matters we consider we are required to report to the Audit Committee. As we will not complete our usual audit procedures, we do not anticipate we will form a view on significant qualitative aspects of the entity's accounting practices (including accounting policies, accounting estimates and financial statement disclosures), and so will not report to you in respect of these matters.
Duties as public auditor	If any potential objections are received from electors, then we will determine whether the objection is eligible and whether to accept the objection for consideration. We will consider whether any matters are identified through our audit requiring the exercise of any of our other audit powers under the Local Audit and Accountability Act 2014.

Value for Money arrangements

Any significant weaknesses will be included in our audit report. Our VfM commentary will be reported in our Auditor's Annual Report

Value for Money requirements

We are required to consider the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources. Under the revised requirements of the Code of Audit Practice and related Auditor Guidance Note 03 ('AGN03'), we are required to:

- Perform work to understand the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources. We understand that under the requirements applicable for the backstop period, our work will be required to be by reference to two reporting criteria (financial sustainability and governance). We understand that the reporting criterion of improving economy, efficiency and effectiveness will be removed for audits up to and including 2022/23 under the backstop proposals.
- Undertake a risk assessment to identify whether there are any risks of significant weaknesses in arrangements;
- If any risks of significant weaknesses are identified, perform procedures to determine whether there is in fact a significant weakness in arrangements, and if so to make recommendations for improvement;
- Issue a narrative commentary in the Auditor's Annual Report, setting out the work undertaken in respect of the reporting criteria and our findings, including any explanation needed in respect of judgements or local context for findings. If significant weaknesses are identified, the weaknesses and recommendations will be included in the reporting, together with follow-up of previous recommendations and whether they have been implemented. Where relevant, we may include reporting on any other matters arising we consider relevant to Value for Money arrangements, which might include emerging risks or issues arising; and
- Where significant weaknesses are identified, report this by exception within our financial statement audit report.

We anticipate that we will issue a single Auditor's Annual Report covering the open years of account.

Status of our risk assessment and Value for Money procedures

We have completed our risk assessment procedures for the 2021/22 and the 2022/23 audit. We have identified a risk of significant weakness in respect of financial sustainability due to significant financial pressures experienced at the authority which required exceptional financial support from the Ministry of Housing, Communities and Local Government.

Purpose of our report and responsibility statement

Our report is designed to establish our respective responsibilities in relation to the audit, and to communicate our audit plan and planned scope. We will update you if there are any significant changes to the audit plan.

This report has been prepared for the Audit Committee and the Council, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

We welcome the opportunity to discuss our report with you and receive your feedback.

Deloitte LLP

Deloitte LLP

London| 4 September 2024

Appendices

Prior year audit adjustments

Uncorrected misstatements

The following uncorrected misstatements were identified in relation to the 2020/21 audit:

			Debit/(credit) CIES £000	Debit/(credit) in net assets £000	Debit/(credit) prior year reserves £000	*Memo: Debit/ (credit) Council useable reserves £000*
Classification of ICE debtor between long and short-term debtors	Debtors	[1]		109 (109)		
Understatement of IAS 19 Pension Fund Level 3 Assets	Pensions	[2]	(1,060)	1,060		
Understatement of revaluation gains and impairments losses	Reserves	[3]	124 (124)			
Overstatement of property valuation due to methodology applied on an asset	PPE	[4]	1,000	(1,000)		
Overstatement of valuation due to index applied to garage portfolio	PPE	[5]	105	(105)		
Overstatement of Assets Held For Sale	PPE	[6]	268	(268)		
Prepayment items incorrectly expensed	Prepayments	[7]	(421)	421		*(421)*
Understatement of Pensions Service costs	Pensions	[8]	230	(230)		
Understatement of Pensions in respect of Goodwin	Pensions	[9]	250	(250)		
Sub total			**372**	**(372)**		***(421)***

Written representations will be obtained to confirm that, upon considering all uncorrected items, both individually and in aggregate, in the context of the financial statements taken as a whole, no adjustments are required.

Prior year audit adjustments (Continued)

Uncorrected misstatements (Continued)

The following uncorrected misstatements were identified in relation to the 2020/21 audit:

1. The council classified both short term and long-term debtor balances linked to the ICE financial model under one account. For presentational purposes, the amount included in the LT debtor amount should only include the long-term debtor amount and the short-term debtor amount should be reclassified to the correct account line.
2. Per the Grant Thornton testing of the East Sussex Pension Scheme, level 3 investments have been understated by £25.2m. For the 4.19% share of the fund by Eastbourne Borough Council, we have estimated this as a £1.06m misstatement .
3. For one property, the associated revaluation reserve amount was a negative balance. The relevant movement should therefore have been accounted for as an impairment.
4. The council's valuers have applied a yield which does not reflect the specification of the asset, the Weighted Average Unexpired Lease Term (WAULT) at the valuation date or the vacancy rate. Deloitte internal valuers have carried out a sensitivity test to the valuation and estimate that the reported value is overstated by c. £1.0m equating to 7.4%.
5. The council have adjusted the carrying value of certain assets by index movements. Following audit challenge the Council's valuers agree there is limited evidence to support an increase in the value of garages (which had been increased by 7.9%), and we have therefore proposed an adjustment in respect of this.
6. Assets held for sale of £268k at 31 March 2021 were subsequently disposed of for nil consideration (due to the level of costs incurred by the council), and we consider this to be an adjusting subsequent event that provides more information about the value of the asset at 31 March 2021.
7. A payment was made on February 2021 relating to IT services for the period 11 April 2021 to 31 March 2022. This was initially captured in the general ledger as an expense rather than a prepayment. We have extrapolated an error of 457k of which management has corrected 36k, leaving an extrapolated error of £421k
8. Deloitte actuarial team's testing of the Pension Interest expense suggest that this is understated by circa £230k.
9. Deloitte actuarial team's testing of the Pension past service Cost suggest that an allowance should be made in relation to the Goodwin case, and this is understated by circa £250k.

Uncorrected disclosure misstatements

1. Pension Liability – RPI Changes

The Employer should consider adding a narrative to the pension disclosure note to explain how it has reacted to the 2020 Government announcement on RPI changes.

2. Pension Liability- Mortality Assumptions

The mortality assumptions have been assessed on an individual element level and in aggregate. At an individual level, some elements of the mortality assumptions sit at the more prudent or optimistic end of our reasonable ranges. Overall, when taken in aggregate, the mortality assumptions are towards the middle of our reasonable range. We recommend that the Council considers including a note in the accounts, to indicate the impact on the DBO of adopting a W2020 parameter of 25%.

Prior year control findings

Summary

Our 4 September 2024 report to the Audit Committee on the 2020/21 audit included details of a number of internal control and risk management findings, and our recommendations to address them. Given the extent of planned procedures, we will not be evaluating the extent to which management have implemented their responses to these recommendations. The Audit Committee may wish to receive an update from management on progress against our previous recommendations as part of their approval of the financial statements.

Control recommendation	Year first communicated	Priority
Improvement to the Quality of draft financial statements	2018/19	High
Preparation for IFRS 16	2019/20	Medium
Information Technology insights	2020/21	Medium
Lack of a control within Civica that prevents posting of unauthorized journals	2018/19	Medium
Lack of Management paper on key assumptions on the valuation of properties	2019/20	Medium
Improvements to the valuation exercise	2019/20	Medium
Accounting papers not prepared, reviewed and challenged for key Accounting Estimates	2018/19	Medium
Payroll review- lack of evidence of review of the Net Pay Variance report	2019/20	Low

Minimum procedures expected of the Council prior to work on statement of accounts

We have included below a summary of the minimum procedures that we would expect the Council to have undertaken prior to start of any auditor procedures upon the statement of accounts. These reflect general good accounting practice and the guidance in CIPFA's "Streamlining the Accounts" publication (which includes more extensive guidance on the year-end process and preparation of working papers, which the Council may wish to adopt in improving its financial reporting and close process for future years (consistent with our control findings in this area identified in prior years).

Overall procedures
Update of the draft financial statements so that comparatives and opening balances align to previous audited accounts, and all expected disclosures included, with documented check that opening balances and comparative figures agree to the previous audited accounts or updated draft of previous year.
Completion of the CIPFA Disclosure Checklist and resolution of any issues arising for this
Consistency check of the figures included in the narrative report to the financial statements
Documented internal review of the financial statements
Documented internal "call and cast" of internal consistency and arithmetic accuracy
Documented check that opening balances and comparative figures agree to previous audited accounts or the updated draft of previous year.
Documented review of consolidation schedules and elimination adjustments supporting group accounts
Documented check the figures agree to underlying supporting working papers, which have been appropriately completed and reviewed, with appropriate review of a documented audit trail of any adjustments between ledger and statement of accounts
Documented analytic review of movements of more than £2.3m in balances, with a clear and meaningful explanation for all variances.
Consistency checks
Agree the additions in the PPE and other fixed asset notes to the note on Capital Expenditure and Capital Financing
Agree the depreciation and impairment charges in the PPE and other fixed asset notes to the Capital Adjustment Account and Statutory Adjustments notes
Agree the surplus/deficit for the year from the Comprehensive Income and Expenditure Statement to the Movement in Reserves Statement, cashflow statement, and Expenditure and Funding Analysis.
Agree the movement on the HRA balances in the Housing Revenue Account to the Movement in Reserves Statement.
Check consistency of statutory overrides and adjustments between the Expenditure and Funding Analysis, Movement in Reserves Statement, and related disclosure notes.
Check that the Capital Financing Requirement matches to fixed assets less revaluation reserve and capital adjustment account, or that any differences are understood.

Our other responsibilities explained

Fraud responsibilities

Your Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Our responsibilities:

- We are required to obtain representations from your management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- Due to the extent of the audit work that we anticipate can be completed prior to the backstop date, our work will not provide assurance that the financial statements are free from material misstatement, whether caused by fraud or error, which will be reflected in the disclaimer of opinion in our audit report.
- We will communicate to you any other matters related to fraud we identify through our audit that are, in our judgment, relevant to your responsibilities.

Fraud Characteristics:

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

Our other responsibilities explained

Fraud responsibilities

We intend to make the following inquiries regarding fraud and non-compliance with laws and regulations:

Management and other personnel:

- Management’s assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments.
- Management’s process for identifying and responding to risks of fraud.
- Management’s communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud.
- Management’s communication, if any, to employees regarding its views on business practices and ethical behaviour.
- Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity.
- We will also make inquiries of personnel who are expected to deal with allegations of fraud raised by employees or other parties.

Internal audit

- Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud.

Those charged with governance

- How those charged with governance exercise oversight of management’s processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks.
- Whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting the entity.
- The views of those charged with governance on the most significant fraud risk factors affecting the entity, including those specific to the sector.

Independence and fees

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

Independence confirmation	We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Group and will reconfirm our independence and objectivity to the Audit Committee for the years under audit in our final report to the Audit Committee.
Fees	Public Sector Audit Appointments Limited ("PSAA") has set the scale fee as £52,191 for each of the financial years 2021/22 and 2022/23. This scale fee has not reflected the actual scope and cost of performing the audit of the Council, including the additional Value for Money requirements from 2020/21 onwards, and therefore this would have been subject to fee variations if the audit had not been impacted by the backstop provisions. PSAA has not yet published details of how it plans to adjust the scale fee to reflect the actual costs of audits which are affected by the backstop, and so the adjustment that will be made to this scale fee amount. There are no non-audit services which we have undertaken for the council in either of the financial years. We have included on the next slide details of an engagement with the Ministry for Housing, Communities and Local Government which the Council will be a beneficiary of for 2024/25.
Non-audit services	In our opinion there are no inconsistencies between the FRC's Ethical Standard and the Council's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary. Please see slide 21 for more detail in relation to the non-audit services.
Relationships	Slide 21 provides details of all the relationships we have with the Council, its members and officers, and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence, together with the related safeguards that are in place.

Independence and fees (Continued)

As part of our obligations under International Standards on Auditing (UK) and the FRC's Ethical Standard we are required to report to you on all relationships (including the provision of non-audit services) between us and the audited entity:

Deloitte has been contracted by the Ministry for Housing, Communities and Local Government (MHCLG) to provide services to Local Authorities to support with levelling up projects. During 2024/25, subsequent to the financial periods for which we are auditor, we have been asked by MHCLG to provide support in respect of levelling up funding awarded to the Council. The support will be to understand the proposal that is being prepared by the Council for review by MHCLG and to triage any issues that could impact on the delivery of the project. The activities under the services will include meeting with the Local Authority to understand the need, and identify targeted support from SMEs drawn from a pool assembled by our consortium partner and Deloitte to unblock delivery e.g. looking at planning process delays, project management capabilities etc. The fees expected in relation this this engagement will be circa £25,000 (excluding VAT). The possible threats to independence and safeguards in place are set out below:

Possible threats to auditor independence	Is the threat applicable	Rationale/safeguards
Management threat	No	The role is to provide advice, facilitate unblocking for delivery issues and provide the council and partners with options to get delivery back on track where stalled, it is then up to the council and partners to decide as to how they take the advice on board, the engagement team will not make any management decisions.
Self-review threat	No	Any advice provided will be after 1 April 2023, and therefore not impact any period which has been audited by Deloitte. The activities being undertaken do not lead to the determination of financial statement items - they may affect income received but will not determine what is being recorded. The services provided therefore does not present a self-review threat. It should also be noted that the services will be provided to a different team to the audit team.

