East Sussex County Council

AUDIT, BEST VALUE AND COMMUNITY SERVICES SCRUTINY COMMITTEE

WEDNESDAY, 29 NOVEMBER 2017

10.00 am COMMITTEE ROOM, COUNTY HALL, LEWES

MEMBERSHIP - Councillor Colin Swansborough (Chair)
Councillors John Barnes (Vice Chair), Matthew Beaver, Philip Daniel, Gerard Fox, Peter Pragnell and Andy Smith

A G E N D A

1 Minutes of the meeting held on 27 September 2017 *(Pages 3 - 10)*

2 Apologies for absence

3 Disclosures of interests

Disclosures by all members present of personal interests in matters on the agenda, the nature of any interest and whether the member regards the interest as prejudicial under the terms of the Code of Conduct.

4 Urgent items

Notification of items which the Chair considers to be urgent and proposes to take at the appropriate part of the agenda. Any members who wish to raise urgent items are asked, wherever possible, to notify the Chair before the start of the meeting. In so doing, they must state the special circumstances which they consider justify the matter being considered urgent.

Audit Items

5 Internal Audit 2017/18 Progress Report - Quarter 2 *(Pages 11 - 38)*
Report by the Chief Internal Auditor.

6 Annual Audit Letter 2016/17 and fee update *(Pages 39 - 46)*
Report by the Chief Operating Officer.

Scrutiny Items

7 Treasury Management Annual Report 2016/17 and mid year report 2017/18 *(Pages 47 - 66)*
Report by the Chief Finance Officer.

8 Orbis Business Plan - Update report *(Pages 67 - 90)*
Report by the Chief Operating Officer.

9 Expenditure on agency workers in East Sussex County Council 2017 *(Pages 91 - 108)*
Report by the Chief Operating Officer.

10 Reconciling Policy, Performance and Resources (RPPR) for 2018/19 *(Pages 109 - 116)*
Report by the Chief Executive.

11 Scrutiny committee future work programme *(Pages 117 - 122)*

12 Forward Plan *(Pages 123 - 130)*

The Forward Plan for the period to 28 February 2018. The Committee is asked to make comments or request further information.

13 Any other items previously notified under agenda item 4

PHILIP BAKER
Assistant Chief Executive
County Hall, St Anne's Crescent
LEWES BN7 1UE

21 November 2017

Contact Simon Bailey, Democratic Services Officer,
01273 481935
Email: simon.bailey@eastsussex.gov.uk

Agenda Item 1

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 27 September 2017.

PRESENT	Councillors Colin Swansborough (Chair) Councillors John Barnes (Vice Chair), Matthew Beaver, Philip Daniel, Gerard Fox, Peter Pragnell and Andy Smith
LEAD MEMBERS	Councillors Bill Bentley and David Elkin
ALSO PRESENT	Becky Shaw, Chief Executive Philip Baker, Assistant Chief Executive Kevin Foster, Chief Operating Officer Ian Gutsell, Chief Finance Officer Rupert Clubb, Director of Communities, Economy and Transport Stephen Potter, Head of Customer and Library Services Ross Duguid, Procurement Category Manager Nigel Chilcott, Senior Audit Manager Nicky Wilkins, Head of Strategy & Engagement Khy Perryman, IT & Digital Information Governance & Continuity Manager Martin Jenks, Senior Democratic Services Advisor

16 MINUTES OF THE MEETING HELD ON 14 JULY 2017

16.1 The Committee agreed amend the minutes of the last meeting prior to approval, so that minute 12.12 reads as follows:

> 12.12 The Committee requested clarity on the level of exposure the Strategy envisaged. In particular, the Committee requested information in future proposals on the proportion of the Council's liabilities that will be tied to assets exposed to the commercial property market. The Chief Property Officer set out that the proposal was a 1-2% return on a fund of £150m. It was confirmed that the proposal was not to meet the Council's funding requirement, but to provide additional income without detracting from core services.

16.2 The Committee RESOLVED to approve as correct record the amended minutes of the meeting held on the 14 July 2017, as described in 16.1 above.

17 APOLOGIES FOR ABSENCE

17.1 There were no apologies for absence.

18 DISCLOSURES OF INTERESTS

18.1 There were none.

19 URGENT ITEMS

19.1 The Chair was notified of one urgent item on the future proposals for the former St. Anne's School site.

20 INTERNAL AUDIT 2017/18 PROGRESS REPORT - QUARTER 1

20.1 The Senior Audit Manager introduced the report. He confirmed that the Orbis Chief Internal Auditor continues to be able to provide reasonable assurance that the Council has in place an effective framework of governance, risk management and internal control. During the reporting period, the Internal Audit Service has moved from using range of five audit opinions (full, substantial, partial, minimal and no assurance), to a range of four opinions (substantial, reasonable, partial and minimal assurance). All audits undertaken in the quarter, apart from one, have received an opinion of either substantial or reasonable assurance.

20.2 One audit received an opinion of partial assurance, which was the audit of Adecco who operate a manged service to provide temporary agency staff to the Council. An action plan for improvement has been agreed, and a follow up audit will be conducted later in the year. An update will also be included in the report on the Council's use of agency staff at the November Scrutiny Committee meeting.

20.3 During the quarter the Internal Audit Service completed two follow up reviews of Microsite management and the ContrOCC system, which have improved to achieve an opinion of substantial assurance. The Internal Audit Service also met all performance targets during the period.

20.4 The Committee RESOLVED to note progress report and performance, and had no further comments on audits or risks.

21 CYBER SECURITY AND INFORMATION GOVERNANCE UPDATE

21.1 The Chief Operating Officer introduced the Head of IT & Digital Strategy & Engagement and the IT & Digital Information Governance & Continuity Manager who are the ESCC leads on cyber security and information governance. The Head of IT & Digital Strategy & Engagement explained that ESCC has an Information Strategy in place which deals with data breaches and a Security & Identity Management Strategy which deals with Cyber-security. The Council employs a number of information security qualified staff, who specialise in protecting the Council's information systems.

21.2 The Committee received a presentation on the risks and measures being taken to protect the Council from cyber-attack and keep information secure. The key points of the presentation are summarised below.

- Cyber security and information security are interchangeable and there are a range of risks from malware, compliance, and physical data losses.
- Cyber security breaches arise from deliberate threats, accidental losses and lack of awareness.
- The public sector, along with the manufacturing sector, has been targeted by ransom ware and cybercrime has been growing in the UK.
- ESCC may be attacked for financial gain; politically motivated attacks; and attacks by script kiddies (a term used to describe toolsets used by low skilled attackers).
- Globally cybercrime is going up so ESCC is having to spend more on this issue.

- Attacks are targeting people as well as servers, and the use of ransom ware is increasing.
- Emails are an important attack vector and there are risks from them such as phishing and clicking on links which then infect systems with malware.

What is being done to protect ESCC

21.3 ESCC has strategies in place to protect IT systems and information. The arrangements for Information Governance are audited regularly. The Council undertakes risk management assessments which are audited internally and externally. The design of the network is regularly reviewed, patched and penetration tested.

21.4 The Committee asked how the Council provides assurances to residents that their information is safe in the event of an attack, and that we will not ask them to re-provide their information (to protect them from Phishing attacks). The IT & Digital Information Governance & Continuity Manager responded that the Council uses social media to provide information to residents. The Council is using software to help people check an email is really sent from ESCC.

21.5 The Committee were assured that there are robust and tested backup, disaster recovery and business continuity plans in place to protect services and restore them should that become necessary. The IT & Digital Information Governance & Continuity Manager confirmed that the Council keeps all security arrangements under regular review, and examines the use of new technology to protect IT systems and to keep them secure.

21.6 The Committee RESOLVED to:

1) Note the strategies and controls in place to maintain the security and integrity of the corporate infrastructure, together with plans to adapt it to continuously meet future needs; and
2) Agree they were satisfied with the measures that are in place to protect the Council and that further assurance was not required on this strategic risk.

22 STRATEGIC RISK MONITORING 2017/18 - QUARTER 1

22.1 The Chief Operating Officer introduced report which updates the Committee on the current strategic risks faced by the Council.

22.2 The Committee discussed the two areas of government policy which will have an impact on the financial sustainability of small rural schools namely, the draft schools funding formula (e.g. any school under 216 pupils) and the Apprenticeship Levy. East Sussex has a lot of schools which may be adversely affected, and if a school should fail then ESCC will have additional costs. Depending on the scale of the potential adverse impact this could represent a strategic risk to the Council and should be monitored.

22.3 The Chief Operating Officer responded that strategic risks are dynamic. Dealing with these risks is inherent in RPPR process, which considers risks and how we currently deal with them. The risk to smaller schools will be managed within the Medium Term Financial Plan process. ESCC has also reviewed what other similar local authorities have on their strategic risk registers, and ESCC is covering all the main strategic risks.

22.4 The Committee observed that there is an increase in the number of children moving through primary schools, and in the next 5-7 years East Sussex will need more secondary school places. The Chief Operating Officer outlined that the school places planning team are looking at this, and school place planning feeds into capital programme as a core need. The school place planning process is very robust, and together with the capital programme, addresses this risk.

22.5 The Committee RESOLVED to note:

1) the current strategic risks and the risk controls / responses being proposed and implemented by Chief Officers; and
2) the potential financial risks for small schools raised by the Committee in minute 22.2 above.

