

## AUDIT, BEST VALUE AND COMMUNITY SERVICES SCRUTINY COMMITTEE

MINUTES of a meeting of the Audit, Best Value and Community Services Scrutiny Committee held at Committee Room, County Hall, Lewes on 14 March 2017.

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PRESENT Councillors Mike Blanch (Chair), John Barnes (Vice Chair), Carolyn Lambert, Peter Pragnell, Bob Standley and Trevor Webb

LEAD MEMBERS Councillor David Elkin

ALSO PRESENT Kevin Foster, Chief Operating Officer  
Phil Hall, Interim Chief Finance Officer  
Ola Owolabi, Head of Accounts and Pensions  
Russell Banks, Head of Assurance  
Nigel Chilcott, Senior Audit Manager  
Fiona Wright, Assistant Director (Education & ISEND)  
Jessica Stubbings, Senior Manager: Places and Participation  
Becky Shaw, Chief Executive  
Sarah Mainwaring, Head of HR and Organisational Development  
Bethan Bolland, Executive Officer  
  
Jo Lees, Director KPMG

### 48 MINUTES OF THE MEETING HELD ON 8 NOVEMBER 2016

48.1 The Committee RESOLVED to approve as a correct record the minutes of the meeting held on the 8 November 2016.

### 49 APOLOGIES FOR ABSENCE

49.1 There were no apologies for absence.

### 50 DISCLOSURES OF INTERESTS

50.1 Councillor Blanch declared a personal, non- prejudicial interest under item 5 relating to the valuation of school assets owned by church bodies as he is member of Eastbourne Deanery and is an Anglican minister.

50.2 Councillor Webb declared a personal, non-prejudicial interest under item 8 relating to the audit work associated with unaccompanied asylum seeking children as he knows at least one such child.

### 51 URGENT ITEMS

51.1 There were none.

## 52 EXTERNAL AUDIT PLAN 2016/17

52.1 The Head of Accounts and Pensions introduced report on the External Audit Plan for 2016/17. The External Auditor, KPMG has carried out a risk assessment of the Council's arrangements to secure value for money and no items of concern have been identified.

52.2 Jo Lees, Director KPMG outlined the External Audit Plan for the Council's accounts in which the level of materiality has been set at £9.5million. The Plan identifies three significant risks which will be covered by the audit which are:

- Local Government Pension Scheme (LGPS) triennial valuation and changes to pension liability;
- Minimum Revenue Provision calculation; and
- Accounting for Local Authority maintained schools – assets owned by third parties such as church bodies.

The audit will also look at the fair valuation of property, plant and equipment (PPE), as well as two standard risk areas relating to the management override of financial controls, and fraudulent revenue recognition.

52.3 The Committee discussed the accounting for Local Authority maintained schools and asked if there had been any progress with the Diocesan authorities in identifying the ownership of the remaining 22 schools. The Head of Accounts and Pensions responded that there had been no progress from the Diocese in confirming ownership. Church and other organisations claim ownership, but often cannot prove it.

52.4 The Committee asked whether this uncertainty leads to any risks. Jo Lees, Director KPMG responded that the right thing to do is to keep these assets on the balance sheet. The Committee asked for further information on the implications of keeping these assets on the balance sheet, and what the Council can do to mitigate any risk that might arise.

52.5 The Committee RESOLVED to endorse the External Audit Plan for 2016/17.

## 53 KPMG CERTIFICATION OF CLAIMS AND RETURNS FOR THE YEAR ENDED 31 MARCH 2016

53.1 The Committee noted the report and made no further comments.

53.2 The Committee RESOLVED to note the report.

## 54 EXTERNAL AUDIT PLAN FOR EAST SUSSEX PENSION FUND 2016/17

54.1 The Head of Accounts and Pensions introduced report. The External Auditor, KPMG, have not identified any significant risks specific to the pension fund, including the triennial revaluation. KPMG have set the level of materiality at £27million which equates to 1% of assets.

54.2 The Committee RESOLVED to note the report and endorse the External Audit Plan for the Pension Fund for 2016/17.

## 55 INTERNAL AUDIT STRATEGY 2017/18 AND ANNUAL PLAN

55.1 The Head of Assurance introduced the report. The Internal Audit Strategy 2017/18 and Annual Plan reflects the risks identified throughout the organisation in liaison Officers and the Audit, Best Value and Community Service (ABVCS) Scrutiny Committee, who had a briefing and commented on the draft Plan in January. The number of audit work plan days allocated to undertake the Plan is set out in the report and is judged to be sufficient to form the annual assurance opinion at the end of the year.