Independence and fees (Continued)

Possible threats to auditor independence	Is the threat applicable	Rationale/safeguards
Advocacy threat	No	The aim of the services is to provide impartial advice to support the council and partners in unblocking delivery issues. The team will not take the side of any party but will facilitate conversation and access to subject matter experts. It should also be noted that the services will not involve undertaking work directly on behalf of the council as the agreement is with the Ministry for Housing, Communities and Local Government.
Self-interest threat	Yes, however appropriately mitigated	Fees are determined based on the rate card with MHCLG and funding will be received directly from the department. The engagement does not fall within any of the categories of prohibited services under Auditor Guidance Note 1 or the Ethical Standard. Although the AGN01 fee cap is not applicable to periods where we are not the auditor, the value of the work undertaken would be below the fee cap (calculated based upon the scale fee).

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Report to:	**AUDIT AND GOVERNANCE COMMITTEE**
Date:	**25th September 2024**
Title:	**Internal Audit and Counter Fraud Report for the first quarter of the financial year 2024-2025 – 1st April 2024 to 30th June 2024.**
Report of:	**Chief Internal Auditor**
Ward(s):	**All**
Purpose of report:	**To provide a summary of the activities of Internal Audit and Counter Fraud for the first quarter of the financial year 2024-2025 – 1st April 2024 to 30th June 2024.**
Officer recommendation(s):	**That the information in this report be noted and members identify any further information requirements.**
Reasons for recommendations:	**The remit of the Audit and Governance Committee includes the duties to agree an Annual Audit Plan and keep it under review, and to keep under review the probity and effectiveness of internal controls, both financial and operational, including the council's arrangements for identifying and managing risk.**
Contact Officer(s):	**Name: Jackie Humphrey** **Post title: Chief Internal Auditor** **E-mail: jackie.humphrey@lewes-eastbourne.gov.uk** **Telephone number: 01323 415925**

1 Introduction

1.1 The remit of the Audit and Governance Committee includes the duties to agree an Annual Audit Plan and keep it under review, and to keep under review the probity and effectiveness of internal controls, both financial and operational, including the council's arrangements for identifying and managing risk.

1.2 The quarterly report includes a review of work undertaken by Internal Audit and Counter Fraud.

1.3 This report summarises the work carried out by Internal Audit and Counter Fraud across the first quarter of the financial year 2024-25.

2 Review of the work of Internal Audit carried out in the first quarter of the financial year 2024-25

2.1 During this first quarter of the financial year, three follow up reports and six final reports have been issued. A further three reports are out in draft awaiting responses.

2.2 Risk Management has been out in draft, and awaiting responses, since January. The issue is that there is no one person with an overall responsibility for overseeing risk management. For this reason, it is not possible to direct the recommendations accurately. The draft report was taken to Corporate Management Team to explain the issue and to ask for a decision to be made about which officer should be give the remit for overseeing risk management, updating the policy, ensuring training is given and for ensuring that risk registers are completed. The Chief Internal Auditor was assured that this would be arranged. However, no further information has been received despite chasing for a decision. Therefore, the report remains in draft. A temporary, or alternative, solution is being discussed with the Director of Finance and Performance.

2.3 Appendix A lists all the audit reports issued during the year. The first table shows all the follow up reports issued, the second table is the list of all other audit report issued in final, and the last table lists the audit reports issued in draft and awaiting responses from managers.

2.4 Appendix B is the list of all the audits that are still subject to follow up reviews. It shows the results of all the follow ups carried out and when the next follow up is due. When all recommendations have been addressed this will be reported once and then that audit will be removed from the list

2.5 Appendix C is the list of all outstanding recommendations and includes the latest responses from managers. A second table has been added to show recommendations from previous annual audit reviews that remain outstanding.

2.6 The following should be noted when reviewing the appendices:

Business Continuity Plans

Only one plan remains outstanding. As reported at the last committee meeting, owing to a member of staff leaving, information about how to complete the plan had not been passed on. The relevant manager was therefore pointed in the right direction for guidance. However, in checking on progress, it was found that the manager had not had a response and no progress had been made. They were again asking for guidance and the Chief Internal Auditor has also contacted that person to ask them to ensure that guidance is given so that the plan can be completed.

Arrears Collection

The Assistant Director Revenues and Benefits was asked for an update on progress. He reported that the importance of this policy is recognised and added that it requires careful consideration and consultation before adoption. However, work continues on additional areas to add to the new Revenues and Benefits software system which remains a key priority for 24/25. He added that it is possible that the updating of this policy may have to be moved to their plan for 25/26.

Construction Industry Scheme

The manager has reported that resourcing issues are preventing work on updating procedure notes as recommended. However, a target of July 24 was given and a follow up will be carried out then.

Annual Audits

It has previously been explained that, traditionally, follow ups have not been carried out as the audit reviews are repeated every year. However, it was noted that some recommendations were being repeated each year. Where reviews find that recommendations from previous years' reviews are still outstanding, these have also been added to Appendix C.

Many of the annual reviews come under the remit of Finance. An Excel workbook was produced and shared with Finance, as reported to the committee at last quarter, which lists all outstanding recommendations. The Deputy Chief

Finance Officer has reported that these will be put onto Pentana and a responsible officer allocated to each. However, no progress has yet been made.

2.7 Current work is focussing on completion of annual audits covering 2023/24. At the time of writing, of the 11 annual audits, two have had draft reports issued, with a further draft report about to be issued. Two further reviews are completed but are being checked before the draft report is issued. Work is ongoing on a further five.

2.8 The focus of work in the second quarter of the year will be on completing these annual reviews and carrying out follow ups that are due.

3 Public Sector Internal Audit Standards

3.1 The Internal Audit function has to abide by the Public Sector Internal Audit Standards. A self-assessment against these is carried out annually and reported to this committee at the end of the financial year.

3.2 The Public Sector Internal Audit Standards are largely based on the Global Institute of Internal Auditors' "Global Internal Audit Standards". The Global Standards have recently been updated and have added more standards to be met. However, it is the Public Sector Internal Audit Standards that are mandatory for councils in the UK. It has now been confirmed that the Internal Audit Standards Advisory Board is reviewing the standards and will issue consultation material by September, with a consultation period of at least eight weeks. The effective date for the updated standards will be 1st April 2025. In the meantime, the Chief Internal Auditor and Audit Manager are using the updated Global Standards as a benchmark to create an action plan, so that there will be a greater chance of conforming to the updated Public Sector Internal Audit Standards when they are published.

4 Review of the work of Counter Fraud carried out in the first quarter of the financial year 2024-25

4.1 The Counter-Fraud team continue to target the high risk and value areas impacting the council, in particular Tenancy and Revenue fraud. The team have also undertaken income generating work around Council Tax discounts/exemptions and have started assisting the Neighbourhood Team with fly-tipping offences impacting the town.

4.2 Housing Tenancy – the team continue to work closely with colleagues in Homes First and Legal services. There are currently 20 ongoing sublet/abandonment tenancy investigations at various stages. Eight cases were closed during the first quarter, this included the return of two council properties with a net saving to the authority of £186,000 (£93,000 per property). One other case is currently going through legal proceedings to obtain possession and another property is currently in the process of being returned to the council by the tenant.

4.3 Right To Buy - the first quarter has shown a marked increase in new applications from the previous quarters. This was expected due to the annual increase in the Right to Buy discount, with the maximum discount now at £102,400 from April 2024. 17 cases are currently either being checked to prevent and detect fraud and protect the authority against money laundering or waiting for a home visit to verify residential status. Three cases were cleared for sale during the first quarter, with two applications being withdrawn following intervention by the Counter-Fraud team, resulting in a net preventative saving of £204,800.

4.4 Housing Applications – the team continue to work with the Housing Allocations team with a new review expected to commence in 2024/25 with any highlighted fraud cases to be passed to Counter-Fraud to investigate.

4.5 Housing options/homeless placement – the team are working directly with colleagues in Homes First to implement additional counter-fraud measures to ensure the limited housing stock that is available will only be allocated to those in genuine need. This included providing refresher training to staff around credit checks and land registry systems to verify and reduce error and fraud. Two fraud referrals were received during this quarter, one homeless placement was cancelled as a result of non-residency which resulted in a preventative saving of £12,000 based on likely emergency accommodation costs.

4.6 Rent in advance debt recovery – the team continue to look at debt avoidance where loans have been made to assist with securing housing and have remained outstanding following existing debt recovery methods of contact. This activity has recouped £2,759.92 during the first quarter which otherwise might have been written off.

4.7 Energy Rebate Schemes – the team are currently waiting on Government instructions to commence post assurance reviews of a selection of applications made following the closure of the latest Energy Rebate scheme.

4.8 Home Upgrade Grant – after the Government's announcement to award a combined grant funding of £6,230,700 for home energy improvements to eligible homes within Eastbourne Borough, Hastings Borough, Lewes District and Rother District Councils. The team have been working with the scheme leads to reduce the risk of fraud by implementing enhanced verification checks and officer training in fraud prevention.

4.9 Council Tax – 15 cases have been closed following investigation during the first quarter as part of a review of Exemptions and Disregards, with a net recoverable income of £14,726.74 generated for the authority and a preventative saving of £5365.12. A review of Council Tax Single Person Discounts is ongoing and includes work with the National Fraud Initiative (NFI) matching data held between Council Tax Records and Electoral Register. 257 cases have been closed during this quarter with a net recoverable income of £68,471.98 generated, along with a preventative saving of £126,802.24 (these figures are included within NFI in the table at Appendix D). A total amount of income generated since this review commenced stands at £105,508.41 with an estimated preventative saving of £162,538.58.

4.10 Council Tax Reduction – 34 cases have been closed during this quarter generating a total recoverable income of £8,611.17 and a preventative saving of £8,215.68.

4.11 Housing Benefit – the team continue to work closely with the Department for Work and Pensions (DWP) and our colleagues in the benefit section. Due to resource restrictions and pressing need to assess Universal Credit applications, the DWP have limited their capacity to investigate Housing Benefit. Over this period, 25 cases were closed generating a combined recoverable Housing Benefit overpayments of £20,308.49 and a preventative saving of £14,888.56.

4.12 National Fraud Initiative – the 2023/24 is already underway with the team concentrating on discrepancies on the Council Tax side as detailed above.

4.13 Fly-Tipping – the Counter-Fraud team are delivering training in criminal investigations to the Neighbourhood First team and assisting with Interviews Under Caution for Fly-Tipping offences impacting the town and communities.

4.14 Data Protection Requests – the team take an active role in supporting colleagues in other organisations to prevent fraud and tackle criminal activity. During the quarter the team dealt with 13 Data Protection requests from the Police and other authorities. In addition, two fit and proper person checks were completed for a new House in Multiple Occupancy licence and 28 gas safety checks for council properties were completed where a safeguarding concern or possible abandonment risk was identified.

4.15 A table showing the savings made by the Counter Fraud team in 2024-2025 can be found at Appendix D.

5 Governance of Companies

5.1 The Director of Finance and Performance has requested that the Audit and Governance Committee be given updates of assurance on the financial and governance arrangements of the companies.

5.2 It has been arranged that the Boards of the companies add an agenda item to their quarterly meetings to consider the financial and governance arrangements and to make a statement on this. These statements are reported to this committee. It should be noted that because of the dates of the Board meetings and the reporting schedule for this committee, there will be timing differences. However, all statements received in the quarter being reported on are included in the report.

5.3 A standard statement has been agreed for use, if the relevant Board considers the arrangements to be in order. Boards are expected to clarify any concerns of which they are aware.

5.4 The following is a table showing the date of meetings during Financial Year 2023-24 where the governance statement was considered:

Company	Quarter One	Quarter Two	Quarter Three	Quarter Four
Eastbourne Homes Ltd	27.07.23	14.12.23	27.03.24	24.07.24
South East Environmental Services Ltd	20.09.23	13.12.23	20.03.24	12.06.24
Aspiration Homes LLP	13.07.23	11.01.24	Meeting cancelled	18.07.24
Cloud ConnX	23.10.23	Meeting cancelled	11.03.24	24.07.24
Investment Company Eastbourne	26.09.23	04.12.23	25.03.24	29.07.24
Eastbourne Housing Investment Company Ltd	12.07.23	05.12.23	19.03.24	10.07.24

5.5 All the above meetings returned the same statement.

"Having examined all the reports brought to the meeting the Board considers that the company is compliant with its financial and governance arrangements".

5.6 It should be noted that the information concerning Cloud ConnX meetings has now been updated. At the time of writing this report, information was still being awaited with regard to most July meetings.

6 Financial appraisal

6.1 There are no financial implications relating to expenditure arising from this report. Details of savings generated by the Counter Fraud team are included in Appendix D.

7 Legal implications

7.1 This report is for noting only and therefore the Legal Services team has not been consulted on the content of it.

8 Risk management implications

8.1 If the council does not have an effective governance framework that is subject to proper oversight by councillors it will not be able to demonstrate that it has in place adequate means to safeguard council assets and services, and it could be subject to criticism from the council's external auditor or the public.

9 Equality analysis

9.1 An equalities impact assessment is not considered necessary because the report is for information only and involves no key decisions.