23 RECONCILING POLICY, PERFORMANCE AND RESOURCES (RPPR) FOR 2018/19

23.1 The Lead Member for Resources introduced report. The report provides the Committee with the opportunity to explore any savings that have not been considered, and to identify any further information it requires on the RPPR process. The savings outlined in Appendix 3 of the report have been in the medium term financial plan (MTFP) for three years now, and are required to achieve a balanced budget. The savings put forward are those that officers consider will have least impact on services, but that is not to say they will not have an impact.

23.2 The Chief Executive highlighted the State of County report that was presented to Cabinet in June, which set out the Council's overall financial position. The Scrutiny Committee RPPR report seeks to focus attention on the services which are within the remit of the Committee. There is information on the revenue and capital budgets for those services; the more detailed service plans contained in the Portfolio Plans and; the agreed savings programme. The Chief Executive asked if the Committee required any more information, and whether there were any further areas for savings which it wished to examine.

23.3 The Committee Members commented that there was a lot of information and it was difficult to get to the detail in terms of the performance indicators, service plans and the impact on services. The Chief Executive explained that the Portfolio Plans were intended to provide information on individual service plans and the Council Plan targets that applied to those services. The Council Plan itself brings together all the performance targets and has very detailed plans which underpin it.

23.4 The Lead Member for Resources acknowledged that many of the Committee members are joining the savings process towards the end of the three year MTFP programme. The Council is in the really difficult position managing a reduction in budget, whilst the pressure on services is increasing. The Council has been doing this quite well for the last six or seven years, but will struggle to continue to do this without there being an impact on services. There are examples of innovative approaches to this situation, such as Orbis, which is one of the biggest shared business service partnerships providing better value for money for each of the partners.

23.5 The Committee commented that it would be helpful to have information on the likely revenue budget framework going forward, and an indication of where the Council was now in terms of the operational financial position.

23.6 The Chief Executive responded that the likely future budget framework is outlined in the State of the County report. The Council has a 3-5 year MTFP, but there is a note of significant caution on what the final figures will be due to the uncertainty of future funding. This will be updated as more precise information is known, including an update that will be presented to Cabinet in October. The Council's current operational financial position is reported through the quarterly monitoring reports which go to Cabinet. The Chief Executive offered to provide a further briefing on the financial information to the Committee, either on an individual basis, or as a group. The Lead Member for Resources added that he would be holding surgeries on the budget, as he did last year, that members of the Committee could attend if they wished.

23.7 The Chief Operating Officer outlined the savings plans for 2018/19 for the Services that are within the Committee’s remit. The information in Appendix 3 indicates the current areas of search for savings, but further areas will need to be identified for the financial years 2019/20 and 2020/21. It is planned to have an Orbis Business Service Plans in place for future years.

23.8 The Committee requested further information the potential savings or income generation from the Property Investment Strategy, Procurement and the work undertaken on commercialisation by the Income Generation group. The Chief Operating Officer responded that the Committee would receive an update on Procurement under agenda item 9. An update on the Property Investment Strategy and income generation work could be brought to the RPPR Board in December.

23.9 The Committee discussed the formation of an RPPR Board to examine the emerging financial and portfolio plans for 2018/19 and provide comments to Cabinet. The Chair invited Committee members to take part in the RPPR Board, which will be held after Cabinet on the 12 December 2017. Councillors Andy Smith, Philip Daniel, John Barnes, Peter Pragnell and Gerard Fox indicated that they would like take part.

23.10 The Committee RESOLVED to:

1) Request further information on the work of the Income Generation group and an update on the Property Investment Strategy; and
2) Establish an RPPR Board made up of the whole Committee, which will meet in early December.

24 PROCUREMENT UPDATE

24.1 The Chief Operating Officer introduced the report and the Acting Assistant Director for Procurement & Commissioning. The Procurement Service is an integrated service which adopted a new structure in April 2017 and covers the procurement function for all three Orbis Partners. The restructure will deliver 10% savings on the operating budget, in addition to previous shared service savings.

24.2 The Acting Assistant Director Procurement & Commissioning gave a presentation to the Committee regarding the current Procurement Service activity. The key points of the presentation included:

- East Sussex County Council (ESCC) spends around £500million per annum and around 50% is spent with local suppliers (the bulk being for Adult Social Care). The Procurement Team is actively involved in 70% of contracts and over a third of expenditure is with the top 25 suppliers. The Procurement Team also aim to manage the expenditure with the ‘tail’ of a large number of smaller suppliers/contracts through the Sourcing Solutions team.

- The Orbis integration process has included appointing a joint Head of Service and there is now a joint management team and a single integrated structure. The structure is designed to ensure it is fit to operate across the three different organisations (East Sussex County Council, Surrey County Council and Brighton and Hove City Council). There are dedicated procurement leads in each organisation.

- The move to the revised structure has enabled the Team to deliver better value across the three organisations and to be more strategic. The Service has been able to develop a category management team and to start to routinely deliver longer term strategies for procurement. This is supported by better commercial analysis and information on contract coverage and renewal.

- The Procurement Team aims to be actively involved in each service area to improve contract management and performance monitoring. A dedicated contractor and supplier management team has been introduced to provide better contract management over the life cycle of a contract.

- The Team measure the value that procurement delivers through four types of value:
    - Cashable – reducing the cost of services
    - Financial - mitigating cost increases (i.e. not cost releasing)
    - Quantifiable - Social value (social value measurement charter) and value added
    - Non-quantifiable – where risks have been mitigated.

24.3 The Committee asked about the level of due diligence that is carried out when letting contracts. The Chief Operating Officer responded that the level of due diligence varies with the value of the contract and the risks associated with it. For higher value contracts there is a strategic sourcing plan and tenders are reviewed by a board made up of representatives from Procurement, Legal and Finance. The Sourcing Solutions team has been set up to manage the ‘tail’ of lower value expenditure with smaller suppliers.

24.4 The Committee asked what capacity the Procurement Service has to provide a service to other customers. The Acting Assistant Director Procurement & Commissioning explained that the Team already establish procurements and name other authorities so they can take part in joint procurement. The Team want to prove the service model and manage ‘business as usual’ services, before offering services to other customers. The Chief Operating Officer added that some procurement services are flexible which can allow for other customers to be served without an additional cost, and others would require additional resources.

24.5 The Committee asked what the impact of leaving the EU would be on procurement regulation. The Chief Operating Officer outlined that there will still be procurement regulation, but it may mean ESCC will need to work across a number of regulatory environments.

24.6 The Committee noted the resources that are required to efficiently manage the large number of small suppliers that account for a significant proportion of the Council’s expenditure. The Committee asked what opportunity is there to engage with larger suppliers to undertake more procurement across the Orbis partners.

24.7 The Acting Assistant Director Procurement & Commissioning responded that the Procurement Team is taking these issues forward through long term strategies for total expenditure in both high and low expenditure areas. Achieving economies of scale depends on the make-up of the market and what the sovereign authorities want in terms of procurement. The starting point is that Orbis can work across authorities and is doing so through work such as the construction framework tendered for use across Surrey County Council and ESCC.

24.8 The Committee asked about the procurement work that is taking place for Adult Social Care, and the partnership work with the NHS, where there are service areas in which ESCC dominates the market. The Acting Assistant Director Procurement & Commissioning outlined that the Procurement Team use market information and work with commissioners and finance to make sure the market is sustainable. The Chief Operating Officer added that there is a category lead for this sector and the Procurement Team is conscious of this pressure. Work is also underway with East Sussex Better Together to look at commissioning in the Accountable Care model.

24.9 The Committee asked to be kept abreast of how savings are being delivered by the Procurement Service and would like performance updates on the agenda at future meetings.

24.10 The Committee RESOLVED to note report and to receive update reports on procurement performance at future meetings.

25 SCRUTINY COMMITTEE FUTURE WORK PROGRAMME

Former St. Anne's School Site

25.1 Councillor Philip Daniel outlined that he had a lot of enquiries about the future of the former St. Anne's School site. The Committee requested that proposals for the site be brought back to the Committee on this issue.

25.2 The Chief Operating Officer responded that he will bring a report to the Committee on the future of the site and there will be a consultation process. He also advised the Committee that there will be some activity on site to deal with some health and safety issues related to the buildings and to undertake some ecology survey work.

Libraries Review Board

25.3 The Senior Democratic Services Advisor outlined the work to date of the Review Board and the plans to consider further issues in more detail, namely:

- Library closures
- Ceasing of mobile library
- Book fund reductions; and
- Outcomes from the public consultation.

25.4 The Review Board will work in parallel with the public consultation and is likely to be able to feedback progress to RPPR Board in December. It is hoped this will include consideration of library closures and ceasing of mobile library. The Review Board plans to provide more detailed comments on the draft Libraries Strategic Commissioning Strategy to Cabinet in March 2018.

RPPR

25.5 The Committee resolved to establish an RPPR Board which will meet after Cabinet on 12 December 2017 (see minute 23.10 above).

26 FORWARD PLAN

26.1 The Committee RESOLVED to note the Forward Plan.

27 ANY OTHER ITEMS PREVIOUSLY NOTIFIED UNDER AGENDA ITEM 4

27.1 The urgent item notified under item 4 on the former St. Anne's School site was considered under the Work Programme (see 25.1 above).

The meeting ended at 12.25 pm.

