1. **Do we have anything setting out the governance arrangements for the capital programme?**

Capital Investment Strategy

This Council Capital Strategy is included within the Treasury Management Strategy (Appendix A), which sets out the framework for the governance of capital assets for the Council. Primary responsibility for the development of the Strategy rests with the Chief Finance Officer, although ultimate accountability for its approval rests with Full Council in line with the CIPFA Prudential Code.

The Council's long-term capital investment is underpinned by the Council priorities and its objectives. Capital investment is considered within the Council's overall medium to long-term priorities, and the preparation of the capital programme is an integral part of the financial planning process. This includes taking full account of the revenue implications and the Council has set aside a significant revenue budget to cover capital financing costs as part of the Medium-Term Financial Plan and over the longer term. The affordability of these plans are kept under annual review.

The latest Capital Strategy was reported to Cabinet in February 2022 and sets out a framework for funding and investment decisions in respect of capital assets, in the context of the Council's priorities and available financial resources. The Capital Investment Strategy demonstrates that we take capital expenditure and investment decisions in line with service objectives and properly take account of stewardship, value for money, prudence, sustainability and affordability. It sets out the long-term context in which capital expenditure and investment decisions are made and considers both risk/reward and impact on the achievement of priority outcomes.

The Council will only invest where capital spending plans are affordable, prudent and sustainable. The key constraint on capital investment is the scope to afford the financial implications in terms of acceptable council tax levels. As supported by the Capital Investment Strategy, the Council's capital investment plans over 4 years are set out in the Capital Programme. The efficient and effective use of capital resources, including sound asset management, is fundamental to achieving the Council long- and medium-term aims and objectives.

The Council's Capital and Investment Strategy is reviewed and reported to Full Council on an annual basis to reflect the changing needs and priorities of the Council including residents, businesses and places.

Council Financial Procedures

The Council Financial Procedures Rules (Appendix B) details CFO Responsibilities re the capital programme processes within para 2.1.12, that state*………….to prepare capital budgets jointly with Directors/ Assistant Directors and Heads of Service and report them to Cabinet for approval. The Cabinet will make recommendations on the capital budgets and on any associated financing requirements to Council. Cabinet Member approval is required where a Director/Assistant Director and Head of Service* *proposes to bid for or exercise additional borrowing, not anticipated in the Capital Programme (extra borrowing will create future commitments to financing costs).*

The development or purchase of new assets, maintenance of existing assets and disposal of surplus assets are matters of operational and financial significance and therefore require robust governance arrangements. For this reason, the Corporate Management Team (CMT) plays a pivotal role in these governance arrangements, providing co-ordination and consistency across the Council.

Whilst the Financial Procedure Rules and Capital Strategy sets out the framework for identifying, approving, implementing and reviewing capital projects, further details are set out within the Capital Programme Guidance and Business Case document (Appendix C). The guide aims to give an overview of the Capital Scheme Authorisation Process, for inclusion of new capital schemes within the Eastbourne BC capital programme. The guide also provides an overview of what meets the definition of capital expenditure and who to contact for further guidance.

Capital Programme Oversight Board

A Capital Programme Oversight Board (CPOB) was established to provide strategic direction, oversight and corporate assurance for the General Fund capital programme and Housing Revenue Account (HRA) Business Plan across the Council. The CPOB is responsible for addressing programme issues, reviewing risk and financial implications, driving through the Assurance Review recommendations in respect of the capital programme and move towards a fully sustainable capital programme and asset release. Term of Reference attached as Appendix D.