10 Environmental sustainability implications

Not applicable

11 Appendices

Appendix A – List of reports issued during the year

Appendix B – Position of audits requiring follow up

Appendix C – Recommendations outstanding after follow-ups

Appendix D – Counter Fraud savings.

LIST OF ALL REPORTS ISSUED DURING THE YEAR 2024-25

Follow Up Reports Issued In Current Year

AUDIT	FOLLOW UP	DATE FOLLOW UP ISSUED	ASSURANCE LEVEL	
Creditors – annual 21-22		03.04.24	Substantial	See appendices B and C for details
Complaints	Second	25.04.24	Partial	See appendices B and C for details
Managerial Responsibilities Training	First	30.04.24	Full	All recommendations addressed

Audit Reports Issued In Current Year

AUDIT	FINAL DATE	FINAL ASSURANCE LEVEL	FIRST FOLLOW-DUE
Equalities	15.04.24	Substantial	August 24
Non-Residential Properties Portfolio Management	14.05.24	Substantial	September 24
Homelessness and Emergency Accommodation	20.05.24	Substantial	September 24
Creditors – annual 22-23	30.05.24	Substantial	September 24
Theatres – annual 23-24	19.06.24	Partial	October 24
Emergency Planning	28.06.24	Partial	October 24

Draft Reports Issued In the Current Year That Are Awaiting Responses

AUDIT	DATE DRAFT ISSUED
Risk Management	20.12.23
ICT – annual 23-24	28.06.24
Payroll – annual 23-24	28.06.24

Key to assurance levels

Assurance Level	Description
Full Assurance	Full assurance that the controls reduce the risk to an acceptable level.
Substantial Assurance	Significant assurance that the controls reduce the level of risk, but there are some reservations; most risks are adequately managed, for others there are minor issues that need to be addressed by management.
Partial Assurance	Partial assurance that the controls reduce the level of risk. Only some of the risks are adequately managed; for others there are significant issues that need to be addressed by management.
Minimal Assurance	Little assurance that the controls reduce the level of risk to an acceptable level; the level of risk remains high and immediate action is required by management.
No Assurance	No assurance can be given. The reasons will be explained thoroughly in the report.

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POSITION OF AUDITS REQUIRING FOLLOW UP

AUDIT	FINAL DATE	FINAL ASSURANCE LEVEL	FIRST FOLLOW-UP DATE	FIRST FOLLOW UP ASSURANCE LEVEL	SECOND FOLLOW-UP DATE	SECOND FOLLOW UP ASSURANCE LEVEL	THIRD FOLLOW-UP DATE	THIRD FOLLOW- UP ASSURANCE LEVEL	FOURTH FOLLOW UP DATE	FOURTH FOLLOW UP ASSURANCE LEVEL	FIFTH FOLLOW UP DATE	FIFTH FOLLOW UP ASSURANCE LEVEL	SIXTH FOLLOW
Business Continuity Plans	Nov 20	Minimal	May 21	Partial	Aug 21	Partial	Dec 21	Partial	May 22	Substantial	Dec 22	Partial	May 23 / July 23 / Jan 24- Substantial
Arrears Collection	Jan 21	Partial	Sep 21	Partial	Jan 22	Partial	May 22	Substantial	Nov 22	Substantial	Jan 24	Substantial	Nov24
Construction Industry Scheme	Feb 22	Partial	Feb 23	Partial	Aug 23	Substantial	Jan 24	Substantial	Aug 24				
Casual Workers	Apl 23	Partial	Jan 24	Partial	Aug 24								
Complaints	Aug 23	Partial	Dec 23	Partial	Apl 24	Partial	Aug 24						
Managerial Responsibilities Training	Oct 23	Partial	Apl 24	Full									
Grounds Maintenance	Feb 24	Minimal	Jun 24										
Counter Fraud Management	Mar 24	Substantial	Jul 24										
Equalities	Apl 24	Substantial	Aug 24										
Non-Residential Properties Portfolio Management	May 24	Substantial	Feb 25										
Homelessness and Emergency Accommodation	May 24	Substantial	Sep 24										
Emergency Planning	Jun 24	Partial	Oct 24										

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RECOMMENDATIONS FROM AUDIT REPORTS WHICH REMAIN OUTSTANDING AFTER FOLLOW UP

COLOUR KEY
High Risk
Medium Risk
Low Risk

REPORTS ISSUED 20/21

AUDIT	Original Assurance Level	High	Medium	Low	Latest Follow Up Date	Number of Follow Up	Assurance Level at Follow Up	High	Medium	Low	Next Follow Up Due	Outstanding recommendations	Client Comment
Business Continuity Planning November 2020	Minimal	4	0	0	Dec 23	**Sixth +**	Substantial	1	0	0	Feb 23	Business Continuity Plans for every department must be completed and adopted as soon as possible. (6 months)	**Audit Comment** The BCP for Events has been completed. It was found that the relevant manager for other Tourism areas was not aware of the requirement for BCPs – possibly due to other officers leaving. He was asked to get guidance but received no response so he has been pointed to the Events Manager to help him produce the BCP. JUNE 24 Tourism was again asked if BCPs had been completed. It appears that they have still heard nothing from the Regulatory Services Lead.

Appendix C – Recommendations outstanding after follow ups / Quarterly Report on Internal Audit and Counter Fraud Work

AUDIT	Original Assurance Level	High	Medium	Low	Latest Follow Up Date	Number of Follow Up	Assurance Level at Follow Up	High	Medium	Low	Next Follow Up Due	Outstanding recommendations	Client Comment
Arrears Collection January 2021	Partial	2	2	3	07.11.22	Fourth	Substantial	0	0	1	Nov 24	An overarching corporate arrears collection strategy must be drawn up and adopted, under which the separate policies for the individual debt streams sit, to ensure council departments responsible for collecting monies are acting in accordance with approved guidelines. (3 months)	**Audit Comment** Centralised debt collection is due to begin in February 2024. The Lead for Income Maximisation and Welfare has confirmed that writing a Corporate Fair Debt Policy is on the priorities list for 2024/25 JUNE 24 The Assistant Director Revenues and Benefits recognises the importance of this policy but current work pressures on additional areas to add to the new software system is a priority. Therefore updating the policy may have to be moved to the plan for 25/26

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AUDIT	Original Assurance Level	High	Medium	Low	Latest Follow Up Date	Number of Follow Up	Assurance Level at Follow Up	High	Medium	Low	Next Follow Up Due	Outstanding recommendations	Client Comment
Construction Industry Scheme February 2022	Partial	0	6	0	30.01.24	Third	Substantial	0	2	0	Jul 24	Procedures for CIS payments must be written up and regularly updated as directives from HMRC change. (6 months)	**First follow up** Procedures for CIS payments will be developed and regularly updated in line with the HMRC changes. **Second follow up** The Systems and Transactional Manager confirmed that procedure notes for CIS have not been written. Resourcing issues are currently impacting on the team's ability to undertake this work and therefore an estimated date for completion was not possible. It was suggested that it may require outside help in order **Third follow up** The Systems and Transactional Manager confirmed that procedure notes for CIS have not been written. Resourcing issues are currently impacting on the team's ability to undertake this work. Target completion date July 2024. Training will happen as part of the updating of the procedures.

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Construction Industry Scheme February 2022 **continued**	Partial	0	6	0	30.01.24	Third	Substantial	0	2	0	Jul 24	When a new supplier is set up on the system, a visual refence (screenshot or HMRC document) must be saved to the supplier's file to establish the supplier's starting tax status. (6 months)	**First follow up** A further sample of 14 was tested and only one had saved HMRC screenshot. The new Creditor Team Leader agreed that a reminder will be sent to relevant staff. **Second follow up** A further sample of 10 was tested and only. 6 had verification screenshots on file. The Systems and Transactional Manager confirmed that the lack of procedures is probably impacting on the consistency of this process. A reminder has been sent to the team. **Third follow up** Of the three new suppliers added to the system since the last follow-up, only one had verification on CAFI and this was incomplete. **Audit Comment** It was reported that updated procedure notes will address inconsistencies such as these. There are currently two officers, one for each council, allocated to this process. It was agreed that a third officer will also be allocated as back up to add resilience

AUDIT	Original Assurance Level	High	Medium	Low	Latest Follow Up Date	Number of Follow Up	Assurance Level at Follow Up	High	Medium	Low	Next Follow Up Due	Outstanding recommendations	Client Comment
Casual Workers May 2023	Partial	1	12	0	01.02.24	First	Partial	0	7	0	Jul 24	All staff must complete a Close Personal Declaration form at the beginning of their employment. The form must be kept on record and annual reminders sent to update the information if necessary. For Casual Workers the form must be included in the Casual Starter Pack. Managers must be reminded that a form must be completed if a casual workers position regarding close personal relationships changes at any time during the year. (6 months)	The new Starter Pack contains a Close Personal Relationship(CPR) form. The Casual Workers Guidance for Managers contains instructions on the annual reviewing /updating of CPR forms. Whilst the forms are being completed, they are not being routinely saved on D360. **Audit comment:** The Director and HR are aware of this issue and confirmed that a solution to managing Starter Packs through D360 will be found, and the project to move the Starter Pack online will be discussed with IT- online Starter Packs have the potential to resolve all of the outstanding Starter Pack issues.
												Managers must be reminded that all casual workers must have a complete copy of the Casual Starter Pack sent to HR. HR must return incomplete Starter Pack to the manager responsible. Consideration must be given to an online version of the form which can be safely	Casual Worker Guidance gives instructions on completing Casual Worker Starter Packs for all Casual Workers. The instructions include the directive to send the Starter Packs to both HR and Payroll. **Audit comment:** Testing showed that Starter Packs are, more often than not, being sent to Payroll alone. Payroll

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												completed and delivered without the need for casual workers to attend the office. Hard copies must be destroyed once they have been scanned and delivered to HR and digital copies must not be stored on local devices. (1 month)	extract the Payroll related information and add it to D360, but because the information is not being sent to HR, HR related information is not being saved. It was reported that discussions have been had regarding online Starter Packs, but no decisions were reported. Hard copies are still being retained. The Director and HR are aware of this issue and confirmed that a solution to managing Starter Packs through D360 will be found, and the project to move the Starter Pack online will be discussed with IT- online Starter Packs have the potential to resolve all of the outstanding Starter Pack issues.
Casual Workers May 2023 **continued**	Partial	1	12	0	01.02.24	First	Partial	0	7	0	Jul 24	Manager's confirmation, signature and date on copies of identity documents must be attached to all Casual Starter Packs and saved on D360. (1 month)	The Casual Workers Guidance for Managers lists the procedures for managing identity documents. **Audit comment:** Testing showed that where identity documents were available on D360 they were nearly always annotated, however many of the samples taken did not have identity

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													documents present on D360. The Director and HR are aware of this issue and confirmed that a solution to managing Starter Packs through D360 will be found, and the project to move the Starter Pack online will be discussed with IT- online Starter Packs have the potential to resolve all of the outstanding Starter Pack issues.
Casual Workers May 2023 **continued**	Partial	1	12	0	01.02.24	First	Partial	0	7	0	Jul 24	Managers must be reminded that written role duties and expectations must be given to each casual worker and must either form part of the completed Casual Starter Pack or be saved alongside it on D360. (1 month)	Starter Packs containing role duties, as well as more detailed duty descriptions for more senior roles, are regularly being sent to Payroll, but not transferred to D360 in their entirety. **Audit comment:** The Director and HR are aware of this issue and confirmed that a solution to managing Starter Packs through D360 will be found, and the project to move the Starter Pack online will be discussed with IT- online Starter Packs have the potential to resolve all of the outstanding Starter Pack issues.

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Casual Workers May 2023 **continued**	Partial	1	12	0	01.02.24	First	Partial	0	7	0	Jul 24	Managers must be reminded that casual workers must have a related wages amendment form for rates that differ from their original payment code. (3 months)	**Audit comment:** Payroll reported that there has been an improvement in this area, but that there are still instances of it happening. Testing supported this position with a number of casual worker pay codes / rates out of date on D360 – some by a number of years. The Director and HR are aware of this issue. Managers will be reminded that staff must have up-to-date rates and payment code on file.
												Managers must be reminded that casual workers must be given Health and Safety training relevant to the roles they are undertaking. (3 months)	Meetings between the Health and Safety Manager and Devonshire Quarter managers are happening frequently, and specific Health and Safety (H&S) related training sessions are being given. The Director confirmed they have been present at a number of H&S inductions carried out by the Events team and that they are comprehensive as far as the specific duties being carried out for the event are concerned. However, H&S training for Casual Workers is not always happening. It was reported that a barrier to providing basic H&S training, especially to

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													casual workers who are taken on at short notice and those working for short periods of time, is the lack of access to OLLE training as this requires a council email address. **Audit comment:** The Director confirmed they will speak with Health and Safety Manager to help pinpoint H&S shortfalls and discuss potential ways to address them.
Casual Workers May 2023 **continued**	Partial	1	12	0	01.02.24	First	Partial	0	7	0	Jul 24	All casual workers that require a qualification and/or a background check to carry out their duties must have the relevant documents retained on their personnel file. (1 month)	**Audit comment:** A review of the DBS checks held by HR for relevant staff was carried out. However, in testing, one sample was found to have no DBS check on file. It was reported that issues regarding the speed at which DBS checks are happening and the relevant documents are being passed onto HR has been identified as a problem. It was confirmed that discussions are already happening with managers and measures put in place to address the ongoing issues.