55.2 The Internal Audit Team will co-ordinate audits with the other Orbis Partners and will look for opportunities to share internal audit skills across the three Orbis Partners. There will be some commonality of risks between authorities, so there may be opportunities to combine audits. As a result of this joint working, some of the audits on the Plan may be delivered by auditors from the other Orbis Partners.

55.3 The Chair thanked Officers for their work and performance against the audit plan days. The Head of Assurance explained that in future there will be less focus on the delivery of the number of audit plan days and more focus on assurance coverage. The use of data analytics to automate some of the work will mean the number of audit plan days will become less important as a measure of assurance.

55.4 The Head of Assurance outlined the role of data analytics work developed from national strategies. Current work is focussed on using these tools and how the results will feed into the assurance framework. For example, detecting duplicate payments already has an automated process, so there is a financial control and audit process.

55.5 The Committee discussed a number of audits within the Internal Audit Plan and made the following comments:

- East Sussex Better Together (ESBT), Connecting 4U and the Accountable Care Model. The Head of Assurance outlined that this will be a complex area of work which will identify risk, support transition and examine delivery. The Internal Audit Team have set aside a significant number of audit days for this work. The Interim Chief Finance Officer added that ESBT is one of most significant risks for the Council and this has already been discussed with the External Auditors. Regular updates on ESBT will be provided in the quarterly Internal Audit Progress reports.
- Apprenticeship Levy - The Committee asked if the audit will look at recruitment and retention issues. The Head of Assurance responded that the scope of this audit has not been defined yet, but is happy to consider recruitment and retention issues in the scope of audit.
- Audit of the Waste Contract – The Chair explained that a review of the Waste Contract is on the Work Programme for the Committee. This had been flagged up by the Committee as an area of potential joint scrutiny work with the Economy, Transport and Environment (ETE) Scrutiny Committee. However, the scope of the work has not been fully agreed with the ETE Scrutiny Committee. The Head of Assurance responded that the audit will concentrate on the operation of the Waste Contract.

55.6 The Committee RESOLVED to endorse the Internal Audit Strategy 2017/18 and Annual Plan.

## 56 INTERNAL AUDIT PROGRESS REPORT - QUARTER 3 (01/10/16 - 31/12/16)

56.1 The Head of Assurance introduced the report and outlined that there were no audit findings below partial assurance, with the exception of some of the schools based audits. There was only one audit below substantial assurance, which was the Schools Themed Review of Federations and Partnerships. Results from the risk and random sample based schools audit work carried out by the Internal Audit Team and Mazars, appear to show an improving picture following the training carried out during the year. There has been some slippage in the delivery of planned audit work due to the level of investigations undertaken and vacancies within the Team. However, the Head of Assurance is confident that the Team will achieve all the work necessary to produce an assurance opinion at the end of the year.

Schools Themed Review of Federations and Partnerships.

56.2 The Assistant Director, Education & ISEND and the Senior Manager, Places and Participation outlined the background to the development of federations and partnerships, which have been part of plans for school improvement for a number of years. This approach has been developed to address a number of challenges faced by schools, such as school leadership, pressure on budgets and the sharing of expertise. As part of this strategy, criteria have been developed to identify schools which would benefit from federations and partnerships. As this approach is now being promoted for smaller schools, the Internal Audit Team were invited to examine how the model being used responds to leadership and other challenges.

56.3 The Committee asked what weaknesses had been identified by the review. The Assistant Director, Education & ISEND explained that the partial assurance conclusion related to supporting schools into federations, rather than the model itself (e.g. follow up work and business planning and visioning). The department is putting business planning training in place to help schools take the most advantage of this arrangement, and articulate a strategic vision for the federation. The Head of Assurance added that when federations are formed, there should be a clear strategy for why the schools are doing this backed by business planning.

56.4 The Committee asked how the Council is generating best practice and best value for financial practices as part of this approach. The Assistant Director, Education & ISEND explained that when developing the model, the department looked at best practice from other local authorities and worked with Devon County Council to develop a range of resources on C-zone section of the Council's web site to support the process. It has also led a number of sessions with speakers from other federations outside East Sussex to share best practice. The department can also follow up the point made by the Committee on financial best value.

56.5 The Committee thanked the Assistant Director, Education & ISEND and the Senior Manager, Places and Participation and asked that the audit be brought to the attention of the Children's Services Scrutiny Committee as it may be of interest to them.

56.6 The Committee RESOLVED to note the report.

## 57 STRATEGIC RISK MONITORING - QUARTER 3 2016/17

57.1 The Chief Operating Office introduced the report. The Committee noted that the Apprenticeship Levy has been added to the strategic risk register and the other current strategic risks, controls and responses. The Committee underlined its concern about the potential cumulative financial impact and risk to rural primary schools, arising from the proposed changes to the schools funding formula and the introduction of the Apprenticeship Levy.