CPOB Responsibilities are to:

- Be responsible and accountable for feeding into the annual Service & Financial Planning process;
- Establish and embed a robust and effective governance framework through which all Councils capital projects will be evaluated, prioritised for development and delivery, subject to Member approval;
- Provide oversight of the capital programme and the Housing Revenue Account (HRA) Business Plan;
- Agree recommendations to relevant Committee(s), as required, to ensure the programme achieves its objectives in-line with initial proposals, Business Cases and assessed options appraisals;
- Scrutinise and challenge programmes and projects at a strategic level in relation to budgets, actual spend, timing, and overall financial strategy;
- Monitor the achievement of the capital programme’s core aims and objectives;
- Monitor the HRA Business Plan assumptions in line with Section 76 of the Local Government and Housing Act 1989;
- Monitor the critical path for delivery across the capital programme and take timely decisions as the capital programme evolves, while ensuring that the capital programme is delivered in a joined-up way across Council departments.

- Assist with resolving issues across Council departments while ensuring appropriate resources, capacity and capability are in place to deliver the capital programme and where necessary, commit resources as required;
- Ensure risks are being effectively managed and updated, and mitigations are identified appropriately required.

Development of the Capital Programme

Each year the Capital Programme will be developed as part of the Medium-Term Financial Plan, culminating in approval by full Council in February each year. The table below sets out the broad timeline to be followed.

Section 5 of the Capital Guidance (Appendix B) detailed the Capital Bid & Authorisation Process. Each proposed capital scheme will need to follow the capital authorisation process, which comprises of a number of stages. At each stage specific documents are required, together with approval from numerous groups and senior management.

Bids to the capital programme should be prioritised by the CPOB taking guidance from the Capital Strategy and any relevant service priorities. The following criteria will be used to prioritise bids in order to close any gap to the available resources:

- Statutory requirement (e.g. H&S, disabled facilities, waste collection, household waste recycling centres, statutory reporting – but only to the extent that is statutorily required).
- Ringfenced funding has been identified (i.e. s106 or genuinely ringfenced government grants), the scheme is fully funded, **and** aligns with corporate priorities.
- Strong financial business case resulting in savings paying back the cost of investment or a capital receipt is generated in excess of the investment assisting with recovery and stabilisation/financial sustainability.
- Maintains the life and/or quality of our assets.
- The scheme leverages ringfenced external funding.
- In line with corporate and directorate priorities as set out in the Capital Strategy.

Monitoring of the Capital Programme Progress

The CPOB will have an oversight and stewardship role for the delivery of both Councils Capital expenditure including, the Council General Fund Capital Plan, the Council's Housing Capital (HRA), Commercial Activities/non-commercial investments, capital financing/funding, etc. The CPOB will be convened at least quarterly to review the delivery of the overall capital programme for the Council.

The directorate management team are responsible for monitoring and reporting on the progress of their capital schemes.

Section 5.10 of the Capital Guidance (Appendix B) detailed the Monitor and Report on Progress of Scheme. ed, together with approval from numerous groups and senior management. Routine Monitoring is carried out at the Front Line by Project Managers, Directorate Management Team Meetings – by Heads of Service/ Project

Sponsors and the results are reported monthly to DMT/CMT/CPOB and quarterly to the Cabinet.

2. Do we have more information on the reserves and investment portfolio? Projections/ assumptions for the upcoming budget? Does this include anything on cost of living crisis and the pay award?

A local authority must decide the level of general reserves it wishes to maintain before it can decide the level of the council tax it sets. The purpose of general reserves is to manage the risk to the council's financial standing from the impact of excesses to the budget provision and unforeseen events.

In setting the budget the Chief Finance Officer (Councils section 151 officer) is required under section 25 of the Local Government Act 2003 to report on the robustness of the budget and the adequacy of reserves supporting the budget. The requirement on the s151 officer is to ensure that the annual budget recommended to council is balanced (i.e. expenditure matches income), is robust and therefore deliverable and has an adequate level of reserves. The s151 officer is required to ensure that the council's approved budget addresses these issues. Ultimately, Council will determine the level of reserves and balances formally in setting the annual budget. The advice of the Chief Finance Officer must be formally recorded.

There is no set formula for deciding what level of reserves is adequate. Councils are free to determine the reserves they hold. Elected Members are responsible for ensuring that the reserves are appropriate to local circumstances and are accountable to taxpayers for the decisions they make.