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Complaints August 2023	Partial	9	7	0	25.04.24	Second	Partial	9	7	0	Aug 24	An aligned complaint management policy for defining and handling customer complaints must be drafted, implemented, and regularly reviewed. It must meet all complaint management requirements to avoid the need for separate supplementary polices. (6 months)	**2nd Follow Up April 2024** **In progress** **Assistant Director Customer Service and Delivery** Draft Complaint Management policy due to be taken to Cabinet June [2024]
												An aligned complaint management procedure for handling customer complaints and the associated record-keeping requirements must be drafted, implemented, and regularly reviewed. It must meet all complaint management requirements to avoid the need for separate supplementary procedures. (6 months)	**2nd Follow Up April 2024** **In progress** **Assistant Director Customer Service and Delivery** Being updated and will be published after June [2024] Cabinet.
												All council-wide complaint management documents and user guides must be reviewed, updated, and implemented to address inconsistencies and omissions. All documents must have quality assurance cover sheets. (6 months)	**2nd Follow Up April 2024** **In progress** **Assistant Director Customer Service and Delivery** To be progressed after Complaint Management policy approved by Cabinet.

AUDIT	Original Assurance Level	High	Medium	Low	Latest Follow Up Date	Number of Follow Up	Assurance Level at Follow Up	High	Medium	Low	Next Follow Up Due	Outstanding recommendations	Client Comment
Complaints August 2023 **continued**	Partial	9	7	0	25.04.24	Second	Partial	9	7	0	Aug 24	The support available to those who may otherwise struggle to make a written complaint must be widely and consistently communicated. (3 months)	**2nd Follow Up April 2024** **In progress** **Assistant Director Customer Service and Delivery** To be progressed after Complaint Management policy approved by Cabinet.
												Consideration must be given to procuring a dedicated complaint management system that meets all complaint management, recording and reporting needs. (6 months)	**2nd Follow Up April 2024** **On hold** **Assistant Director Customer Service and Delivery** On hold pending discussion about future of projects in current financial climate.
												Complaints management system templates must support good documentation and record keeping practices. (3 months)	**2nd Follow Up April 2024** **In progress** **Assistant Director Customer Service and Delivery** To be progressed after Complaint Management policy approved by Cabinet.

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Complaints August 2023 **continued**	Partial	9	7	0	25.04.24	Second	Partial	9	7	0	Aug 24	Complaints must be handled in line with the documented complaints procedures and the complaint management system must be used as it is intended to be used. Mandatory training programmes must be devised and implemented for both managers responsible for implementing and overseeing the complaints management process, and staff assigned to investigate, respond to, and record complaints. All staff handling complaints, including all frontline staff, must complete the online Customer Complaints Procedure training course on the councils' online learning portal, Online Learning in Lewes and Eastbourne (OLLE). (6 months)	**2nd Follow Up April 2024** **In progress** **Assistant Director Customer Service and Delivery** The Cabinet report seeks to gain approval for making training mandatory.
												All records supporting a complaint request / complaint must be appropriately stored and retained together. An explanatory file note must be left on the original complaint file for aborted and cancelled complaints. (6 months)	**2nd Follow Up April 2024** **Outstanding** **Assistant Director Customer Service and Delivery** To be actioned after June [2024] Cabinet.

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Complaints August 2023 **continued**	Partial	9	7	0	25.04.24	Second	Partial	9	7	0	Aug 24	A process must be implemented to ensure complaints are resolved and closed in a timely manner. (3 months)	**2nd Follow Up April 2024** **Outstanding** **Customer First Resolution Team Specialist Advisor (Complaints and Improvement)** To be actioned after June [2024] Cabinet.
												The complaint alert notification email distribution list must be kept up to date. Change requests to the distribution list must be submitted and processed in a timely manner. The process for updating the distribution list must be reviewed, updated, and implemented. (1 month)	**2nd Follow Up April 2024** **Customer First Resolution Team Specialist Advisor (Complaints and Improvement)** To be progressed after Complaint Management policy approved by Cabinet.
												Information on the complaints management process detailed on The Hub and external website, must be reviewed and updated, and aligned with guidance. (1 month)	**2nd Follow Up April 2024** **In progress** **Customer First Resolution Team Specialist Advisor (Complaints and Improvement)** To be progressed after Complaint Management policy approved by Cabinet.

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Complaints August 2023 **Continued**	Partial	9	7	0	25.04.24	Second	Partial	9	7	0	Aug 24	Staff must receive alerts when complaints they have been assigned are approaching their target resolution dates and when they have reached their target resolution dates. (6 months)	**2nd Follow Up April 2024** **In progress** **Assistant Director Customer Service and Delivery** Ongoing
												Customers must be signposted to where they can provide feedback on the way in which their complaint was handled. That feedback must be logged and reviewed, and lessons learnt disseminated and implemented across the councils. (6 months)	**2nd Follow Up April 2024** **In progress** **Assistant Director Customer Service and Delivery** Ongoing
												Root cause analysis of complaints, and systems and processes to disseminate and implement lessons learnt from root cause analysis, must be extended across the councils. (3 months)	**2nd Follow Up April 2024** **In progress** **Assistant Director Customer Service and Delivery** As per new Local Government Ombudsman code of practice, quarterly complaints improvement meetings to be set up [Auditor Note: The Local Government and Social Care Ombudsman published the Complaint Handling Code February 2024, Code applicable from April 2024]

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Complaints August 2023 **Continued**	Partial	9	7	0	25.04.24	Second	Partial	9	7	0	Aug 24	Reports must be designed to meet all complaint reporting needs. (6 months)	**2nd Follow Up April 2024** **Outstanding** **Assistant Director Customer Service and Delivery** Not yet started
												All service areas must be responsible for monitoring and recording their own complaints data in a standardised format for timely submission to Customer First to meet PI reporting requirements. (6 months)	**2nd Follow Up April 2024** **In progress** **Assistant Director Customer Service and Delivery** Ongoing

ANNUAL AUDITS

AUDIT	Original Assurance Level	Latest Update	High	Medium	Low	Outstanding recommendations	Update
Housing Rents (22/23) July 23	Substantial	18.07.23	0	1	0	**Outstanding from 2021/22** There must be a review of the users and their permissions for the Housing CX system. To ensure that the users and their permissions are up to date and accurate. This requires IT, HR to work together to find a solution, with input from Finance and Customer First. (3 months)	**Head of IT** Agreed **Head of HR** Agreed **Deputy Chief Finance Officer** Agreed **Head of Customer First** Agreed
Payroll (22/23) December 2023	Substantial	15.12.23	0	2	1	**2020/21 Outstanding Recommendation** All pay awards must detail an explanation for why the award is being made. (6 months)	**2020/21 and 2021/22** **Client Comment** HR Business Partners will ensure that payroll are provided with a summary of the additional duties that are being undertaken, how the payment for these has been calculated and the period to which the payment relates, to the best of the information provided to us at the time. HR will also check any calculations provided by managers. **2022/23 Head of HR** HR will remind managers of the requirement for this.
						2020/21 Recommendation Outstanding Records for agreed acting up and honorarium allowances must detail how each payment was calculated and each calculation must be independently checked for accuracy. There must be an easily identifiable record of this on D360. (*2022/23 Auditor Note: this outstanding recommendation has been superseded by the revised recommendation below to reflect HR's confirmation that D360 is not compatible to many HR processes*). **2022/23 Recommendation** Records for agreed acting up and honorarium allowances must detail how each payment was calculated and each calculation must be independently checked for accuracy. (6 months)	**2020/2021 and 2021/22** **Client Comment** HR Business Partners will ensure that payroll are provided with a summary of the additional duties that are being undertaken, how the payment for these has been calculated and the period to which the payment relates, to the best of the information provided to us at the time. HR will also check any calculations provided by managers. **2022/23 Head of HR** Agreed

AUDIT	Original Assurance Level	Latest Update	High	Medium	Low	Outstanding recommendations	Update
Payroll (22/23) December 2023 **Continued**	Substantial	15.12.23	0	2	1	**2020/21 Recommendation Outstanding** For transparency, an annual report listing honoraria, acting-up, ex-gratia and added responsibilities payments made should be submitted to CMT. (2022/23 Auditor Note: this outstanding recommendation has been superseded by the revised recommendation below.) **2022/23 Recommendation** For transparency, an annual report listing honoraria and acting up / additional responsibilities payments must be submitted to CMT. (6 months)	**2020/2021 and 2021/22 Client Comment** Agreed. **2022/23 Head of HR** Agreed
Debtors (21/22) **Follow Up**	Partial	03.01.24	1	7	0	The VAT codes used on cremation service-related invoices, EDGC membership invoices, and Printing web header design invoices must be reviewed by an Accountant / VAT Tax Specialist. (1 month)	**Accountant (Corporate Finance)** Initial review undertaken. Follow-up questions being asked to understand exactly what is being charged for. May need to refer some of them to PSTAX (Public Sector Tax Consultancy).
						The VAT codes linked to charge codes must be reviewed and steps taken to ensure the correct VAT codes are linked to all new charge codes. (6 months)	**Systems and Transactional Manager and Accountant (Corporate Finance)** A review of the current codes and monitoring of new codes have resource implications that need to considered. **Deputy Chief Finance Officer** VAT codes used in past 12 months to be sampled to identify codes that may require a more detailed review. Target date 12 months
						Recommendation from 2020-21 The EBC annual schedule of fees and charges should be taken to Cabinet for approval. **Recommendation amended for 2021-22:** An annual schedule of fees and charges must be taken to, and approved by, Cabinet. (3 months)	**Deputy Chief Finance Officer** Agreed. To be addressed this year. Target date 3 months from date follow-up report issued.

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Debtors (21/22) Follow Up continued	Partial	03.01.24	1	7	0	**Recommendation outstanding from 2020-21** It must be ensured that adequate checking of any amendments made is carried out and any unusual transactions questioned. **Recommendation amended for 2021-22** Running regular reports on new and amended charge codes must be implemented as the key compensating control for managing risk posed by many users having access to set-up and amend charge codes. (3 months)	**Deputy Chief Finance Officer** Agreed. To be addressed this [fiscal] year. Target date 3 months from date follow-up report issued.
						Recommendation amended for 2021-22 An aligned Fair Debt Policy must be produced and implemented. Revision must include guidance on invoice form. (6 months)	**Deputy Chief Finance Officer** Agreed. Target date 6 months from date follow-up report issued.
						Recommendation outstanding from 2019-20 The debt recovery procedures should be rewritten. **Recommendation outstanding from 2020-21** The Debt Recovery Procedures guide should be updated to include current job titles, of senior managers that are required to authorise writing off debt. **Recommendations amended for 2021-22** An aligned procedure reflecting an overarching corporate arrears collection strategy that fully details the arrears and recovery processes in place for overdue amounts must be drafted and regularly reviewed. actions. (6 months)	**Deputy Chief Finance Officer** Agreed. Target date 9 months from date follow-up report issued.
						Recommendation outstanding from 2020-21 Written procedures for write offs must be updated. **Recommendation amended for 2021-22** Aligned procedures must be written for writing off sundry debtor debts and made available to appropriate staff. (6 months)	**Deputy Chief Finance Officer** Agreed. Target date 9 months from date follow-up report issued.

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Debtors (21/22) **Follow Up** **continued**	Partial	03.01.24	1	7	0	Heads of Service and managers must be reminded that when requesting authorisation and counter authorisation to write off a debt, all debt recovery steps undertaken must be listed and fully documented, and the reason(s) for the write off request must be explicitly stated. (3 months)	**Deputy Chief Finance Officer** Agreed. Target date 9 months from date follow-up report issued.
Main Accounting (21/22) **Follow Up**	Partial	08.03.24	2	7	1	**Outstanding Recommendation from 2019/20** Consideration must be given to whether the current format for the Authorised Signatory List is still relevant. If it is then it must be updated but, if not, then it must be replaced. **Recommendation 2021/22** The processes used to update starters and leavers, as well as role changes in the Authorised Signatory List and in CAFI itself, should be reviewed to establish if there is a more effective approach. (6 months)	**In Progress** Progress has been made reviewing the processes behind the Authorised Signatory List, and defining a new, streamlined system with limits being defined by the post and paygrade – rather than the current system which is linked to individual officers. There is no timeframe for completion. **Audit comment:** No further follow up of this recommendation will be undertaken however a full audit review of authorised signatories across the councils will be undertaken as part of the Audit Plan for 2024/25
						Finance and IT must work together to get historical bank reconciliation variances cleared as a matter of urgency. (6 months)	Historic variances remain on the system. **DCFO Comment:** A fresh approach to this issue is needed to understand its history, establish what attempts have already been made to rectify it, and to obtain a written reason from Civica regarding the current position and what, if anything, can be done to rectify it.
						As well as showing when the financial procedure rules were written, the documents should include an indication of when they will be reviewed. (6 months)	There has been no update of the Financial Procedure Rules since the report was issued in January 2023 and no date for review has been added. **DCFO Comment** In consultation with the Audit and Governance Committees, a formal schedule of reviewing and updating the Financial Procedure Rules needs to be agreed.