Councillor Colin Swansborough
Chair

This page is intentionally left blank

Report to: **Audit, Best Value and Community Services Scrutiny Committee**

Date of meeting: **29 November 2017**

By: **Chief Operating Officer**

Title: **Internal Audit Progress Report – Quarter 2 (01/07/17 – 30/9/17)**

Purpose: **To provide Members with a summary of the key audit findings, progress on delivery of the audit plan and the performance of the internal audit service during Quarter 2.**

RECOMMENDATIONS

1. **Members are requested to consider and agree any action that should be taken in response to the issues raised in any of the audits carried out during Quarter 2;**
2. **Identify any new or emerging risks for consideration for inclusion in the internal audit plan;**
3. **In addition, Members are asked to approve the:**
   - **intention to use the South West Audit Partnership (SWAP) to complete an external assessment of Orbis Internal Audit in accordance with the requirements of the Public Sector Internal Audit Standards (PSIAS) – Appendix 2;**
   - **revised Orbis Internal Audit Key Performance Indicators - Appendix 3;**
   - **revised Orbis Internal Audit Charter - Appendix 4;**
   - **Orbis Internal Audit Reporting and Escalation Policy - Appendix 5.**

1. Background

1.1 This progress report covers work completed between 1 July 2017 and 30 September 2017.

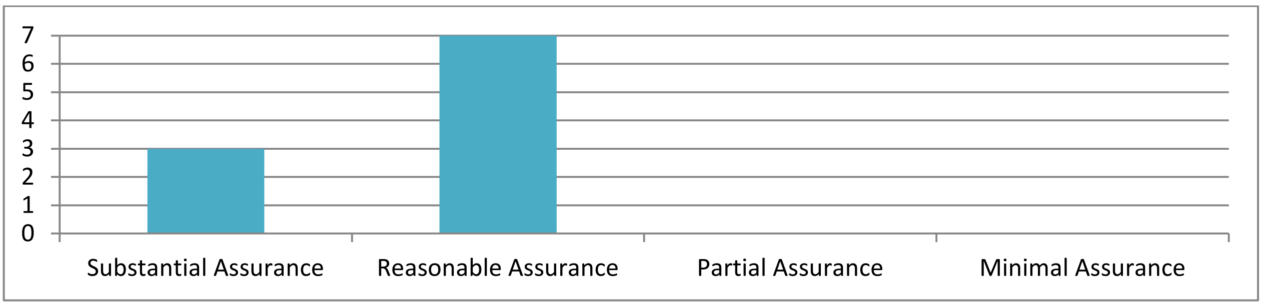
2. Supporting Information

2.1 The current annual plan for internal audit is contained within the Internal Audit Strategy and Annual Plan 2017-18. This was prepared after consulting Chief Officers and senior managers and was endorsed by Audit, Best Value and Community Services Scrutiny Committee on 14 March 2017.

3. Conclusion and Reasons for Recommendation

3.1 Key audit findings from final reports issued during Quarter 2 are summarised in Appendix 1.

3.2 Overall, of the 10 formal audits finalised during the quarter, 3 received 'substantial assurance' opinions and 7 received opinions of 'reasonable assurance'. There were no opinions of 'partial' or 'minimal assurance'.



3.3 Although the same range of internal audit opinions are issued for all audit assignments, it is necessary to also consider the level of risk associated with each area under review when drawing an opinion on the Council's overall control environment. **Taking into account these considerations, the Chief Internal Auditor continues to be able to provide reasonable assurance that the Council has in place an effective framework of governance, risk management and internal control**.

3.4 The overall conclusion has been drawn based on all audit work completed in the year to date and takes into account the management response to audit findings and the level of progress in subsequent implementation. This is something which will continue to be monitored and reported on by Internal Audit throughout the year.

3.5 Formal follow up reviews continue to be carried out for all audits where 'minimal' assurance opinions have been given and for higher risk areas receiving 'partial' assurance. A schedule of all audits where future follow up reviews are planned is provided at the end of Appendix 1, which will continue to be updated on an ongoing basis. In addition, arrangements are in place to monitor implementation of all individual high risk recommendations. At the time of writing this report, all high-risk recommendations due had been implemented.

3.6 Members will recall that flexibility was built into the audit plan to allow resources to be directed to any new and emerging risks. We continue to liaise with departments to identify these but would also welcome input from this Committee. Details of those reviews added and removed from the plan so far this year are set out at the end of Appendix 1.

3.7 The Public Sector Internal Audit Standards (PSIAS) require the internal audit service to be subject to an independent, external assessment at least every five years. Our proposals for this are set out in Appendix 2.

3.8 Progress against an updated set of performance targets (focussing on a range of areas relating to our service) can be found in Appendix 3. All targets, with the exception of one amber score relating to the percentage of the audit plan completed, have been assessed as on target (green).

3.9 The Internal Audit Charter sets out the scope and responsibility of internal audit and this was last approved by this Committee in June 2015. The Charter has recently been reviewed and updated in line with the latest professional guidance and to reflect changes as a result of Orbis. An updated version is attached to this report as Appendix 4.

3.10 Members are also asked to approve the Orbis Internal Audit Reporting and Escalation Policy, attached as Appendix 5.

KEVIN FOSTER
Chief Operating Officer

Contact Officers: Russell Banks, Orbis Chief Internal Auditor Tel No. 01273 481447
Nigel Chilcott, Senior Audit Manager Tel No. 01273 481992

BACKGROUND DOCUMENTS: Internal Audit Strategy and Annual Plan 2017-18

Appendix 1

Summary of Key Audit Findings

Recruitment and Induction

An effective recruitment, selection and induction process helps to ensure that staff have the necessary knowledge, skills and experience to fulfil their responsibilities and achieve their objectives. Recruiting managers are expected to ensure that they induct and develop employees throughout their time with the Council. A formal induction period is three months, during which the new appointee should receive a formal introduction to the relevant department, their work and the various policies and procedures applicable to them.

The scope of the audit was to ensure that:

- The recruitment and selection process is fair, open, and transparent and in accordance with Council policy and business need;
- All relevant pre-employment checks are completed for all new starters, and;
- New staff (or existing staff new to their role) are introduced to the Council (or new role) effectively so as to become productive and efficient employees.

Based on the work carried out, we were able to provide an opinion of **reasonable assurance** over the controls in place. In particular, we found that:

- Policies and procedures have been developed to govern the manner in which staff are recruited, selected and inducted;
- Appropriate authority is obtained to recruit to vacant posts;
- Vacancies are publicised for a minimum of two weeks in accordance with the Council's recruitment policy;
- Selection processes are fair and transparent, and;
- Line managers provide corporate induction using the prescribed Corporate Induction Checklist.

However, some opportunities for improvement were identified in relation to ensuring that:

- Proof of eligibility to work in the UK is always obtained;
- There is a higher uptake of training by officers involved in the recruitment and selection of new employees;
- Checks are implemented to confirm that new employees are properly inducted (and in a timely manner) in accordance with Council policy;
- The importance of effective induction and the role it plays in staff retention is promoted (where, since April 2016, approximately 10% of new starters left within a year of joining the Council).

Appropriate actions to address all of the findings of this audit were agreed with management within a formal action plan.

Procurement Cards

Procurement cards (P-cards) are a flexible way for staff to buy goods and services. Benefits include being able to buy direct from the internet and local suppliers, enabling more efficient purchasing and better pricing.

At the time of our review, there were 467 P-card holders across the Council, including Schools and Public Health. Between 1 April 2016 and 23 May 2017, £2.4m of payments have been made on P-cards in over 36,000 transactions.
In September 2015, Internal Audit conducted a comprehensive review of purchasing card (P-card) expenditure which highlighted a number of potentially inappropriate transactions in breach of P-card policies. The result of this exercise was shared with Finance Managers to investigate further in conjunction with departmental management teams, with any suspected instances of fraud being referred back to internal audit for formal investigation and opportunities taken to remind staff of correct practice. It was agreed that a similar exercise would be completed twelve months later to establish whether practices had improved. In addition, it was also agreed that a full audit of P-cards would be conducted as part of the internal audit plan for 2017/18; the scope of which was to ensure that:

- P-cards are only issued to appropriately authorised and trained employees, and;
- P-cards are only used for goods and services wholly, exclusively and necessarily for council use, and for best value to be attained.

In relation to the audit, we were able to provide an opinion of **reasonable assurance**. Whilst we found the overall P-card control framework to be robust, especially in relation to the issuing of procurement cards, the provision of appropriate training and correct amount of VAT being claimed by users, we identified areas where controls could be improved further to strengthen the overall control environment.

Areas for improvement included ensuring that:

- All P-card transactions are in accordance with the Council's P-card policy and an appropriate use of public funds. Whilst there has been an improvement since the previous review of card usage, in completing this more recent analysis we again identified potentially inappropriate activity. This has been reported to Finance Managers for further investigation;
- Supporting documentary evidence for transactions is retained for the term set out in the P-card policy, and;
- There are controls in place for the renewal of cards.

The findings from our review were reported to management and a number of actions were agreed to mitigate the risks identified.

Bankline

The Council's Bank (Natwest) provides direct access to Council bank accounts to undertake secure banking transactions via a corporate online banking service called Bankline. A limited number of users have access to Bankline for making CHAPS and faster payments as well as the day to day management of Council bank accounts. In addition to this, there are 118 schools set-up on Bankline in order to process BACS payments. Total CHAPS payments over the last twelve months amount to approximately £764m.