57.2 The Committee RESOLVED to note the current strategic risks, and the risk controls or responses being proposed and implemented by Chief Officers.

## 58 RECONCILING POLICY, PERFORMANCE AND RESOURCES

58.1 The Chief Executive introduced report and highlighted that it was the Committee's opportunity to review the Reconciling Policy, Performance and Resources (RPPR) process.

58.2 The Committee discussed the RPPR process, which they thought was a useful exercise and that it was helpful to look outside of savings plan. The Committee commented that it was a difficult process when the level of cuts were as significant as they are, but the changes to the budget debated at Cabinet and County Council were only smaller changes on the periphery of budget and perhaps the process could be streamlined.

58.3 The Committee considered that it was important to focus two to three years ahead on the savings plan, and that it could have a more constructive influence on medium term plans in relation to value for money and opportunity costs. The Committee made three points about the RPPR process:

- It would continue to look 2-3 years ahead in terms of examining the proposed savings, value for money and opportunity costs;
- It would look at service areas outside of the savings plan for areas of potential savings; and
- The Committee was not sure the Portfolio Plans materially help the discussion on savings and perhaps these could be streamlined.

58.4 The Chief Executive welcomed the Committee's focus on examining proposed savings in the medium term and looking for other areas for savings outside of the savings plan. However, the Portfolios Plans are helpful to set the scene and to hold Officers to account on service plans and delivery.

### Property Investment Strategy

58.5 The Committee asked about progress on the Property Investment Strategy. The Chief Operating Officer responded that an update report will be presented to Committee in July. There a number of examples of successes that can be shared with the Committee and the report will also outline the principles of operating the strategy.

58.6 Some of the Committee Members outlined their concerns about investment in commercial property and acting as an investment company. They commented that it is not the Council's role to decide how to invest Council Tax payers' money and would be more comfortable if the Property Investment Strategy is linked to the public services that the Council and its partners provide (e.g. investment in the provision of primary care centres).

### Coroner's Service update

58.7 The Committee asked if there was an update on the Government proposals for changes to the Coroner's Service. The Chief Executive explained that the Government has deferred the implementation of the changes. There is likely to be a cost associated with the changes, and the Committee will be updated when more detail is available.

58.8 The Committee RESOLVED to:

- 1) Continue to focus on medium term savings proposals and service areas outside the savings plan as part of its RPPR work; and
- 2) Note the response to the RPPR Board's comments on the budget.

## 59 APPRENTICESHIP LEVY

59.1 The Head of Human Resources and Organisational Development (HR & OD) introduced the report which provides an update to the information that was presented to the Audit Best Value and Community Services (ABVCS) RPPR Board in December. Since that time the Council has received more detailed guidance. A steering group for apprenticeship delivery has been established and a manager has been appointed to co-ordinate the work on the implementation of the Levy. There are a number of strands to the work:

- Communications and engagement with frontline managers and staff on the Levy and the benefits and value it will bring;
- A procurement strand, linked to Orbis and West Sussex County Council, to use the 'dynamic purchasing system' to procure apprenticeship training.
- Workforce mapping which examines which current training across ESCC can be converted into an apprenticeship standard, and which posts would be suitable for apprenticeship recruitment. The workforce mapping has nearly been completed.

59.2 It should be noted that the responsibility for the delivery and management of apprenticeships lies with departments, and the central team will work through them. The target number of apprenticeships for ESCC staff is 102 apprenticeships, and 137 apprenticeships for East Sussex maintained schools.

59.3 The performance against these targets will be measured by 'having regard' to the targets, which includes evidence of having the right approach and processes in place to deliver apprenticeships. The performance against targets will not have an impact on finances. The Government has recognised that where organisations have large numbers of part time posts, this will have an impact on the number of apprenticeships that it will be possible to provide.

59.4 The Head of Human Resources and Organisational Development outlined that the central team has done the workforce mapping on behalf of schools. Work is ongoing to examine the use of apprenticeships for teaching, but the training framework will not be available until September 2018. Work is also being undertaken on the social work programme with universities on Level 6 qualification training, but this again will not be available until September 2018.

59.5 The Committee discussed the implementation of the Apprenticeship Levy and a summary of the points raised is given below.

### Impact on Schools

- The Committee is concerned about the financial impact of the Levy on schools and in particular on small, one form entry, primary schools. It asked if it would be possible to return some of the pooled money as part of the school funding system, and highlighted that there is a significant impact if small schools fail, the costs of which will fall to ESCC. The Interim Chief Finance Officer responded that these are issues that can be explored in terms of how ESCC manages school finances.
- The Committee asked if there was an emergency plan if the Levy and other financial pressures, such as the draft revised schools funding formula, threatens schools' financial viability. The Head of Human Resources and Organisational Development responded that the Children's Services Department is aware of the financial issues for small schools, and is asking them to work in their school improvement area partnerships on this issue.