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Main Accounting (21/22) **Follow Up** **continued**	Partial	08.03.24	2	7	1	**Outstanding Recommendation from 2019/20** Financial policies and procedures must be reviewed and updated to include the restructure of Finance, the changes in IT systems and all officer roles. All documents must have a record of the date reviewed, the next review date and the officer responsible. Policies and procedures must be filed in a central location and time set aside in the annual finance timetable to ensure they are up to date. Where appropriate procedures should be made available on The Hub **Recommendation 2022** A list of up-to-date finance procedures should be collated, including procedure name and date, to allow for ease of monitoring and to ensure that procedures are written for any areas that are lacking procedures. Following the recommendation above, ensure that written procedures are in place for all areas, including for commercial entities and enterprises. (6 months)	**DCFO Comment** The Chief Finance Officer has identified and discussed with Managers the need to improve policies and procedures across the area, with an emphasis on consistent reporting.
						Outstanding Recommendation from 2019/20 CAFI user groups must be reviewed to ensure that full access is limited to authorised roles only. Access should be removed for those officers who no longer work for the organisation. (6 months)	**Audit Comment** It was reported that there is an ongoing project to address issues with CAFI user groups. Officers no longer in the councils' employment need an active directory to log in; this is removed when they leave. **DCFO Comment** A way to link CAFI access to leaver form management will be looked in to.
						Outstanding Recommendation from 2019/20 The role of budget managers on CAFI must be reviewed and updated to reflect the current structure. (3 months)	**Audit comment** It was reported that work to reorganise the reporting structure within CAFI is currently being undertaken but only when time allows. Ways of maintaining accuracy are being considered. **DCFO Comment** A way to link CAFI access to leaver form management will be looked in to.

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Main Accounting (21/22) **Follow Up** **continued**	Partial	08.03.24	2	7	1	Every recharge made/invoice raised must be carried out by two officers, one raising the charge and the other authorising. (3 months)	Recharges tested were checked for accuracy, supported by evidence and, where they are not related to Service Level Agreements (SLA), were correctly authorised. Authorisation records for SLA recharges were not retained. The Auditor observed a new filing system which has been put in place to address this issue for 2023/24.
						A decision must be taken, procedures written, and action verified around whether reconciliations should clearly identify who carries them out and how often, and by whom, they should be checked. (6 months)	Testing revealed that reconciliations are signed and dated by the officer undertaking the reconciliation, but not signed and dated by a second officer. **DCFO Comment** The Chief Finance Officer has identified and discussed with Managers the need to improve policies and procedures across the area, with an emphasis on consistent reporting.
						Recommendation 2020/21 An annual reconciliation of the rents system to the asset register must be actioned for all HRA properties. **Recommendation** Finance and Customer First need to work together to produce an annual reconciliation of the rents system and the asset register to include all HRA properties. (6 months)	A project to use Tech Forge (property management software) to reconcile the asset register with the financial system is underway – it is hoped it will be in place for 2023-24 year end
						2021-22 Recommendation A decision should be made about whether a reference alone is sufficient a narrative for a journal. The decision should inform procedures to establish consistency across the organisations. (9 months)	**DCFO Comment** The Chief Finance Officer has identified and discussed with Managers the need to improve policies and procedures across the area with an emphasis on consistent reporting. The option to mandate a narrative within Civica will be looked at. Pentana is being used by Finance as a way of documenting and monitoring processes and procedures. This is a work in progress.

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Main Accounting (21/22) **Follow Up** **continued**	Partial	08.03.24	2	7	1	All working papers should have the name of the officer revieing as well as the officer completing them. (6 months)	Some working papers are still in draft and have yet to be signed off.
Treasury Management (21/22) **Follow Up**	Substantial	23.02.24	0	1	1	**Recommendation outstanding from 2020/21** Formal training must be organised to ensure that adequate contingency arrangements are in place to cover for unplanned staff absence (6 months)	The Head of Financial Reporting stated that there are no resources for additional staff who could be trained for Treasury Management. A request has been put forward for redeployed resourcing from within the team which should create more resilience.
Treasury Management (21/22) **Follow Up** **Continued**	Substantial	23.02.24	0	1	1	**Recommendation outstanding from 2020/21** Work on updating and aligning internal Treasury Management Procedures must be completed. (6 months)	The auditor observed significant updates on the procedure documents, however the main Treasury Management Practices is yet to be finalised. It was confirmed that the documents are still a work in progress.
Creditors **(21/22)**	Substantial	03.04.24	0	2	0	Managers must be reminded that when a member of staff joins their team from another internal department, their payment authorisation permissions must be brought in line with their new role. (3 months)	**Systems & Transactional Manager Comment** A reminder is to be sent via the Senior Managers Forum that the Finance technical team need to be informed of any staff movements within the organisations, so that access and privacy settings can be amended on the CAFi system.
						Clear guidelines should be drawn up and distributed to all officers that manage faster payments (3 months).	**DCFO Comment:** Guidelines will be developed. **Outstanding** Agreed timeframe for completion - 3 months
Cash and Banking (21/22) **Follow Up**	Minimal	06.03.24	3	1	0	A list of all of the cash offices within the organisations must be maintained within Finance; the list should also detail safes or cash storage facilities and key holders. (3 months)	**Audit Comment** A list of council offices that deposit cash has been started, though the list has yet to have details added.

AUDIT	Original Assurance Level	Latest Update	High	Medium	Low	Outstanding recommendations	Update
Cash and Banking (21/22) **Follow Up** **Continued**	Minimal	06.03.24	3	1	0	**Recommendation outstanding from 2019/20** All services handling income must have documented procedures for handling income and banking. **Updated recommendation 2021/22** Overarching Cash and Banking procedures must be provided for implementation to all Heads of Service where cash offices operate (3 months)	It was reported that the following will be completed: • review / create Cash Handling Procedures to make sure they are in line with Finance Procedure Rules. • ensure that procedures minimise the risk to both council funds and council employees. Timeframe 9 months
						Staff security must be comprehensively assessed and the need to accept cash reviewed. Where it is absolutely necessary to accept cash, a risk assessment must be carried out and consideration must be given to a security presence, training and security measures such as a panic button and CCTV coverage. (3 months)	Standard Operating Procedures for the Cash Office have been updated and include instructions in the event of a raid; the document has been shared with relevant staff, however staff have not received training on what to do should a raid occur.
						The cash limits and insurance cover for all cash offices and safes must be reviewed to ensure there is adequate cover. Cash limits for individual safes must be shared with appropriate members of staff. (6 months)	The Insurance Officer reported that a central, definitive list of all council cash offices is required before appropriate and adequate insurance cover can be put in place. **Audit Comment** A list of council offices that deposit cash has been started, though the list has yet to have details added. Timeframe 9 months

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Appendix D – – Counter Fraud Savings / Quarterly report on Audit and Counter Fraud work

INCOME AND SAVINGS ACROSS THE FINANCIAL YEAR 2024-25

Areas of savings	QUARTER ONE		QUARTER TWO		QUARTER THREE		QUARTER FOUR		YEAR TOTAL	
	Income	Savings	Income	Savings	Income	Savings	Income	Savings	Income	Savings
Tenancy Housing										
Recovery of council properties		£186,000.00								
Right To Buy value saved through intervention		£204,800.00								
Housing intervention/fraud		£12,000.00								
Rent in advance loan debt recovery	£2,759.92									
Revenues										
National Non Domestic Rates										
Council Tax	£14,726.74									
Value of ongoing Council Tax increase per week		£5,365.12								
Council Tax Penalties										
CTR & Housing Benefit										
Council Tax Reduction	£8,611.17									
Council Tax Reduction weekly incorrect benefit		£8,215.68								
Housing Benefit	£20,308.49									
Housing Benefit weekly incorrect benefit		£14,888.56								
Income from Administrative penalty collection										
National Fraud Initiative										
Overpayments identified	£68,471.98									
Weekly incorrect benefit identified		£126,802.24								
TOTALS	**£114,878.30**	**£558,071.60**								
Cost of Counter Fraud team	**£33,835.92**									
% total of income and savings	**5.03%**									

Explanation of Savings Recorded	
Tenancy Housing	
Recovery of council properties	Value of £93k per returned property based on NFI estimate
Right To Buy value saved through intervention	Value based on the discount saved for each withdrawn application (varies)
Housing intervention/fraud	Value based on an estimate of emergency placement costs £12k or removal from housing waiting list £3,400
Revenues	
National Non Domestic Rates	Value based on the outstanding liable bills now due following Counter-Fraud intervention
Council Tax	Value based on the outstanding liable bills now due following Counter-Fraud intervention
Value of ongoing Council Tax increase per week	Estimate of the amount saved based on a calculation of the length of undetected fraud - 32 weeks
Council Tax Penalties	Value of £70 or £280 penalty added to Council Tax Bill where discount/exemption fraud is found
CTR & Housing Benefit	
Council Tax Reduction	Value based on the re-assessment of entitlement following Counter-Fraud intervention
Council Tax Reduction weekly incorrect benefit	Weekly incorrect benefit - estimate of the amount saved based on the length of undetected fraud - 32 weeks
Housing Benefit	Value based on the re-assessment of entitlement following Counter-Fraud intervention
Housing Benefit weekly incorrect benefit	Weekly incorrect benefit - estimate of the amount saved based on the length of undetected fraud - 32 weeks
Income from Administrative penalty collection	The amount collected from Administrative Penalties following Dep for Work and Pension investigation
NFI	
Overpayments identified	Value of any overpayments detected in this quarter
Weekly incorrect benefit identified	Weekly incorrect benefit - estimate of the amount saved based on the length of undetected fraud - 32 weeks

Report To:	**Audit and Governance Committee**
Date:	**24 September 2024**
Report Title:	**Treasury Management 2024/25 Q1**
Report of:	**Director of Finance and Performance (Chief Finance Officer – S151 Officer)**
Ward(s):	**All**
Purpose of report:	**To present details of recent Treasury Management activities.**
Officer Recommendations:	**The Committee is recommended to note the report of the Director of Finance and Performance and the assurances contained within and agree that Treasury Management Activities for the period April to June 2024 have been in accordance with the approved Treasury Strategies.**
Reasons for recommendations:	**Requirement of CIPFA Treasury Management in the Public Sector Code of Practice (the Code) and this has to be reported to Full Council.**
Contact Officer(s):	**Name: Ross Sutton** **Post title: Head of Financial Reporting** **e-mail: ross.sutton@lewes-eastbourne.gov.uk** **Telephone number: 07591 988346**

1. Introduction

1.1 The Council is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

a. Prudential and treasury indicators and treasury strategy
b. A mid-year treasury management report
c. An annual treasury report

The above reports are required to be adequately scrutinised before being recommended to the Full Council. This role is undertaken by Cabinet and the Audit and Governance Committee.

1.2 In addition to the three major reports above, quarterly reporting is also required. However, these additional reports do not have to be reported to Full Council but do require to be adequately scrutinised. This role is undertaken by the Audit and Governance Committee.

1.3 The Treasury Management Strategy Statement (TMSS) covers two main areas:

Capital issues

- the capital expenditure plans and the associated prudential indicators
- the minimum revenue provision (MRP) policy

Treasury Management issues

- the current treasury position
- treasury indicators which limit the treasury risk and activities of the Council
- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- the investment strategy
- creditworthiness policy; and
- the policy on use of external service providers

These elements cover the requirements of the Local Government Act 2003, DLUHC Investment Guidance, DLUHC MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

1.4 The criteria for lending to Banks are derived from the list of approved counter parties provided by the Council's Treasury Management advisors, Link Market Services. The list is amended to reduce the risk to the Council by removing the lowest rated counterparties and reducing the maximum loan duration.

2. Economic Background

2.1 The Bank of England's Monetary Policy Committee (MPC) reduced the Bank Rate from 5.25% to 5.0% on 1 August 2024. The rate had been 5.25% since 3 August 2023. A detailed economic update, provided by Link, for the first quarter is attached as **Appendix A**.

3. Interest Rate Forecasts

3.1 Link, as treasury advisors, will help to formulate a view on interest rates. The PWLB rate forecasts below are based on the certainty rate (the standard rate minus 20 basis points) which has been accessible to most authorities since 1st November 2012.

3.2 Link's forecast of bank rate, earnings and PWLB borrowing rates are set out below for the period to March 2027.

Link Group Interest Rate View											
	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	5.00	4.50	4.00	3.50	3.25	3.25	3.25	3.25	3.00	3.00	3.00
3 month ave earnings	5.00	4.50	4.00	3.50	3.30	3.30	3.30	3.30	3.00	3.00	3.00
6 month ave earnings	4.90	4.40	3.90	3.50	3.30	3.30	3.30	3.30	3.10	3.10	3.20
12 month ave earnings	4.80	4.30	3.80	3.50	3.40	3.40	3.40	3.40	3.20	3.30	3.40
5 yr PWLB	4.70	4.50	4.30	4.10	4.00	3.90	3.90	3.90	3.90	3.90	3.80
10 yr PWLB	4.80	4.60	4.40	4.30	4.10	4.10	4.10	4.00	4.00	4.00	3.90
25 yr PWLB	5.20	5.00	4.80	4.70	4.50	4.50	4.40	4.40	4.40	4.30	4.30
50 yr PWLB	5.00	4.80	4.60	4.50	4.30	4.30	4.20	4.20	4.20	4.10	4.10

Notes

1) Money market yield forecasts are based on expected average earnings by local authorities for 3 to 12 months.