This review evaluated controls in relation to user access, data input and payments, and the adequacy of business continuity arrangements. Our work found that controls were in place and generally operating as expected, resulting in an audit opinion of **reasonable assurance**. However, whilst robust controls were in existence in relation to system access, opportunities to improve controls in other areas were identified, including the need to:

- Further strengthen segregation of duty controls within the system, including in relation to usage within schools;
- Ensure adequate business continuity arrangements are in place so that the Council can continue to manage its daily banking activities in the event that Bankline becomes unavailable, and;

- Establish a standardised approach to CHAPS payments to ensure adequate audit trails exist and correct approval processes are followed.

A number of actions to improve controls in the above areas were agreed with management, all of which are due to be implemented by November 2017.

Orbis – Comparison of Personnel Policies

Orbis is a public sector shared service which aims to grow and strengthen through its partners, increasing collective buying power and streamlining processes to provide better, more efficient services.

The nature of the partnership means that individuals working for Orbis may be employed by any one of the three founding partners. This means that employees working within the same team will be obliged to observe the policies of their sovereign organisations. An inconsistent or contradictory policy framework may lead to issues of confusion, error or omission, inappropriate decision making or HR disputes. With the development of an integrated management structure, there is a greater need for a clear and consistent framework of governance over Orbis activity. Whilst there are likely to be areas where policies and procedures between partner organisations will remain potentially quite different, it is important that these differences are clearly identified and understood, especially by staff working across the partnership.

Our review set out to identify and evaluate some of the key policies across East Sussex and Surrey County Council. Overall, we found that the policies reviewed are broadly similar, although some relatively minor differences were identified where there is potential for confusion and inappropriate decision-making, particularly in relation to the following policy areas:

- Codes of Conduct;
- Email Use Policy;
- Social Media;
- Drugs and Alcohol at Work, and;
- Travel and Expenses.

Management are in the process of reviewing the differences that we have highlighted and, in particular, the implication for managers working across more than one partner. Further work will now be undertaken on a comparison with Brighton and Hove City Council policies.

Storage Area Network

A Storage Area Network (SAN) is a specialized, high-speed network that provides block-level network access to storage. SANs are typically composed of hosts, switches, storage elements, and storage devices that are interconnected using a variety of technologies, topologies, and protocols.

SANs are often used to:

- Improve application availability (e.g. multiple data paths);
- Enhance application performance (e.g. off-load storage functions, segregate networks, etc.), and;
- Increase storage utilization and effectiveness (e.g. consolidate storage resources, provide tiered storage, etc.), and improve data protection and security.

SANs also typically play an important role in an organization's Business Continuity Management (BCM) activities.

This audit, undertaken by Mazars Public Sector Internal Audit on behalf of ESCC, evaluated the following areas:

- SAN governance roles and responsibilities - that effective accountability exists for storage design and risk management activities;
- SAN capacity management and configuration monitoring arrangements – that storage operational efficiency is maximised and monitored, and;
- SAN administration access, audit and change controls - to minimise the risk of potential service availability disruptions.

Overall, Mazars were able to provide an audit opinion of **substantial assurance** in this area, with controls found to be in place and operating effectively. Only one opportunity for improvement was identified, relating to the completion of a SAN security risk assessment to ensure that it has been implemented in line with the SAN manufacturer's best practice vendor configuration and back-up solution guidance. Appropriate action to address this was agreed with management.

Schools Funding Formula

The government is planning to implement major changes to the arrangements in place for the calculation and allocation of schools funding. Under the current arrangements, funding is distributed through the dedicated schools grant (DSG). Consultation then takes place with the Schools Forum to determine how funding will be distributed between schools. Under the new proposals, there will be greater centralised controls with less power given to the Schools Forum and local authorities to allocate funds.

The scope of this audit was to ensure that the risks associated with changes to the schools funding formula are being managed and communicated with schools to ensure they are best prepared for this change, through:

- Ensuring there is sufficient guidance and support in place at ESCC to manage the process and ensure schools are informed and understand the changes, and;
- Ensuring schools and other stakeholders are actively involved in the consultation process, with a coordinated approach across East Sussex Schools.

In assessing the arrangements in place for managing the move to the Schools Funding Formula, we found that ESCC has a robust framework in place to support schools and we were therefore able to provide an opinion of **substantial assurance**. This includes:

- The Schools Finance team at ESCC having an in-depth knowledge of the current process and the proposed changes;
- The Schools Finance team and Children's Services working together to ensure that the message to schools is consistent;
- Bursar forums being held with content stressing the difficulties schools are facing from the real term cuts in funding and detailed explanations on changes to the funding structure and the timeframe of its implementation, encouraging schools to be active in the consultation process, and;
- The creation of five year budget planning spreadsheets, with evidence of schools benefiting from these, especially those with a current deficit that need to be able to demonstrate a robust recovery plan.

There is evidence of schools acting on the guidance received. There has been an increase in schools carrying out staffing restructures and changes in class sizes as well as greater collaborative working; for example, through the setting up of federations in order to share senior staff and their costs.

Only one opportunity for improvement was identified as a result of our work. This related to the need for targeted training and awareness for Headteachers, in addition to that already provided to bursars and governors. Schools could be better prepared for the changes by ensuring all Headteachers are fully aware of the financial pressures and changes in funding arrangements, and the action that needs to be taken. As a result of this, it was agreed with management that training and/or guidance would be established specifically for Headteachers, by January 2018.

It is important to recognise that the completion of the consultation does not conclude the need to offer this support to schools. Many schools are projecting a deficit in years two or three of the their current three year budget plans, meaning there is a fundamental need to continue to press the importance of taking action now and explore ways of working which challenge the conventional systems.

Education Improvement Partnerships

Education Improvement Partnerships (EIPs) are groups of schools working together across an area to improve outcomes for pupils at all schools. EIP funding from the local authority aims to develop sustainable partnerships that improve pupil outcomes by facilitating school to school support and joint projects and activities.

The overall budget for EIP funding contributed by East Sussex County Council (ESCC) in 2017/18 is £300,000. The budget for 2018/19 will be £100,000. Schools are being encouraged to undertake their own income generating activities in order to support the future sustainability of the EIP programme.

The scope of the audit was to ensure:

- An effective consultation process identifies clear objectives for EIP funding that benefits all schools;
- EIP expenditure is aligned to objectives and budgets are managed effectively;
- EIP funds are visible in school accounts and financial reports are issued to stakeholders;
- Governance arrangements ensure appropriate review and authorisation of expenditure, and;
- Financial liability for staff employed using EIP funding is apportioned appropriately.

A sample of 3 EIPs was chosen at random in order to undertake audit testing on financial arrangements in place at EIP budget holding schools. In undertaking our work, we were able to provide **reasonable assurance** over the control framework for EIPs on the basis that sound governance arrangements are in place in relation to the EIP environment, effective financial planning and moderation processes ensure activity is aligned to strategic objectives and adequately costed before any funding is released, and effective monitoring is undertaken on a regular basis.

Some areas of improvement were identified, including the need to ensure that:

- Individual EIP's incorporate formal financial governance arrangements, including in relation to Schemes of Delegation for managing joint partnership budgets, and;
- Where EIP Coordinators have been taken on as employees (using EIP funding which is decreasing year-on-year) rather than external consultants, the extent of any potential financial liability in relation to redundancy costs is determined.

It should also be noted that there is a continued reliance on ESCC officers to provide guidance and support to EIPs. Should ESCC oversight reduce along with funding, EIP governance arrangements (particularly at local executive group level) will need to be strengthened.

A small number of actions in relation to the above areas were agreed with management as part of a formal action plan for improvement.

LCS/Controcc

The Liquid Logic Children's System (LCS) is the Council's records and case management authorisation system for children in need, looked after children and adoption. The Children's ContrOCC system is the Council's contracts and budget management system for Children's Social Care clients. This system is used to make payments to care providers. An automated interface allows LCS and ContrOCC to share key information. In the financial year 2016/17, payments totalling £10.7 million were made from the Children's ContrOCC system to care providers, which represent an average of £892,000 per month.

The scope of the audit was to review the adequacy of controls within LCS and the Children's version of ContrOCC and to follow-up the issues reported to the LCS Implementation Board as part of our support to the implementation of LCS in 2016. This included a review of the following control objectives:

- Appropriate system administration and access controls are in place within the two systems;
- Controls exist to ensure that data input within the two systems aligns with the approved packages of care;
- All care and support plans are reviewed and approved at an appropriate level, with service provision taking place once approval has been received, and;
- Payments are complete, accurate and timely and are only made to bona fide providers of care.

Overall, we were able to provide **reasonable assurance** over the adequacy of controls in place. Whilst a number of areas of good practice were identified, there were a small number of opportunities to further improve controls, including the need to:

- Introduce a routine monitoring process to identify dormant LCS user accounts, which increases the risk of unauthorised access;
- Implement a process to monitor and identify gaps in the LCS workflow approval process, therefore reducing further the risk of inappropriate approvals and payments, and;
- Document and complete formal testing of the disaster recovery process for LCS.

A formal action plan incorporating all of the findings from our review, none of which were considered high risk, was agreed with management. Given that this is one of the Council's key financial systems and that our review covered the 2016/17 period, a further review will be undertaken prior to the end of this financial year.

Direct Payments

Direct Payments are payments made to individuals to meet some or all of their eligible health care and support needs for those who need help to stay in their own home. Adult Social Care have responsibility for assessing client care needs, completing Individual Service Agreements with clients and conducting financial assessments to determine client contributions.