## Implementation

- The Committee asked if the target for apprenticeships will be met by converting existing posts. The Head of Human Resources and Organisational Development outlined that the approach being used is to examine whether existing training programmes could be converted into apprenticeships, and when existing posts become vacant to look at creating an apprenticeship. The Apprenticeship Programme will cover a whole range of skills, including older workers as well as younger workers. So the Apprenticeship Programme may be renamed so it is clear that it is open to all types of applicants and employees.
- Members of the Committee expressed concerns about: the speed of the implementation of the Levy; what they saw as a bureaucratic approach and; the issue of the capacity of the organisation to provide support for the apprentices. The Head of Human Resources and Organisational Development responded that part of strategy is to support existing career pathways. There is a need to co-ordinate implementation across departments which is not overly bureaucratic. ESCC has not been any slower than other local authorities in implementing the Levy, and in many cases ESCC is ahead of our partner organisations (e.g. ESCC will use the East Sussex Qualification and Assessment Centre, ESQAC, to offer training to partners).

## Summary comments

59.6 The Chief Executive summarised the approach the Council has taken to implementing the Apprenticeship Levy. The Council has tried to take advantage of the benefits of the scheme and has lobbied hard to exclude small schools from the Levy. The Council has been working on apprenticeships through the devolution and skills work stream for some time, and has a good understanding of what is needed to support apprenticeships, and in particular, the support needed for managers. A lot of good work has already been undertaken, which has prepared the Council for implementing the Levy. It is understood that schools are facing a 'perfect storm' of challenges and central Government may recognise the challenges for smaller schools.

59.7 The Committee remained concerned about revenue costs of the implementation of the Apprenticeship Levy. It commented that it would be helpful to understand what sort of targets ESCC will achieve next year, and have a framework to monitor performance of the Apprenticeship Programme.

59.8 The Committee Resolved to:

- 1) note the progress on the implementation of the Apprenticeship Levy; and
- 2) request an update report at July 2017 Committee meeting to include, and the progress against targets for the number of apprenticeships in both the Council and in schools.

## 60 SCRUTINY COMMITTEE FUTURE WORK PROGRAMME

### Libraries Review Board

60.1 A draft interim report of the Libraries Review Board has been circulated for comment and approval. The Review Board Members are asked to comment on the draft interim report and the Committee agreed that the Review Board finalise the report via email.

## Scrutiny of Orbis

60.2 The Chair updated Committee on the joint Orbis Scrutiny meeting held with Members from Surrey County Council's, Council Overview Board. A report on Brighton and Hove City Council (BHCC) joining the Orbis Partnership will be on the agenda for the 14 July 2017 ABVCS Scrutiny Committee meeting. The other main issue that was discussed, and which was general agreement on, was the need to examine an updated Orbis Business Plan including the delivery of savings, investment, the issue of cost shunting and the impact of BHCC joining the Partnership on the Business Plan.

60.3 It was agreed to hold a joint meeting in October 2017 to consider an updated Orbis Business Plan and a representative(s) from BHCC will be inviting to attend the joint meeting. The meeting is likely to be held at Surrey County Council's offices, in line with the rotation of meeting venues.

## Other Work Programme Items

60.4 The Committee agreed that it would like to know more about data analytics for assurance work. The Chief Operating Officer outlined that the ICT Team has also worked on data analytic projects and could provide examples of this work such as the Troubled Families Programme. The Committee agreed to have a briefing on data analytics sometime in the next 18 months.

60.5 The Committee agreed that the Vice Chair will approve the draft minutes of the meeting, in the absence of Chair.

60.6 The Chair thanked the Committee Members for their work on the Committee, the various work groups and Review Boards that had been established over the past four years. The Chair indicated this would be his last meeting, as he would not be standing for re-election in the forthcoming County Council elections. The Committee also thanked all Officers for their very effective and timely support to the Committee's work over the past four years.

60.7 A vote of thanks was recorded by the Committee for the Chair's work on the Audit, Best Value and Community Services Scrutiny Committee during his term of office.

60.8 The Committee RESOLVED to amend the Future Work Programme in line with paragraphs 60.2, 60.3 and 60.4 (above) and the inclusion of the update report requested on the implementation of the Apprenticeship Levy in paragraph 59.8 (above).

## 61 FORWARD PLAN

61.1 The Committee RESOLVED to note the Forward Plan.

## 62 ANY OTHER ITEMS PREVIOUSLY NOTIFIED UNDER AGENDA ITEM 4

62.1 There were none.

The meeting ended at 12.01 pm.

Chair