2) The forecast for average earnings are averages i.e., rates offered by individual banks may differ significantly from these averages, reflecting their different needs for borrowing short-term cash at any one point in time.

3.3 The latest forecast remains unchanged (from 29/5/24) and sets out a view that both short and long-dated interest rates will start to fall once it is evident that the Bank of England has been successful in squeezing excess inflation out of the economy, despite a backdrop of a stubbornly robust economy and a tight labour market. The next rate cut is now expected in November. The bank rate is then expected to continue fall and reach 3% by September 2026.

4. Annual Investment Strategy

4.1 CIPFA published a revised ‘Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes’ in December 2021. These define treasury management investments as investments that arise from the authority’s cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.

4.2 The Treasury Management Strategy Statement for 2024/25, which includes the Annual Investment Strategy (AIS), was approved by the Full Council on 28 February 2024. It sets out the Council’s investment priorities as being:

- Security (of Capital);
- Liquidity;
- Yield.

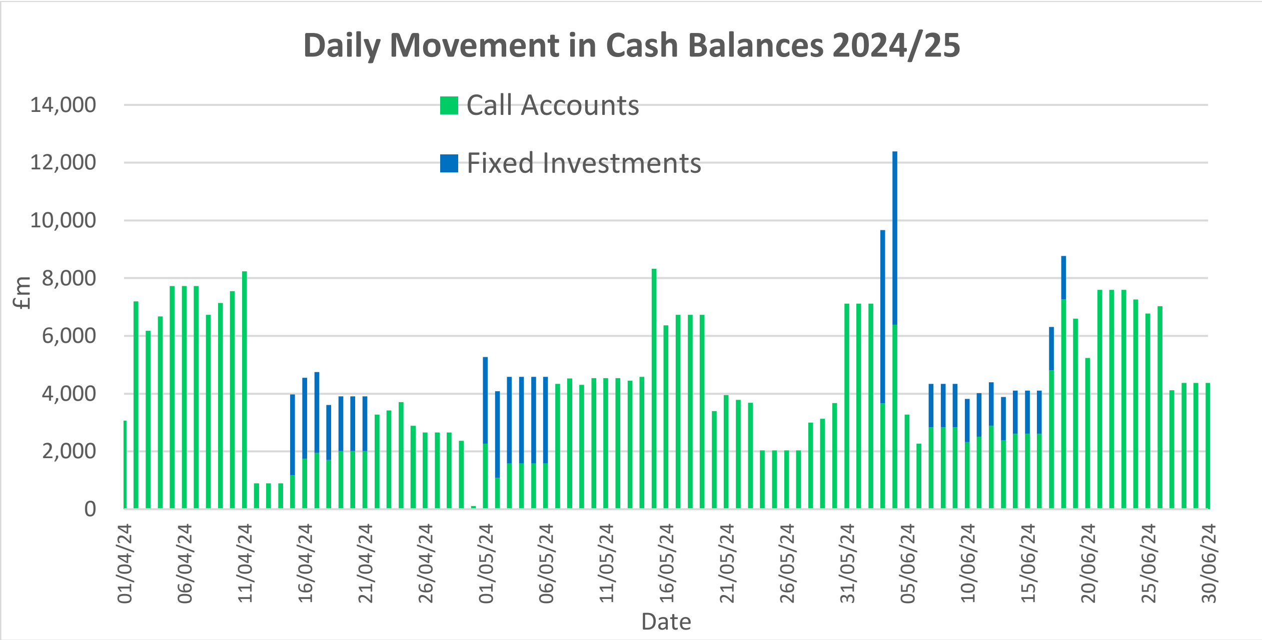
4.3 The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity, aligned with the Council’s risk appetite. In the current economic climate, over and above keeping investments short-term to cover cash flow needs, there is a benefit to seek out value available in periods up to 12 months with high credit rated financial institutions, using the Link suggested creditworthiness approach, including a minimum sovereign credit rating and credit default swap (CDS) overlay information.

4.4 There are no policy changes to the TMSS. The details in this report update the position in the light of the updated economic position and budgetary changes already approved.

4.5 There have been some changes to individual counterparty credit ratings over the period. However, officers continue to closely monitor these, and other measures of creditworthiness to ensure that only appropriate counterparties are considered for investment purposes.

5. Treasury Management Activity

5.1 The chart below details the Council's investment position over the period 1 April to 30 June 2024. It shows the total sums invested each day split between Fixed Term investments and amounts held in Call accounts. The average is £4.9m comprising £4.2m Call and £0.7m Fixed Term.



5.2 Fixed Term Deposits pending maturity

The following table shows there were no fixed term deposits held at the end of the quarter 30 June 2024 (and identifies the long-term credit rating of counterparties at the date of investment). It is important to note that credit ratings are only one of the criteria that are taken into account when determining whether a potential counterparty is suitable. All the deposits met the necessary criteria, the minimum rating required for deposits made in terms of long-term A- (Fitch).

Counterparty	Date From	Date To	Days	Principal £	Rate %	Long Term Rating
Debt Management Office (DMO)	-	-	-	-	-	*

Note: * indicates UK Government body and therefore not subject to a credit rating.

5.3 Fixed Term Deposits which have matured in the reporting period

The table below shows the fixed term deposits which have matured in the first quarter in maturity date order. It is important to note that the table includes sums reinvested.

Counterparty	Principal £	Date From	Date To	Days	Rate %	Long Term Rating
Debt Management Office (DMO)	£2,800,000	15/04/24	18/04/24	3	5.19%	*
DMO	£1,900,000	18/04/24	22/04/24	4	5.19%	*
DMO	£3,000,000	01/05/24	07/05/24	6	5.19%	*
DMO	£6,000,000	03/06/24	05/06/24	2	5.19%	*
DMO	£1,500,000	07/06/24	19/06/24	12	5.19%	*

Note: * indicates UK Government body and therefore not subject to a credit rating.

The weighted average rate of interest earned on deposits held in the period 1 April to 30 June 2024 was 5.19%. The average bank base rate for the period was 5.25%. DMO rates can fluctuate around the base rate.

5.4 Use of Deposit accounts

In addition to the fixed term deposits, the Council has made use of the following liquidity accounts in the period covered by this report, with the average amount held being £1.368m, generating interest of £43k in Q1.

Counterparty	Balance at 30/06/24 £000	Average Balance £000	Interest Rate %	Current Interest Rate %
Lloyds Bank Current Account	£663	£1,197	2.10%	2.10%
Lloyds Bank Call Account	£3,710	£2,907	5.14%	5.14%
Santander Business Reserve Account	£0	£0	3.36%	3.36%

5.5 Money Market Funds

There were no funds Money Market Funds held at 30 June 2024, and there was no activity in the period.

5.6 Bond Funds, Multi-Asset Income Funds and Property Funds

There were no Short Dated Bond Funds, Multi-Asset Income Funds or Property Funds held at 30 June 2024, and there was no activity in the period.

6. Capital Position

6.1 This table shows the revised estimates for capital expenditure and the changes since the 2024/25 capital programme was agreed at the Budget. **Appendix B** provides further details.

	Original Budget £000	Revised Budget £000	Forecast Outturn Q1 £000

HRA	15,418	18,505	18,505
General Fund	15,387	29,298	29,298
Total Capital Expenditure	**30,815**	**47,803**	**47,803**

6.2 The original budget has been updated for carry over underspends from the previous financial year (subject to be approval by 18/9/24 Cabinet). The forecast outturn for the year is £47.803m.

6.3 The financing of the capital programme will be updated in line with the changes in the table above (see Appendix B). The borrowing element will increase the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt, the Minimum Revenue Provision. The original planned amount of unfinanced capital expenditure (i.e. borrowing) in the year for the GF is £4.603m and HRA £6.575m, a total of £11.178m.

7. Borrowing

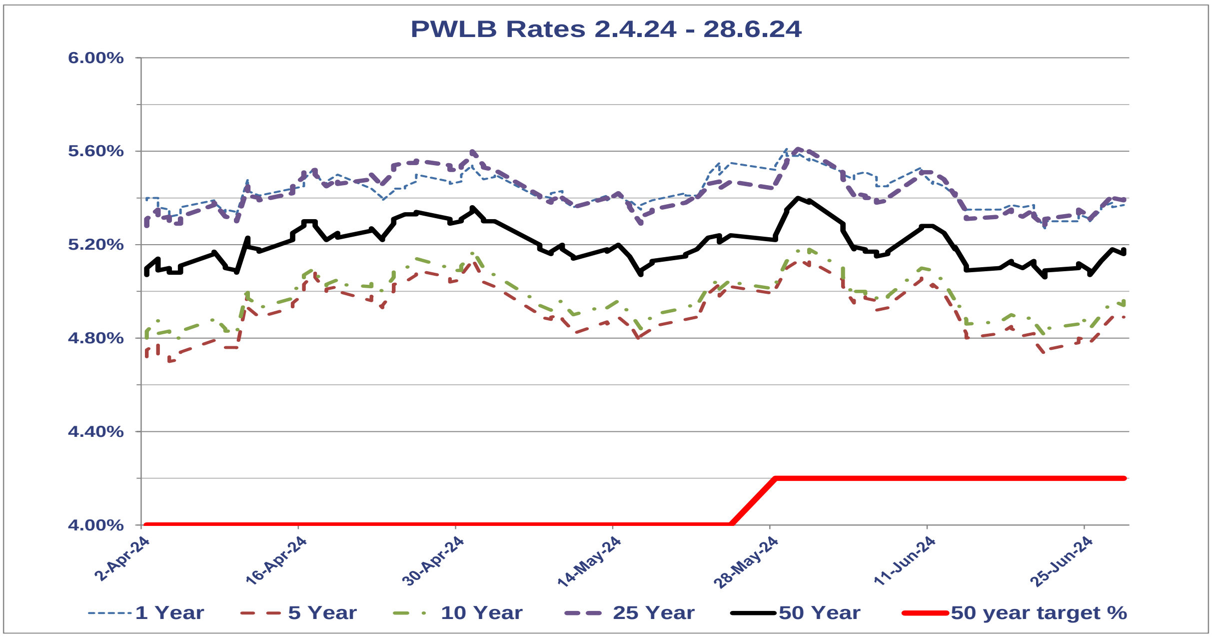
7.1 The Council's Capital Financing Requirement (CFR) for 2024/25 (updated for the year end position, based on the original budget) is £204.8m (GF £147.3m and HRA £57.5m). The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing), or from internal balances on a temporary basis (i.e. internal borrowing). The balance of external and internal borrowing is generally driven by market conditions.

PWLB Rates

7.2 Regarding PWLB borrowing rates, the various margins attributed to their pricing are as follows:

- PWLB Standard Rate is gilt + 100 basis points (bps)
- PWLB Certainty Rate is gilt + 80 basis points
- Local Infrastructure Rate is gilt + 60bps
- HRA Borrowing rate is gilt + 40bps

7.3 Gilt yields and PWLB rates remained relatively stable between 1st April and 30th June. However, the spread between the low and high points during the quarter was between 0.3% and 0.45% across the curve. The 50-year PWLB Certainty Rate target for new long-term borrowing (the low point of our forecast on a two-year timeline) started 2024/25 at 4.00% and increased to 4.20% on 28th May.



HIGH/LOW/AVERAGE PWLB RATES FOR 02.04.24 – 28.06.24

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	5.27%	4.70%	4.80%	5.28%	5.06%
Date	21/06/2024	04/04/2024	02/04/2024	02/04/2024	21/06/2024
High	5.61%	5.14%	5.18%	5.61%	5.40%
Date	29/05/2024	01/05/2024	01/05/2024	30/05/2024	30/05/2024
Average	5.43%	4.92%	4.98%	5.42%	5.20%
Spread	0.34%	0.44%	0.38%	0.33%	0.34%

7.4 As can be seen, with rates remaining elevated across the whole of the curve, it is advised to not borrow long-term unless the Council wants certainty of rate and judges the cost to be affordable. Link's core debt management advice remains unaltered, to continue to reappraise any capital expenditure plans/profiles, and internally/temporarily borrow for any financing and re-financing. Only seek longer-dated debt if there is absolute certainty on the long-term rates and can conclude it is affordable, sustainable and prudent if funded at prevailing levels.

External Debt (short and long term)

7.5 The table below details short term (less than one year) borrowing from other local authorities. Short term (temporary) borrowing at 30 June 2024 was £83m (£80m at 31/3/24). Two loans totalling £8m will expire in quarter two. During the first quarter, £30m of loans matured and were repaid on time.