Business Operations within the Business Services Department have responsibility for activating pre-paid card accounts, making payments to clients and monitoring accounts. The Direct Payments Project Team in Adult Social Care provides contract management and support. In 2016/17, approximately £20 million was paid out to Direct Payment clients.

The scope of the audit was to ensure:

- Pre-paid cards are issued to verified clients only;
- Direct Payment monies are being used for their intended purpose;
- Clients in receipt of Direct Payments are subject to ongoing monitoring to ensure correct amounts are paid and an appropriate level of care is received;
- Roles, responsibilities and accountabilities are clear within all stages and teams;
- Appropriate action is being taken to ensure the successful procurement of, and transition to, a new pre-paid card provider.

In providing an opinion of **reasonable assurance**, we found that, generally, controls were adequate. Some areas for improvement were, however, identified, including in relation to the:

- Enhancement, through automation, of reconciliation controls;
- Implementation of a formal monitoring process for direct payment pre-paid card accounts to assist in ensuring that expenditure is appropriate, and;
- Monitoring and reporting of client balances held that are outside the agreed tolerance limits.

Actions to ensure these and other improvements in control are made were agreed with management as part of a formal action plan.

Social Care Non-Attendance and Deaths

The Council's Adult Social Care service provides home care (sometimes known as domiciliary care) and other non-residential (i.e. day care) social services which allow clients to remain in their homes and retain a good level of personal freedom.

The main homecare providers use an electronic Real Time Telephone Monitoring (RTTM) system for recording homecare visits. The smaller service providers of homecare, as well as other non-residential care providers, are expected to keep a manual record i.e. timesheet or activity sheet, to record visits and attendance.

Non-attendance by appointed home care providers (or where a client does not attend day care services) can cause neglect of vulnerable clients that the Council is supposed to be supporting and financial loss to the Council where payment for services is still made. This audit was concerned with both the neglect aspect and providing assurance that payments are only made for valid social care clients who are actually receiving care, including that controls are in place which:

- Minimise payment for non-attendance at scheduled/planned visits;
- Ensure services are ceased in a timely manner as a result of the notification of the death of a client, and;
- Ensure that payments made by the Council to providers in respect of home care and other non-residential care are accurate and complete.

In identifying a number of areas of good practice and controls, we were able to provide an audit opinion of **reasonable assurance.** A small number of opportunities for improvement were identified, including:

- The need to monitor the number or level of missed visits by service providers on a regular (i.e. monthly/quarterly) basis, and;
- Ensuring that providers log out of the RTTM in a timely manner at the end of a visit, to reduce the risk that payment is made for visiting hours that have not been provided.

Appropriate action to address these and other areas were agreed with management.

Waste PFI Contract – Pricing Model

East Sussex County Council (ESCC) is a waste disposal authority and must arrange for the disposal of waste and recycling collected in the area by the waste collection authorities, as well as providing household waste recycling sites/facilities for local residents. As a result of the level of investment required to build and operate these facilities, the Council sought a waste management Private Finance Initiative (PFI) contract to enable the private sector to invest in and deliver these. In April 2003, ESCC and Brighton and Hove City Council (BHCC) awarded their Integrated Waste Management Services PFI Contract worth £962m to South Downs Waste Services Ltd, subsidiary of Onyx Aurora – now known as Veolia Environmental Services, for a period of 25-years, which has been extended to 30 years (2033).

The contract stipulates that the Council should pay the contractor a Unitary Charge for the provision of the services. The components of the Unitary Charge are prescribed by the contract and some components are determined by formulas set out within this. A spreadsheet known as the 'Pricing Model' has been developed by ESCC to calculate the components in accordance with the formulas set out in the waste management contract.

The scope of the audit was therefore to provide assurance that the Pricing Model calculates:

- The relevant components of the Unitary Charge accurately and completely in accordance with the Waste Management Services Contract, taking into account any subsequent contract variation(s), and;
- Each Council's (ESCC and BHCC) share of the relevant components of the Unitary Charge in accordance with the Joint Working Agreement.

Our review found the Pricing Model to be robust and we were therefore able to provide **substantial assurance** in this area. Based on the testing we completed, we found that the model has been configured to accurately and completely calculate all the components of the Unitary Charge that were reviewed in accordance with the waste PFI contract. Only a small number of minor opportunities for improvement were identified and these were agreed with management.

School Audits

As reported in our quarter 1 progress report, 23 school audits (20 Primary, 2 Secondary, and 1 Special) and 5 follow-up visits are planned across the remainder of 2017/18, beginning in quarter 3. These have been determined through a risk assessment of factors, including the date of the last audit, Schools Financial Value Standard (SFVS) returns and input from the Schools Risk Review Group.

We have continued to provide advice, guidance and training to all schools to improve the level of financial control and scrutiny from Governors. This has included attending the Governor Local Area Forum with colleagues from Finance to provide an update on Schools Finance and other key topics. These sessions were aimed at further embedding the role of the Governing Body into school financial arrangements. We have also attended Bursar and Business Manager Forums to provide technical updates.

With our Orbis partners, we also continue to issue school information bulletins, providing guidance for Governors.

Anti-Fraud and Corruption

Investigations

During quarter 2, we received a number of referrals in relation to possible fraud and other concerns which required preliminary investigation by internal audit. These included investigation into:

- Two possible failures to declare conflicts of interest following matches from the National Fraud Initiative (NFI) Companies House data. Our investigations found no evidence of fraud or corruption, but identified weaknesses within the governance arrangements in the associated service areas. We have since recommended improvements for both areas investigated.

- An allegation into a conflict of interest within Adult Social Care where a member of staff was providing service users with the contact details of a family member who worked self-employed as a Personal Care Assistant, and also recommended service users to a residential care home where the family member also worked. Our investigation found no evidence of dishonesty or deliberate attempts to circumvent procedures. However, the staff member concerned was subject to standard setting by management.

A number of other investigations are in progress. We will report on these once they have been completed and the cases closed.

National Fraud Initiative

As part of the bi-annual NFI data matching exercise (that matches electronic data within and between public and private sector bodies to prevent and detect fraud), we have undertaken a number of validation checks to ensure that matches have been investigated effectively and lessons have been learnt regarding the internal control environment and minimising future matches. Instances where fraud or error has been recorded by investigating officers have been reviewed by internal audit as part of the validation checks. To date, officers have made sound progress in reviewing the data matches, with in excess of £24,000 being identified as either fraud or error.

Counter Fraud

Our proactive counter fraud work during the quarter has included:

- A review of Procurement Card (P-Card) transactions in order to detect inappropriate and fraudulent use. See ‘Procurement Cards’ above.
- A high level review to assess the adequacy of controls to guard against payment fraud where the Council has recently been subject to increasing fraud attempts, including in relation to spear phishing, ransomware and bank mandate fraud. Overall, we found that, in the areas reviewed (those most likely to be affected by this, i.e. Accounts Payable and Treasury Management) controls were generally adequate. Only one area for improvement was identified; this related to the need to ensure that all bank account change requests are bona-fide through checks on the legitimacy of such requests.

  In addition to an assessment of the controls in place, we provided training for officers in the Accounts Payable team to raise awareness of the current fraud threat.

Additional Audit Reviews

Through discussions with management, the following reviews have been added to the audit plan during the course of the year on the basis of risk (see 3.6 above):

- Data Centre Move
- Child Protection Information Sharing
- Atrium – Works Delivery Module
- Atrium – Estates AP and AR Interfaces
- Schools Funding Formula Preparation
- SEND Budget Management
- Broadband – Annual Return to BDUK
- ASC Payment and Income Processes

Currently, no scheduled audits have been removed from the audit plan.

Audit Areas Scheduled for Future Follow Up

Audit Area	Original Audit Opinion	Date of Planned Follow Up
Compliance with Procurement Standing Orders	Partial	2018-19
Corporate Contract Management	Partial	2018-19
Contract Management – Adecco	Partial	2017-18
Property Pre Contract Checks	Partial	2017/18
Schools Federations and Partnerships	Partial	2017/18
Information and ICT E-Safety Controls in Schools	Partial	2017/18
Peacehaven Community School	Minimal	2017/18
Langney Primary School	Minimal	2017/18
Staplecross Methodist Primary School	Minimal	2017/18
Harbour Primary and Nursery School	Minimal	2017/18
St Mary the Virgin CE Primary School	Minimal	2017/18

Appendix 2

Public Sector Internal Audit Standards (PSIAS) – External Quality Assessment

PSIAS represent the professional framework within which internal audit services in local government are delivered and compliance with these standards helps to provide audit committees and management with the necessary assurance over the quality of audit services they receive. Specifically, the objectives of the PSIAS are to:

- define the nature of internal auditing within the UK public sector;
- set basic principles for carrying out internal audit;
- establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations, and;
- establish the basis for the evaluation of internal audit performance and to drive improvement planning.

There are two main requirements for assessing compliance with the PSIAS; an annual self-assessment and also a five-yearly external assessment to be conducted by a qualified, independent assessor or assessment team, from outside the organisation. To date, each of the internal audit teams within the three authorities that make up Orbis Internal Audit (East Sussex County Council, Brighton and Hove City Council and Surrey County Council) have completed annual self-assessments in accordance with the requirements, but currently only Surrey have commissioned an external assessment in recent years.