It should be stressed that there is no theoretically "correct" level of reserves because the issues that affect an authority's need for reserves will vary over time and between authorities. Reserves should not be seen in a short-term context. They should be placed in the context of the ongoing uncertainty caused by the global emergency, long-term government funding reductions since 2010, the uncertainty caused by the lack of a three-year government spending review, and service delivery problems within its Services. It is however legitimate for the council to call on reserves to mitigate short term pressures, smooth out the impact of extraordinary one-off demands and/or otherwise meet the costs of unforeseen events

Increasing levels of risk with reducing levels of overall reserves will be a key subject for reflection as will be the adoption of several non-traditional approaches to the balancing future budgets. It should be emphasised that councils can and do experience significant financial difficulties as recent high-profile cases such as those at Northamptonshire County Council, Croydon Council, Slough Borough Council, and Nottingham City Council demonstrates.

Reserves Position 31 March 2022

Current General Fund Balance as at 31 March 2022 was £3.9m with earmarked reserves of £16.5m at the end of the 2021/22 financial year. The table below summarises by purpose the total level of reserves and the narrative beneath the table explains in more detail the purpose for which the reserves are held and in particular why the majority of these reserves cannot be used for other reasons.

31 March 2021	USABLE RESERVES	31 March 2022
£000		**£000**
(3,228)	General Fund Balances	(3,998)
(5,450)	HRA Balances	(5,492)
(17,510)	Earmarked Reserves	(16,494)
(2,576)	Major Repairs Reserve	(2,598)
(5,266)	Capital Receipts Reserve	(1,291)
(1,442)	Capital Grants Unapplied Account	(3,882)
(35,472)	**Total Unusable reserves**	**(33,755)**

The purpose of each reserve is set out below:

General Fund Balances.

As a matter of prudence, the strategy is to ensure that the level of unearmarked reserves is at least £3m. This approach is parallel with the council taking the opportunity to support its ambitions afforded by low levels of borrowing compared to similar size local authorities, 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.

Earmarked Reserves – to fund specific projects or as a means to build up funds for known contingencies. e.g.,

- Strategic Change: to finance one off investment that are required for development or the release of ongoing efficiencies.
- Capital Programme: used for financing of one-off capital schemes.
- Revenue Grants & Contributions: 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 SEESL and AH subsidiary companies.
- SHEP GF Properties Major Works: to create a Major Works Fund for Investment properties.
- Business Rates Equalisation: to mitigate the risk of fluctuations.
- Cost of Living Emergency Response: Broader actions in response to the pandemic were agreed by full council to establish a cost of living emergency fund. This £250k

fund would broadly support priorities including food, fuel and accommodation at a number of pinch points across the year.

- Inflation: to address pressures, which will be felt in the new financial year as well as considering the impact within the Council's Medium-Term Financial Plan for future years. It is possible in future spending reviews, that the Government will consider the longer-term impact of the high levels of inflation if it continues on the current trajectory.
- Fuel and Energy: to address the increase in energy price concerns, and the price increases on contracts being incurred due to the increase in fuel costs.
- Arrears and Bad Debt: to mitigate movements in collection rates, review of bad debt provision and the release of existing provision.
- Cultural Recovery: to support the creation of innovative cultural development projects that will deliver growth and regeneration.
- Budget Carry Forwards: there are a wide range of ongoing Services initiatives that were delayed or span more than one financial year or for which funds have been budgeted but not yet started. The budget carry forward reserve will ensure that such initiatives can be completed.
- Collection Fund (timing difference): during 2020/21 and 2021/22, local authorities received section 31 grant 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 2022/23, thereby inflating General Fund balances at the end of the financial year. This could lead to potentially misleading 2021/22 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: for future maintenance costs.
- Riverbourne House Leaseholders: set aside to cover the cost of major works or other significant items of expenditure expected in the foreseeable future.
- 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.

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.

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.

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.