Lender	Principal £000	Date From	Date To	Days	Rate %
Loans held at 30/6/24					
West Yorkshire Combined Authority	10,000	23-Nov-23	08-Nov-24	351	5.60%
Wealden District Council	5,000	03-Jan-24	05-Jul-24	184	5.55%
Warwickshire County Council	10,000	07-Feb-24	18-Dec-24	315	5.60%
Crawley BC	5,000	19-Feb-24	19-Nov-24	274	5.75%
Rugby BC	5,000	07-Mar-24	07-Feb-25	337	6.00%
Rugby BC	5,000	25-Mar-24	25-Oct-24	214	6.00%
Cambridge and Peterborough CA	5,000	25-Mar-24	27-Jan-25	308	6.25%
North Northamptonshire Council	5,000	27-Mar-24	10-Jan-25	289	6.50%
West of England Combined Authority	10,000	26-Apr-24	27-Jan-25	276	5.25%
Bolton MBC	10,000	20-May-24	19-May-25	364	5.15%
Castle Point BC	5,000	21-May-24	21-Feb-25	276	5.25%
Somerset Council	3,000	31-May-24	30-Aug-24	91	5.35%
West Yorkshire Pension Fund	5,000	24-Jun-24	03-Jan-25	193	5.25%
Total	**83,000**				
Loans repaid in Q1					
West of England Combined Authority	10,000	28-Apr-23	26-Apr-24	364	4.85%
Bolton MBC	10,000	22-May-23	20-May-24	364	4.35%
West Yorkshire Pension Fund	10,000	05-Feb-24	05-Jun-24	121	5.90%
Total	**30,000**				

7.6 The Council's total long term borrowing, from the Public Works Loan Board (PWLB), was £111.3m at 30 June 2024. Debt at the start of the year was £111.3m and no loans have matured to-date. The long term borrowing is at fixed rates of interest ranging from 1.6% to 5.0%.

7.7 Total external debt (short & long term) at 30 June 2024 was £194.3m (£191.3m at 31/3/24). No new long term borrowing has been undertaken this year to-date and will depend on future PWLB rates subject to future base rate cuts. This is considered to be a prudent and more cost-effective approach in the current economic climate but will require ongoing monitoring if upside risk to gilt yields prevails.

8. Debt Rescheduling

8.1 Debt rescheduling opportunities have increased in the year where gilt yields, which underpin PWLB rates and market loans, have risen materially. The Council will be advised if there is value to be had by rescheduling or repaying a part of the debt portfolio. This is dependent on levels of investment balances. No debt rescheduling has currently been undertaken in the financial year.

9. Capital Financing Costs Summary

9.1 The table below summaries the General Fund (GF) interest payable, minimum revenue provision (MRP) and interest receivable forecast for the year.

General Fund	Original Budget £000	Forecast Outturn Q1 £000	Actual Q1 £000
MRP	1,924	1,707	-
Interest Payable	4,607	5,682	-
Interest Receivable	(275)	(270)	(52)
Net Cost	**6,256**	**7,119**	**(52)**

9.2 The increase in interest payable relates to short term borrowing which is at variable rates of interest. A shortage of cash available in the local authority lending market drove up rates at the end of the financial year. PWLB borrowing is currently prohibitive due to a 1% premium on rates arising from the exceptional financial support provided by government. For the actuals, MRP is charged at the end of the financial year as is interest payable on HRA balances. PWLB interest is payable twice yearly in September and March.

9.3 The table below summaries the Housing Revenue Account (HRA) interest payable and interest receivable forecast for the year.

HRA	Original Budget £000	Forecast Outturn Q1 £000	Actual Q1 £000
Interest Payable	1,923	1,626	-
Interest Receivable	(308)	(300)	-
Net Interest Cost	**1,615**	**1,326**	**-**

9.4 For the actuals, PWLB interest is payable twice yearly in September and March. Interest payable on HRA balances is charged at the end of the financial year.

10. Compliance with Treasury and Prudential Limits

10.1 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators (affordability limits) are included in the approved Treasury Management Strategy Statement and Treasury Management Practices (TMPs)

10.2 The tables below show the Prudential and Treasury Indicators position comparing the Budget to the Forecast for the year.

Prudential Indicators	2024/25 Budget	2024/25 Forecast Q1
Authorised Limit for external debt	£243m	£243m
Operational Boundary for external debt	£232m	£232m
Capital Financing Requirement - GF	£147m	£147m
Capital Financing Requirement - HRA	£60m	£58m
Capital Financing Requirement - Total	£207m	£205m
External debt – GF *(including £28m loans to Housing Companies)*	£126m	£136m

Prudential Indicators	2024/25 Budget	2024/25 Forecast Q1
External debt - HRA	£60m	£58m
External debt - Total	£186m	£194m
Total Debt compared to CFR under / (over) borrowing	£21m	£11m
Proportion of GF Financing Costs to Net Revenue Stream	34.4%	39.5%
Proportion of HRA Financing Costs (including depreciation) to Rental Income	43.6%	41.4%
Proportion of net income from commercial and service investments to Net Revenue Stream	14.9%	14.9%

Note - Section 6 and Appendix B provide the requirements for a Capital Expenditure indicator.

Treasury Indicators	2024/25 Budget	2024/25 Forecast Q1
Upper limit for principal sums invested for longer than 365 days	£2m	£2m
Maturity structure of fixed rate borrowing - upper limits		
Under 12 months	75%	75%
12 months to 2 years	75%	75%
2 years to 5 years	75%	75%
5 years to 10 years	75%	75%
1 0 years and above	75%	75%

Note – Paragraphs 10.7 to 10.9 and Appendix C provide the requirements for a Liability Benchmark indicator.

10.3 As at 30 June 2024, indicators are on target or remain within parameters with the exception of Gross External Debt and the Proportion of GF Financing Costs to Net Revenue Stream.

10.4 Total Gross External Debt is forecast at £194m, an increase of £8m on the budget estimate (Jan 2024) position of £185m, £3m higher than the closing debt at 31 March 2024. Total Debt remains within the Council's Operational Debt Boundary. Linked to the debt indicator, is the indicator of the Proportion of GF Financing Costs (gross of interest receivable) to Net Revenue Stream which has increased by 5.1% to 39.5%. Paragraph 9.2 above provides reasons why interest costs have increased and the table in paragraph 7.5 shows that variable interest rates on short term borrowing were increasing up to the end of March 2024 but have since started to decline. Higher rates were payable on replacement short term debt as existing debt matured.

10.5 The total Capital Financing Requirement (CFR) is currently forecast at £205m, £2m lower than the original estimate of £207m.

10.6 Approved limits within the Annual Investment Strategy were not breached during the period ending 30 June 2024. Daily balances with Lloyds Bank did not exceed the £10m investment limit and no Council bank accounts were overdrawn.

Liability Benchmark

10.7 There is a requirement to provide a comparison of the existing loan portfolio against committed borrowing needs in order to understand future debt requirements. The chart covers the following four areas:

i. Existing Loan Debt = current borrowing portfolio;
ii. Capital Financing Requirement (loans only);
iii. Net Loans Requirement = loan debt (less treasury management investments) forecast based on approved prudential borrowing and planned MRP;
iv. Liability Benchmark = Net Loans Requirement plus short term liquidity allowance.

10.8 **Appendix C** includes liability benchmark charts for both the General Fund and HRA. Only approved expenditure and financing budgets for the period to 2026/27 are to be included although the charts cover the full debt maturity profile and MRP to 2068/69.

10.9 The GF chart shows the CFR, Loan Debt Outstanding and Liability Benchmark reducing in line over time. The HRA chart shows the CFR and Liability Benchmark increasing and then levelling out as there are no MRP payments or capital receipts. The HRA PWLB Loan Debt reduces over time as debt matures. Any gaps between actual loan debt outstanding and the liability benchmark will need to be managed in the future.

11. Non-treasury investments

11.1 The non-treasury investment activity includes the Council provision of a financial guarantee through its subsidiary company, Investment Company Eastbourne Limited (ICE) Limited. The principal activity of the company is to guarantee an external financial liability with Canada Life and the future rental income of Infrastructure Investments Leicester Limited by virtue of contractual arrangement.

In return for providing the above Guarantee (including rental guarantee) in 2018, ICE receives a £0.34m annual guarantee fee (indexed pa). The ICE Board of Directors meet regularly and review key financial monitoring (including the guarantee fees payment schedule) in line with the agreed governance arrangements/agreement.

11.2 The Council provide loans to its two subsidiary companies Eastbourne Housing Investment Company Limited and South East Environmental Services Limited and Aspiration Homes LLP which is a joint venture with Lewes District Council. As at 31 June 2024, a total of £29.3m had been provided and £1.6m is forecast for the remainder of the year. Interest received on those loans is forecast at £1.4m in 2024/25.

12. Environmental, Social and Governance (ESG) Investment

12.1 The Cabinet at its meeting on 7 February 2024 approved the 2024/25 Treasury Management and Investment Strategy, which included provision for Non-Specified investments such as ESG products that meet the Council's internal and external due diligence criteria.

12.2 While a wide range of ESG investments are currently limited, there are expectations to see more banks and funds providing specific products over the coming years. As this area continues to develop and become more prominent, the Council in conjunction with Link will continue to monitor ESG investment opportunities within the parameters of the Council's counterparty criteria and in compliance with the DLUHC Investment Guidance (i.e. prioritising security and liquidity before yield).

12.3 There were no green deposits held at 30 June 2024, and there was no activity in the period.

13. Financial Appraisal

13.1 All relevant implications are referred to in the above paragraphs.

14. Risk Management Implications

14.1 The risk management implication associated with this activity is explained in the approved Treasury Management Strategy. No additional implications have arisen during the period covered by this report.

15. Equality Analysis

15.1 This is a routine report for which a detailed Equality Analysis is not required to be undertaken.

16. Legal Implications

16.1 There are no legal implications from this report.

17. Environmental sustainability implications

17.1 This report notes the treasury management performance of the Council. There are no anticipated environmental implications from this report that would affect the Council's sustainability policy. The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the treasury activities and highlights compliance with the Council's policies previously approved by members.

18. Appendices

18.1 Appendix A - Link Market Services - Economic Update
18.2 Appendix B - EBC Capital Programme 2024/25
18.3 Appendix C - Liability Benchmark Charts
18.4 Appendix D - Glossary of Terms

19. Background Papers

19.1 Treasury Management and Prudential Indicators 2024/25, Capital Strategy & Investment Strategy (Cabinet 7/2/24)

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Link Market Services – Economic update

- The first quarter of 2024/25 saw:
  - GDP growth flatlining in April following positive Q4 2023/24 growth figures of 0.7% q/q.
  - A stalling in the downward trend in wage growth, with the headline 3myy rate staying at 5.9% in April.
  - CPI inflation falling from 2.3% in April to 2.0% in May.
  - Core CPI inflation decreasing from 3.9% in April to 3.5% in May.
  - The Bank of England holding rates at 5.25% in May and June.
  - 10-year gilt yields climbing to 4.35% in April, before closing out at 4.32% in May.
- The news that the economy grew by 0.7% q/q in Q4 2023/24 confirmed that it moved out of its very mild technical recession that prevailed at the back end of 2023. However, data released for April and May so far shows a slight stalling in the recovery, with GDP data for April coming out at 0.0% m/m, as inclement weather weighed on activity. Moreover, the fall in the composite Purchasing Manager Index output balance from 53.0 in May to 51.7 in June confirms tepid growth.
- On a more positive note, the 2.9% m/m increase in retail sales volumes in May more than reversed the 1.8% m/m drop in April as rainfall returned to seasonal norms. The strength was broad-based across the retail sector, including online, (+5.9% m/m) suggesting an underlying strengthening in sales beyond weather effects. With inflation falling back to target, Bank Rate likely to be reduced soon and with consumer confidence improving, retail sales may well continue to strengthen.
- Stronger consumer spending, as low inflation allows households' real incomes to strengthen and the drag from higher interest costs fades, suggests that real consumption will strengthen substantially over the next two years. However, investment will only make a modest contribution to GDP growth. With the industrial sector still 12% smaller than in 2019, excess capacity will continue to cap the need for industrial firms to invest. But improving business sentiment should raise investment by services' firms. Further, a fall in mortgage rates should trigger a recovery in residential investment. Overall, strong consumer spending is likely to be the backbone of GDP growth, along with government consumption. Our colleagues at Capital Economics forecast that following GDP growth of 1.0% in 2024, activity will continue to surprise to the upside with GDP growth of 1.5% for both 2025 and 2026 (consensus forecasts are 1.2% and 1.4% respectively).
- Nonetheless, the on-going stickiness of wage growth in April will be a lingering concern for the Bank of England. The 3myy rate of average earnings growth stayed at 5.9% in April (consensus 5.7%), whilst the more timely 3m annualised rate rebounded from 5.9% to 9.3%. This stickiness partly reflected April's 9.8% increase in the minimum wage. This leaves the Bank of England's forecast for a fall back in regular private sector pay growth from 5.8% in April to 5.1% in June looking a challenge.
- Despite the stickiness of wage growth in April, sharp falls in employment and a move up in unemployment suggests that wage growth will soon be back on a downward path. The 139,000 fall in employment in the three months to April was accompanied by a rise in the unemployment rate from 4.3% to 4.4%. This was the fourth increase in a row and took it to its highest level since September 2021. The rise would have been larger were it not for the 132,000 increase in inactivity in the three months to April as the UK's disappointing labour market participation performance since the pandemic continued.

The vacancies data also paint a picture of a slowly cooling labour market. The number of job vacancies fell from an upwardly revised 908,000 to 904,000, leaving vacancies 31% below the peak in May 2022, but 11% above the pre-pandemic level.