Given the relatively early stage of the formation of Orbis Internal Audit, we are keen to commission an external assessment that recognises and appreciates this and one that will add value to the ongoing journey of integration. Under PSIAS, there are two options for carrying out the review; an external quality assessment or a self-assessment with independent validation. Our preference is for the latter as this will provide a further opportunity to ensure consistency across the partnership and less engagement time will be required (it should be noted that neither approach is any more valuable than the other and the outcome will be the same, whichever approach is adopted).

Having approached three separate organisations, we have identified the South West Audit Partnership (SWAP) as our preferred external assessor. As an example of a developed shared partnership, SWAP is a publicly owned, not-for-profit company that provide internal audit services to over twenty public sector partners, with experience of completing PSIAS external assessments. In addition to the independent validation that they can provide, we believe that SWAP will add significant value to our continuing integration. They also offer the best value for money when compared with the other providers.

As part of the assessment process, SWAP representatives will request to meet with each of the Audit Committee Chairs across the three authorities and, in accordance with the standards, the results of the assessment will be reported to each of the Audit Committees upon completion.

This page is intentionally left blank

Appendix 3

Internal Audit Performance Indicators

Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score	Actual Performance
Quality	Annual Audit Plan agreed by Audit Committee	By end April	G	Approved by Audit Committee on 14 March 2017
	Annual Audit Report and Opinion	By end July	G	2016/17 report approved by Audit Committee on 14 July 2017
	Customer Satisfaction Levels	90% satisfied	G	100% satisfied
Productivity and Process Efficiency	Audit Plan – completion to draft report stage	90%	A	42.1% completed to draft report stage by end Q2 (against a Q2 target of 45%)
Compliance with Professional Standards	Public Sector Internal Audit Standards	Conforms	G	Based on last self-assessment, with external assessment due by the end of 2017/18
	Relevant legislation such as the Police and Criminal Evidence Act, Criminal Procedures and Investigations Act	Conforms	G	No evidence of non-compliance identified
Outcome and degree of influence	Implementation of management actions agreed in response to audit findings	95% for high priority agreed actions	G	100%
Our staff	Professionally Qualified/Accredited	80%	G	80%[1]

[1] Includes 3 part-qualified staff and those working towards completing their professional examinations

This page is intentionally left blank

Appendix 4

INTERNAL AUDIT CHARTER

1. Introduction

This Charter describes for the Council the purpose, authority and responsibilities of the Internal Audit function in accordance with the UK Public Sector Internal Audit Standards (PSIAS).

The PSIAS require that the Charter must be reviewed periodically and presented to "senior management" and "the board" for approval. For the purposes of this charter "senior management" will be Corporate Management Team (CMT) and the board will be the Audit, Best Value and Community Services Scrutiny Committee (ABVCSSC) (described generically in this Charter as the Audit Committee).

The Charter shall be reviewed annually and approved by CMT and the Audit Committee. The Head of Internal Audit is responsible for applying this Charter and keeping it up to date.

2. Internal Audit Purpose

The mission of Internal Audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

Internal Audit is defined in the PSIAS as "an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

Internal Audit supports the whole Council to deliver economic, efficient and effective services and achieve the Council's vision, priorities and values.

3. Statutory Requirement

Internal Audit is a statutory service in the context of the Accounts and Audit Regulations 2015, which require every local authority to maintain an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes taking into account public sector internal auditing standards or guidance.

These regulations require any officer or Member of the Council to

- make available such documents and records; and
- supply such information and explanations;

as are considered necessary by those conducting the audit.

This statutory role is recognised and endorsed within the Council's Financial Regulations.

In addition, the Council's S151 Officer has a statutory duty under Section 151 of the Local Government Act 1972 to establish a clear framework for the proper administration of the authority's financial affairs. To perform that duty the Section 151 Officer relies, amongst other things, upon the work of Internal Audit in reviewing the operation of systems of internal control and financial management.

4. Internal Audit Responsibilities and Scope

Annually the Head of Internal Audit is required to provide to the Audit Committee an overall opinion on the Council's internal control environment, risk management arrangements and governance framework to support the Annual Governance Statement.

Internal Audit is not responsible for control systems. Responsibility for effective internal control and risk management rests with the management of the Council.

Internal Audit activity must be free from interference in determining the scope of activity, performing work and communicating results.

The scope of Internal Audit includes the entire control environment and therefore all of the Council's operations, resources, services and responsibilities in relation to other bodies. In order to identify audit coverage, activities are prioritised based on risk, using a combination of Internal Audit and management risk assessment (as set out within Council risk registers). Extensive consultation also takes place with key stakeholders and horizon scanning is undertaken to ensure audit activity is proactive and future focussed.

Internal audit activity will include an evaluation of the effectiveness of the organisation's risk management arrangements and risk exposures relating to:

- Achievement of the organisation's strategic objectives;
- Reliability and integrity of financial and operational information;
- Efficiency and effectiveness of operations and activities;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures and contracts

5. Independence

Internal Audit will remain sufficiently independent of the activities that it audits to enable auditors to perform their duties in a way that allows them to make impartial and effective professional judgements and recommendations. Internal auditors should have no operational responsibilities.

Internal Audit is involved in the determination of its priorities in consultation with those charged with governance. The Head of Internal Audit has direct access to, and freedom to report in their own name and without fear of favour to, all officers and Members and particularly those charged with governance. This independence is further safeguarded by ensuring that the Head of Internal Audit's formal appraisal/performance review is not inappropriately influenced by those subject to audit. This is achieved by ensuring that both the Chief Executive and the Chairman of the Audit Committee have the opportunity to contribute to this performance review.

All Internal Audit staff are required to make an annual declaration of interest to ensure that objectivity is not impaired and that any potential conflicts of interest are appropriately managed.

6. Reporting Lines

Regardless of line management arrangements, the Head of Internal Audit has free and unfettered access to report to the S151 Officer; the Monitoring Officer; the Chief Executive; the Audit Committee Chairman; the Leader of the Council and the Council's External Auditor.

The Audit Committee will receive reports on a periodic basis – as agreed with the Chairman of the Audit Committee – on the results of audit activity and details of Internal Audit performance including progress on delivering the audit plan.

7. Fraud & Corruption

Managing the risk of fraud and corruption is the responsibility of management. Internal Audit will however be alert in all its work to risks and exposures that could allow fraud or corruption and will investigate allegations of fraud and corruption in line with the Council's Anti Fraud and Corruption Strategy.

The Head of Internal Audit should be informed of all suspected or detected fraud, corruption or irregularity in order to consider the adequacy of the relevant controls and evaluate the implication for their opinion on the control environment.

Internal Audit will promote an anti-fraud and corruption culture within the Council to aid the prevention and detection of fraud.

8. Consultancy Work

Internal Audit may also provide consultancy services, generally advisory in nature, at the request of the organisation. In such circumstances, appropriate arrangements will be put in place to safeguard the independence of Internal Audit and, where this work is not already included within the approved audit plan and may affect the level of assurance work undertaken; this will be reported to the Audit Committee.

In order to help services to develop greater understanding of audit work and have a point of contact in relation to any support they may need, Internal Audit has put in place a set of service liaison arrangements that provide a specific named contact for each service; and, regular liaison meetings. The arrangements also enable Internal Audit to keep in touch with key developments within services that may impact on its work.

9. Resources

The work of Internal Audit is driven by the annual Internal Audit Plan, which is approved each year by the Audit Committee. The Head of Internal Audit is responsible for ensuring that Internal Audit resources are sufficient to meet its responsibilities and achieve its objectives.

Internal Audit must be appropriately staffed in terms of numbers, grades, qualifications and experience, having regard to its objectives and to professional standards. Internal Auditors need to be properly trained to fulfil their responsibilities and should maintain their professional competence through an appropriate ongoing development programme.

The Head of Internal Audit is responsible for appointing Internal Audit staff and will ensure that appointments are made in order to achieve the appropriate mix of qualifications, experience and audit skills. The Head of Internal Audit may engage the use of external resources where it is considered appropriate, including the use of specialist providers.

10. Due Professional Care

The work of Internal Audit will be performed with due professional care and in accordance with the UK Public Sector Internal Audit Standards (PSIAS), the Accounts and Audit Regulations (2015) and with any other relevant statutory obligations and regulations.

In carrying out their work, Internal Auditors must exercise due professional care by considering:

- The extent of work needed to achieve the required objectives;
- The relative complexity, materiality or significance of matters to which assurance procedures should be applied; and
- The adequacy and effectiveness of governance, risk management and control processes;
- The probability of significant errors, fraud or non-compliance; and
- The cost of assurance in proportion to the potential benefits.

Internal Auditors will also have due regard to the Seven Principles of Public Life – Selflessness; Integrity, Objectivity; Accountability; Openness; Honesty; and Leadership.

11. Quality Assurance

The Head of Internal Audit will control the work of Internal Audit at each level of operation to ensure that a continuously effective level of performance – compliant with the PSIAS is maintained.

A Quality Assurance Improvement Programme (QAIP) is in place which is designed to provide reasonable assurance to its key stakeholders that Internal Audit:

- Performs its work in accordance with its charter;
- Operates in an effective and efficient manner; and,
- Is adding value and continually improving the service that it provides.

The QAIP requires an annual review of the effectiveness of the system of Internal Audit to be conducted. Instances of non-conformance with the PSIAS, including the impact of any such non-conformance, must be disclosed to the Audit Committee. Any significant deviations must be considered for inclusion in the council's Annual Governance Statement.