The use of general and earmarked revenue reserves cannot be regarded as a sustainable long-term strategy to fill the gap from core funding reductions and budget pressures. This is because a usable reserve is a finite cash balance, which can only be used once whereas the reduction in core funding and budget pressures is a permanent year-on-year loss to the Council's base budget. However, reserves are a useful tool to manage issues over the short and medium term in order to allow time for proper consideration of any structural adjustments to the base budget that are needed.

The Section 151 Officer ensure that through the financial planning process of the Council, the estimates are sufficiently robust for the purposes of the calculations of the budget and that the proposed financial balances and reserves over the medium term are adequate.

Treasury Management Strategy – Investment.

The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return). The guidance from the DLUHC and CIPFA place a high priority on the management of risk. The annual Treasury Management Strategy Statement (TMSS) attached as Appendix 'A' was presented to Full Council as part of the budget process. TMSS sets the strategy framework, criteria, boundaries and limitations for borrowing and investment decisions over the next year and the two subsequent years to ensure security of capital, liquidity and yield.

As anticipated in the 2021/22 TMSS, the Council took no additional long-term borrowing for the financial year due to the level of cash holdings. Officers are monitoring market conditions and reviewing the need to borrow at low rates if a requirement is identified for either the General Fund or Housing Revenue Account (HRA).

The annual investment strategy was set in the current continuing environment of low interest rates that has significantly reduced the capacity to generate investment yield from short-term cash balances. Various opportunities to diversify the treasury portfolio, ensure further the security of cash balances, ensure appropriate liquidity to meet Council obligations as and when required, and enhance yield within acceptable risk parameters continue to be investigated. Investment returns are expected to increase in 2022/23. However, whilst markets are pricing in a series of Bank Rate increases, actual economic circumstances may see the MPC fall short of these elevated expectations. The Council will take advantage of favourable market pricing in its time deposit investments whilst anticipating that there could be further potential rate rises and keeping an optimal level of liquidity in the portfolio.

For its cash flow generated balances, the Council seek to utilise its current account, call accounts and short-dated deposits (overnight to three months) in order to benefit from the compounding of interest. The Council as part of its due diligence in managing creditworthiness, uses amongst other information, a tool provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit rating from the three credit rating agencies. The Link Asset Services credit worthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue reliance to just one agency's ratings.

The attached Appendix E – Treasury management – Q1 2022/23, shows the Treasury Position as at 30 June 2022. The Council's debt and investment position is organised by staff within Financial Services in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities.

3. Is there any more recent audit work apart from 2021 report? (the LGA is aware that there has been a sector wide issue with delayed audit work)

The EBC Audit and Governance Committee has expressed its concerns regarding the contract for the Council's external audit being managed by the Public Sector Audit Appointments (PSAA), with Deloitte being in effect sub-contracted to carry out the work and that due to the contract being between Deloitte and the PSAA, the Council had no leverage to impose any additional charge.

The Committee has previously raised their dissatisfaction and concerns in various forms and discussions with the Local Government Association, the Public Sector Audit Appointments (PSAA), as well as the senior management at Deloitte.

While the Committee acknowledged that similar problems have occurred across the country with significant number of audit opinions not being available, this delay, mirrored in a number of local authorities, in part were due to Deloitte not providing sufficient resources to complete these audits, which were blamed on a shortage of specialist staff skilled in conducting public sector audits.

Latest updates -

The Council External Auditors presented a paper with verbal updates to the Audit and Governance Committee regarding the plans for commencement of the Eastbourne Borough Council 2019/20 audit in July 2022, which is now underway with a mix of remote and site visits by the audit team.

The audit team and the finance services team continue to have on-going discussions in the form of weekly meetings and update meetings to resolve matters impacting the audit. These discussions in combination with additional resources allocated to the audit in September has seen good progress in recent weeks.

The audit team and finance service teams are now targeting completion of the 2019/20 audit by the end of October 2022, and planning on commencing the 2020/21 from the end of October 2022, with the 2021/22 audit to start from January 2023.