- The fall in CPI inflation in May back to the Bank's 2% target for the first time since July 2021 will have come as welcome news to the Bank. Furthermore, with CPI inflation of 3.3% in the US and 2.6% in the Euro-zone in May, the UK appears to have won the race to get CPI inflation back to 2.0%. A further easing in food inflation from 2.8% in April to 1.6% in May played a part in the fall in overall CPI inflation and with food producer price inflation at just 0.2% in May, food price inflation will probably soon fall to zero.
- The core rate also fell back from 3.9% to 3.5%. Within that, core goods CPI inflation slipped below zero for the first time since October 2016. As expected, clothing/footwear, recreation/culture and restaurants/hotels categories inflation declined, reflecting base effects from big increases last May. While services inflation fell from 5.9% to 5.7%, this decline was smaller than the Bank of England expected (forecast 5.3%). And the timelier three-month annualised rate of services prices has rebounded from 8.5% to 9.2%. This suggests that the persistence in domestic inflation that the Bank is worried about is fading more slowly than it thought. Even so, there is scope for inflation to fall further.
- There was little chance that the Bank would cut rates at its June meeting, given upside surprises on services CPI inflation and wage growth. But several developments implied a rate cut is getting closer (August?). First, two members of the MPC, Ramsden and Dhingra voted again to reduce rates immediately to 5.00%. Second, despite the recent run of stronger inflation and activity, the minutes noted "indicators of inflation persistence had continued to moderate" and that a range of indicators suggest pay growth had continued to ease. And there was new wording that members of the MPC will consider all the information available and how this affects the assessment that the risks from inflation persistence are receding "as part of the August forecast round".
- Throughout the quarter there was a degree of volatility in the gilt market and, by way of example, the 10-year gilt yield rose from 4.05% on 2nd April to finish at 4.15% on 28th June but it has exceeded 4.30% on several occasions. Overall, investors judged that interest rates will need to remain high for longer to keep inflation around the 2.0% target.
- Meanwhile, the FTSE 100 broke through the 8,000 mark in April for the first time since its brief three-day flutter in February last year and reached a record closing high of 8,446 on 15th May. However, by the end of the quarter, despite AI-fuelled rises in the US S&P500, it finished rather tamely and had fallen back to 8,164. Arguably, significant interest rate cuts and an on-going UK economic recovery will be required for a further resurgence to take hold.

Capital Programme 2024/25	**Original Budget £000**	**Revised Budget £000**	**Forecast Outturn (at Q1) £000**
HOUSING REVENUE ACCOUNT (HRA)			
Construction of New Dwellings	8,618	9,801	9,801
Improvement to Stock	6,272	8,176	8,176
Helpline	50	50	50
Adaptations for Disabled Tenants	578	578	578
Total HRA	**15,418**	**18,505**	**18,505**
GENERAL FUND (GF)			
Housing Grants	1,200	1,211	1,211
Loans to Housing Companies	466	878	878
Regeneration	9,190	17,639	17,639
Asset Management	2,280	3,067	3,067
Service Delivery	1,571	2,521	2,521
Tourism and Culture	35	35	35
Information Technology	250	321	321
Digital Transformation	255	334	334
Corporate	150	291	291
Capitalisation Direction	-	3,000	3,000
Total General Fund	**15,397**	**29,298**	**29,298**
Total Capital Expenditure	**30,815**	**47,803**	**47,803**

Notes

Regeneration includes Levelling Up Fund (Black Robin Farm, Towner Centenary and Victoria Place Pedestrianisation).

Revised budget figures are subject to 18/9/24 Cabinet approval.

HRA Financing			
Capital Receipts	651		
Grants & Contributions	537		
Major Repairs Reserve	6,591		
Revenue	1,064		
Borrowing Need	6,575		
Total HRA	**15,418**		

GF Financing			
Capital Receipts	-		
Grants & Contributions	10,794		
Revenue	-		
Borrowing Need	4,603		
Total GF	**15,397**		

Note – financing to be updated on confirmation of revised budget figures (subject to 18/9/24 Cabinet approval).

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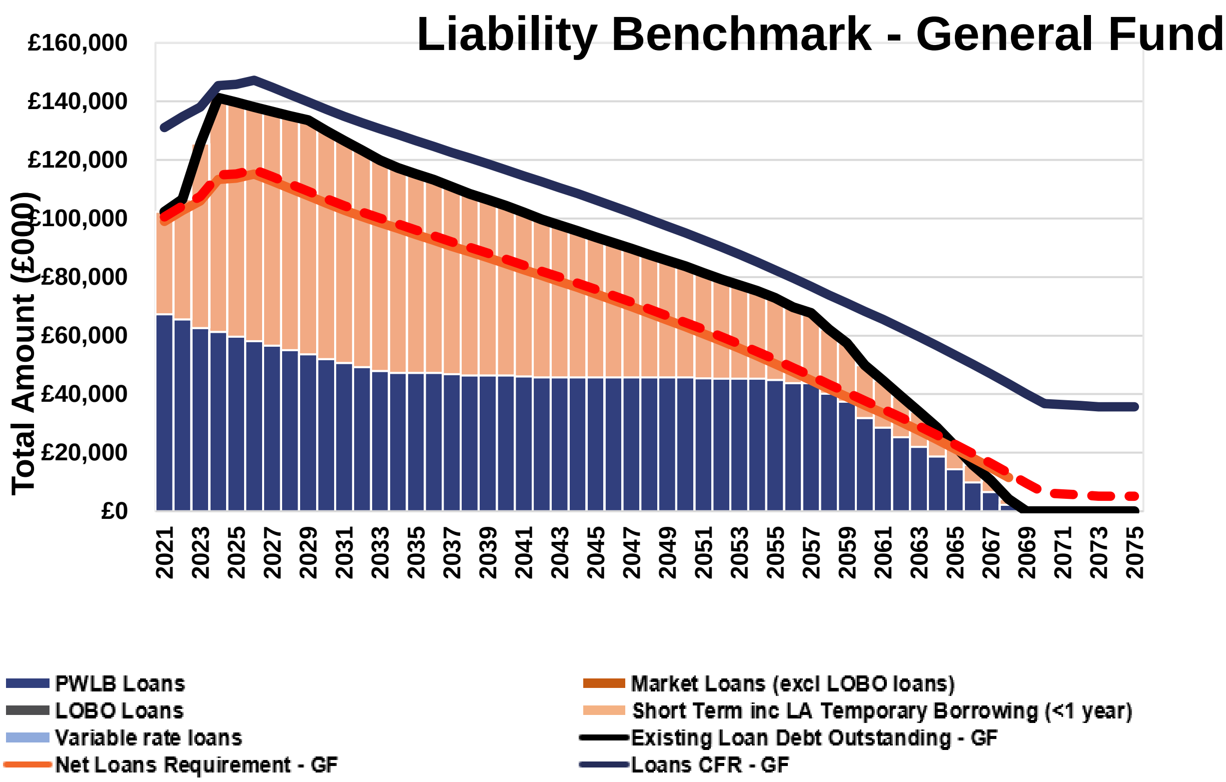
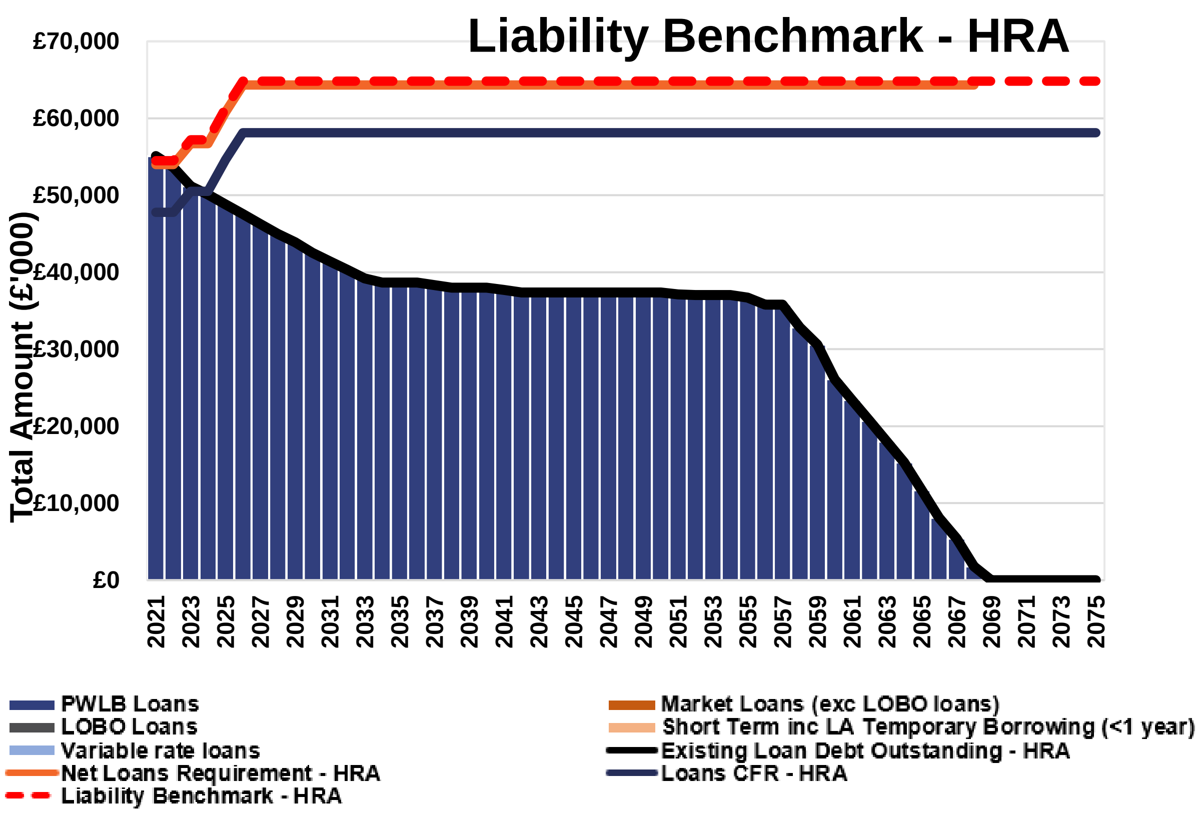
Liability Benchmark Charts





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GLOSSARY

Local Authority Treasury Management Terms

Term	Description
Bond	A certificate of long-term debt issued by a company, government, or other institution, which is tradable on financial markets.
Borrowing	Usually refers to the stock of outstanding loans owed, and bonds issued.
Capital Financing Requirement (CFR)	A council's underlying need to hold debt for capital purposes, representing the cumulative capital expenditure that has been incurred but not yet financed. The CFR increases with capital expenditure and decreases with capital finance and Minimum Revenue Provision (MRP).
CIPFA	The Chartered Institute of Public Finance and Accountancy (CIPFA) is a UK-based international accountancy membership and standard-setting body.
Cost of Carry	When a loan is borrowed in advance of need, the difference between the interest payable on the loan and the income earned from investing the cash in the interim.
Counterparty	The other party to a loan, investment or other contract.
Counterparty Limit	The maximum amount an investor is willing to lend to a counterparty, in order to manage credit risk.
CPI	Consumer Price Index - the main measure of inflation for macroeconomic purposes.
Deposit	A regulated placing of cash with a financial institution.
Dividend	Income paid to investors in shares and collective investment schemes. Dividends are not contractual, and the amount is therefore not known in advance.
DLUHC	Department for Levelling Up, Housing and Communities supports communities across the UK to thrive.
DMO	Debt Management Office is an executive agency of HM Treasury responsible for debt and cash management for the UK Government lending to local authorities and managing certain public funds.
Equity	An investment which usually confers ownership and voting rights.
FTSE	Financial Times Stock Exchange – an important indicator of the health of the UK stock market and economy. The FTSE100 is an index made up of shares from the biggest 100 companies by market capitalisation.
GDP	Gross Domestic Product is the total monetary or market value of all the finished goods and services produced within a country in a specific time period.
Income Return	Return on investment from dividends, interest and rent but excluding capital gains and losses.
Gilts	A gilt is a UK government liability denominated in sterling, issued by HM Treasury and listed on the stock exchange.

Term	Description
LIBID and LIBOR	London interbank bid rate - the benchmark interest rate at which banks bid to borrow cash from other banks, traditionally 0.125% lower than LIBOR. London interbank offer rate - the benchmark interest rate at which banks offer to lend cash to other banks. Published every London working day at 11am for various currencies and terms. No longer in use, see SONIA below.
LOBO	Lender's Option Borrower's option.
MMF	A Money Market Fund is a type of mutual fund that invests in cash, cash equivalents and short term debt securities.
MPC	The Bank of England's Monetary Policy Committee (MPC) are responsible for making decisions about the bank rate.
Minimum Revenue Provision (MRP)	Minimum Revenue Provision (MRP) is the charge to revenue made in respect of paying off the principal sum of the borrowing undertaken to finance the capital programme.
OBR	The Office for Budget Responsibility gives independent and authoritative analysis of the UK's public finances. OBR is an executive non-departmental public body, sponsored by HM Treasury.
PMI	Purchasing Managers' Index (PMI) is an index of the prevailing direction of economic trends in the manufacturing and service sectors. Market conditions can be expanding, staying the same or contracting.
PWLB	Public Works Loan Board is a statutory body operating within the Debt Management Office (DMO) that lends money from the National Loans Fund to councils and other prescribed bodies and collects the repayments.
Quantitative Easing (QE)	Process by which central banks directly increase the quantity of money in the economy to promote GDP growth and prevent deflation. Normally achieved by the central bank buying government bonds in exchange for newly created money.
SONIA	Sterling overnight interest average – a benchmark interest rate for overnight deposits.
TMSS	Treasury Management Strategy Statement.