April 2017

This page is intentionally left blank

Appendix 5

Internal Audit

Reporting and Escalation Policy

November 2017

1. Introduction

1.1. The Public Sector Internal Audit Standards (PSIAS) require that internal audit activity must be free from interference in determining the scope of internal audit, performing work and communicating results. Timely and appropriate management responses to internal audit reports enable the Authority to demonstrate that it maintains high standards of internal control and governance in line with control objectives.

1.2. This policy will apply to the 3 Orbis Partner Authorities (Surrey County Council, East Sussex County Council and Brighton & Hove City Council). For ease of reference we have used the generic term "Audit Committee" throughout the document, which at the current time refers to the following committee:

Authority	Audit Committee
Surrey County Council	Audit & Governance Committee
East Sussex County Council	Audit, Best Value and Community Services Scrutiny Committee
Brighton & Hove City Council	Audit & Standards Committee

1.3. Each Audit Committee will be asked to approve this policy in order to ensure that any concerns are remedied in an appropriate and timely manner.

1.4. The policy is designed to provide clarity to all relevant parties over the respective responsibilities and expectations of internal audit.

2. Reporting

2.1. With the exception of investigations into alleged irregularities (which are subject to separate arrangements not covered in this policy), the following reporting and escalation arrangements apply to all audit reviews undertaken by internal audit.

3. Draft Report

3.1. Following completion of an internal audit, the auditor will produce a draft report, which is issued to the responsible manager (the client). The client will be asked to comment on the factual accuracy of the report.

3.2. In this context 'factually accurate' means that the auditor's report (findings and risks) are based on a correct interpretation of the systems or circumstances pertaining to the review.

3.3. Where appropriate, an exit meeting is held with the client and other officers. It is during this meeting that key points arising from the audit and factual amendments are discussed and actions agreed. Where possible service actions addressing findings should be captured for inclusion in the report.

3.4. The agreement of actions and the accuracy of the report are, in many instances, agreed by email.

4. Escalation Process

4.1. Upon receipt of the comments on the draft report, the auditor will consider if the actions therein are appropriate. If the auditor is satisfied that all factual points have been addressed; that the service has no outstanding concerns with the report, and that the agreed actions sufficiently addresses all the findings raised in the audit report, then the final report can be issued.

4.2. If a response to the draft report is not returned in a timely manner, or in the auditor's opinion does not adequately address the issues raised, the Chief Internal Auditor or Audit Manager will discuss their concerns with the Head of Service. If that discussion does not result in agreed actions acceptable to internal audit, the issue will be referred to the relevant Director for a decision.

4.3. The Director's decision will be either to agree acceptable action on behalf of the Head of Service, which must then be implemented within the agreed timescale, or to accept the position and acknowledge that the Director accepts the risk. Risks tolerated in this manner should be considered for inclusion on the service risk register.

4.4. If in the opinion of the Chief Internal Auditor the Director's decision exposes the Council to an unacceptable level of risk, the matter will be referred first to the Section 151 Office and/or Chief Executive and then to the relevant Audit Committee.

4.5. Depending upon the time taken to agree a final report, the Chief Internal Auditor reserves the right to issue the final report without formal agreement and to report the findings and position to the relevant Audit Committee.

5. Chief Internal Auditor

5.1. All auditors will ensure the Chief Internal Auditor is provided with a copy of the final report for any audit with an opinion of Partial or Minimal Assurance. Any reports that are considered to be contentious should also be provided to the Chief Internal Auditor.

6. Report Distribution List

6.1. The final report should list the officers for whom the report has been prepared. This includes the client, the Head of Service and other key officers as set out in the agreed Terms of Reference.

6.2. The audit report is written for the officers named in the distribution list. The Chief Internal Auditor should be consulted before sharing the report any further.

7. Ownership of the Management Action Plan

7.1. Whilst agreed actions within the audit report may rest with one or more officers, the Head of Service has overall accountability for responding to the draft report in a timely manner and is required to inform internal audit if timescales are likely to be missed. In assigning their name to the report, Heads of Service are confirming that they accept responsibility for completion of the actions therein.

8. Reporting to Audit Committee

8.1. The Chief Internal Auditor will report on all audits completed since the previous meeting to the authority's Audit Committee, summarising the reason for the audit, the key findings, the risks resulting from those findings and the agreed actions.

8.2. The Audit Committee then considers whether further information or assurance is required.

8.3. Should the Audit Committee require an update on completion of actions for a particular audit, the relevant Head of Service is responsible for informing the Chief Internal Auditor of what actions have been completed or providing an explanation for any delay in, or change to, the action being taken.

8.4. A Head of Service may be required to attend the Audit Committee to provide further information or assurance in relation to completed audit activity and to answer any questions on the reasons for the non-completion of agreed action or delays in implementation.

9. Follow up reviews

9.1. A formal follow-up review of the progress made in implementing actions agreed within the report may be programmed into the annual Internal Audit Plan at a time the Chief Internal Auditor considers appropriate. A formal follow-up review is typically carried out for audits that have attracted an audit opinion of "Minimal Assurance" and in some instances where a "Partial Assurance" opinion is provided.

9.2. Upon completion of the follow-up review the auditor will report to the responsible officer drawing attention to any actions that have not been completed by the agreed date. A copy of the follow-up report will be sent to the full distribution list.

9.3. In addition, the Chief Internal Auditor will provide a regular report to the Audit Committee on progress in implementing actions agreed for audits completed.

10. Audit Opinions and Definitions

10.1. The internal audit reports provide the following audit opinions :

Opinion	Definition
Substantial Assurance	Controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Reasonable Assurance	Most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Partial Assurance	There are weaknesses in the system of control and/or the level of non-compliance is such as to put the achievement of the system or service objectives at risk.
Minimal Assurance	Controls are generally weak or non-existent, leaving the system open to the risk of significant error or fraud. There is a high risk to the ability of the system/service to meet its objectives.

11. Limitations and Management Responsibilities

11.1. The internal audit report explains the limitations placed upon our work and outline the responsibilities of Management:

> The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.
>
> Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.
>
> This report, and our work, should not be taken as a substitute for management's responsibilities for the application of sound business practices. We emphasise that it is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

This page is intentionally left blank

Report to:	**Audit, Best Value and Community Services Scrutiny Committee**
Date:	**29 November 2017**
By:	**Chief Operating Officer**
Title of report:	**Annual Audit Letter and fee update 2016/17**
Purpose of report:	**To inform the Committee of the Annual Audit Letter and fee outturn for 2016/17.**

RECOMMENDATION – The Committee is recommended to note the Annual Audit Letter and the fee update for 2016/17.

1. Background

1.1 The external audit fees for 2016/17 was £110,179 (County Council of £83,572 and the Pension Fund of £26,607) for the core audit in line with the planned fee. The grant certification work is still ongoing; the final fee will be confirmed on the outcome of that work in November 2017. The costs of these additional services will be funded from existing budgets.

1.2 KPMG also performs additional audit-related services for the certification of the Teachers Pension Authority return which is outside of Public Sector Audit Appointment's certification regime. This certification work is still ongoing, and it is expected that KPMG will charge £4,000 for additional audit-related services for the certification.

2. Supporting Information

2.1 The Annual Audit Letter (AAL) attached as Appendix 1 summarises the key issues arising from the work carried out by the Council's external auditor (KPMG) during the year. This report contains no new findings or recommendations, but reflects the key issues already reported in the Annual Governance Report, including the objection from a local elector, which is currently being considered.

2.2 KPMG previously issued an unqualified opinion on the Council's financial statements on 18 July 2017. This means that KPMG believe the financial statements give a true and fair view of the financial position of the Council and of its expenditure and income for the year. The financial statements also include those of the pension fund.

2.3 The AAL has been circulated to all Councillors and published on the Council's website. The report will be presented to the Cabinet for approval at its 12 December 2017 meeting, and the Council would like to extend its thanks to KPMG for their professionalism during the 2016/17 audit.

3. Conclusion and reasons for recommendations

3.1 The report is intended to communicate audit issues and VFM conclusion to key external stakeholders, including members of the public.

KEVIN FOSTER
Chief Operating Officer

Contact Officers:	Ola Owolabi, Head of Pensions
Tel:	01273 482017
Email:	ola.owolabi@eastsussex.gov.uk

LOCAL MEMBERS

All

BACKGROUND DOCUMENTS

1. 2016/17 Independent Auditor's (KPMG) Annual Governance Report on ESCC Accounts and Value for Money conclusion report

2. 2016/17 Independent Auditor's (KPMG) Annual Governance Report on Pension Fund Accounts

KPMG

Annual Audit Letter 2016/17

East Sussex County Council

—

October 2017

Contents

The contacts at KPMG in connection with this report are:

Joanne Lees
Director

KPMG LLP (UK)

Tel: +44 2073111367
Joanne.Lees@kpmg.co.uk

James Seegar
Senior *Manager*

KPMG LLP (UK)

Tel: +44 2073114163
James.Seegar@kpmg.co.uk

This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Joanne Lees, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

Headlines

This Annual Audit Letter summarises the outcome from our audit work at East Sussex County Council in relation to the 2016/17 audit year.

Although it is addressed to Members of the Authority, it is also intended to communicate these key messages to key external stakeholders, including members of the public, and will be placed on the Authority's website.

Page 43

VFM conclusion	We issued an unqualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2016/17 on 29 September 2017. This means we are satisfied that during the year the Authority had appropriate arrangements for securing economy, efficiency and effectiveness in the use of its resources. To arrive at our conclusion we looked at the Authority's arrangements to make informed decision making, sustainable resource deployment and working with partners and third parties.
VFM risk areas	We undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusion and considered the arrangements you have put in place to mitigate these risks. Our work did not identify any significant matters.
Audit opinion	We issued an unqualified opinion on the Authority's financial statements on 29 September 2017. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year. The financial statements also include those of the pension fund.
Financial statements audit	Overall the Council prepared a quality set of accounts well ahead of required deadlines on a basis in accordance with the Department of Communities and Local Government (DCLG). We did not identify recommendation to ESCC's control environment or uncorrected audit adjustments during the course of our audit. We did identify one audit adjustment that the council correct during the year.
Other information accompanying the financial statements	Whilst not explicitly covered by our audit opinion, we review other information that accompanies the financial statements to consider its material consistency with the audited accounts. This year we reviewed the Annual Governance Statement and Narrative Report. We concluded that they were consistent with our understanding and did not identify any issues.
Pension fund audit	There were no significant issues arising from our audit of the pension fund and we issued an unqualified opinion on the pension fund financial statements as part of our audit report.
Whole of Government Accounts	We reviewed the consolidation pack which the Authority prepared to support the production of Whole of Government Accounts by HM Treasury. We reported that the Authority's pack was consistent with the audited financial statements.
Certificate	We have not yet issued the certificate which confirms that we have concluded the audit for 2016/17 in accordance with the requirements of the Local Audit & Accountability Act 2014 and the Code of Audit Practice. This is because there is an objection outstanding which is currently being considered. This means that we are not yet able to issue our certificate.
Audit fee	Our fee for 2016/17 was £110,179 excluding VAT. Further detail is contained in Appendix 2.

Appendix 1: Summary of reports issued

This appendix summarises the reports we issued since our last Annual Audit Letter.

These reports can be accessed via the Audit Committee pages on the Authority's website at www. eastsussex.gov.uk.

Page 44

External Audit Plan (January 2017)

The External Audit Plan set out our approach to the audit of the Authority's financial statements and to work to support the VFM conclusion.

Audit Fee Letter (April 2017)

The Audit Fee Letter set out the proposed audit work and draft fee for the 2017/18 financial year.

Auditor's Report (September 2017)

The Auditor's Report included our audit opinion on the financial statements including the pension fund accounts and our VFM conclusion

2017

January

February

March

April

May

June

July

August

September

October

November

Reports to Those Charged with Governance July 2017

The Report to Those Charged with Governance summarised the results of our audit work for 2016/17 including key issues and recommendations raised as a result of our observations. We issued a separate report for the audit of the pension fund.

We also provided the mandatory declarations required under auditing standards as part of this report.

Annual Audit Letter (October 2017)

This Annual Audit Letter provides a summary of the results of our audit for 2016/17.

Appendix 2: Audit fees

This appendix provides information on our final fees for the 2016/17 audit.

To ensure transparency about the extent of our fee relationship with the Authority we have summarised below the outturn against the 2016/17 planned audit fee.

External audit

Our final fee for the 2016/17 audit of the Authority was £83,572, which is in line with the planned fee.

Our final fee for the 2016/17 audit of the Pension Fund was in line with the planned fee of £26,607.

Certification of grants and returns

The grant certification work is still ongoing, the final fee will be confirmed through our reporting on the outcome of that work in November 2017.

Other services

We will charge £4,000 for additional audit-related services for the certification of the Teachers Pension which is outside of Public Sector Audit Appointment's certification regime This work has not yet commenced.

kpmg.com/socialmedia

kpmg.com/app

Report to:	**Audit, Best Value and Community Services Scrutiny Committee**
Date:	**29 November 2017**
By:	**Chief Operating Officer**
Title of report:	**Treasury Management – Stewardship Report 2016/17**
Purpose of report:	**To present a review of the Council's performance on treasury management for the year 2016/17 and Mid Year review for 2017/18, and no changes to the Treasury Management Policy and Strategy are recommended.**

RECOMMENDATION: The Committee is recommended to note the Treasury Management performance in 2016/17 incorporating the Mid Year review for the first half of 2017/18.

1. Background

1.1 The annual stewardship report reviews the Council's treasury management performance and Mid Year report is required by the Code of Practice for Treasury Management.

2. Supporting Information

2.1 The Council's treasury management activities are regulated by a variety of professional codes and statutes and guidance. The Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Sector and operates treasury management service in compliance with this Code. These require that the prime objective of the treasury management activity is the effective management of risk, and that its borrowing activities are undertaken in a prudent, affordable and sustainable basis and treasury management practices demonstrate a low risk approach. The Code requires the regular reporting of treasury management activities to:

- Forecast the likely activity for the forthcoming year (in the Annual Treasury Strategy Report); and
- Review actual activity for the preceding year (this Stewardship report).
- A mid year review.

2.2 This report sets out:

- A summary of the original strategy agreed for 2016/17 and the economic factors affecting this strategy (Appendix A).
- The treasury management activity during the year (Appendix B);
- The treasury management mid year activity for 2017/18 (Appendix C);
- The Prudential Indicators, which relate to the Treasury function, Minimum Revenue Policy (MRP) and compliance with limits (Appendix D).

3. The economic conditions compared to our Strategy for 2016/17

3.1 The strategy and the economic conditions prevailing in 2016/17 are set out in Appendix A which is attached to this report. 2016/17 continued the challenging environment of the previous years, with concerns over the states of the UK economy and of European countries. The main implications have been continuing counterparty risk and low investment returns.

4. The Treasury activity during the year on short term investments and borrowing

<u>The Treasury Management Strategy</u>

4.1 The strategy for 2016/17, agreed in January 2016, continued the prudent approach and ensured that all investments were only to the highest quality rated institutions. For banks the maximum investment period was one year and for other local authority lending two years.

<u>Short term lending</u>

4.2 At the Monetary Policy Committee (MPC) meeting 2 November 2017, the MPC by vote of 7-2 increased the Bank of England base rate from 0.25% to 0.50%.

4.3 The total amount received in short term interest for 2016/17 was £1.7m at an average rate of 0.62%. This was above the average base rates in the same period (0.34%) and against a backdrop of ensuring, so far as possible in the current financial climate, the security of principal and the minimisation of risk. This Council has continued to follow a prudent approach with security and liquidity as the main criteria before yield.

Long term borrowing

4.4 Details of long term borrowing are included in Appendix B of the report. The important points are:

- Total of £5m borrowed during 2016/17 from the Public Works Loan Board (PWLB) for a 20 year fixed maturity period at a rate of 2.71%.
- The average interest rate of all debt at 31 March 2017 (£275.4m) was 4.90%.
- Although a proactive approach has been taken to repayment and restructuring of debt, no cost effective opportunities arose during the year, because there has been a considerable widening of the difference between new borrowing and repayment rates, which has made PWLB debt restructuring now much less attractive.
- During 2016/17 Barclays exercised their right to withdraw their option to change the rate of our LOBO product over the life of the loan. The loan became a fixed rate loan at the same rate of 4.25% and removes future interest rate uncertainty, the £6.45m loan matures in 2058/59.

Minimum Revenue Provision (MRP)

4.5 During 2016/17 a review was undertaken of the Council's minimum revenue provision, full details are in appendix D.

5. Treasury Management Mid Year Review 2017/18

5.1 The Treasury Management and Annual Investment Strategy for 2017/18 were approved by the Cabinet on 25 January 2017, the average rate of return for investments to 30 September 2017 was 0.47%.

5.2 No further PWLB borrowing was undertaken and no cost effective opportunities to restructure or repay debt have arisen, although the situation in the markets is closely monitored. During 2017/18 debt to be repaid to the PWLB totals £4.6m, this historic debt is at an average rate of 8%.

5.3 The Minimum Revenue Provision (MRP) was reviewed during 2016/17 and has been adopted for 2017/18.

6. Prudential Indicators which relate to the Treasury function and compliance with limits

6.1 The Council is required by the CIPFA Prudential Code to report the actual prudential indicators after the end of each year. There are eight indicators which relate to treasury management and they are set out in Appendix D.

7. Conclusion and reason for recommendation

7.1 This report updates the Committee and fulfils the requirement to submit an annual/half yearly report in the form prescribed in the Treasury Management Code of Practice. Short term lending throughout the period covered achieved returns between 0.46% and 0.76%. The key principles of security, liquidity and yield are still relevant in the current financial climate, the authority will be looking at future options to improve return within an acceptable level of risk. Exposure to future risk continues to be minimised through proactive and constant review of the treasury management policy. The emphasis must continue to be able to pre-empt/react quickly if market conditions worsen.

KEVIN FOSTER
Chief Operating Officer

Contact Officer: Ola Owolabi Tel No. 01273 482017

BACKGROUND DOCUMENTS

Cabinet 26 January 2016 Treasury Management Strategy for 2016/17
24 January 2017 Treasury Management Strategy for 2017/18

CIPFA Prudential Code and Treasury Management in the Public Services- Code of practice
Local Government Act 2003 Local Government Investments guidance.

A summary of the strategy agreed for 2016/17 and the economic factors affecting this strategy

1. Background information

1.1 Cabinet receive an annual Treasury Management Strategy report in January 2016, which sets out the proposed strategy for the year ahead. This strategy includes the limits and criteria for organisations to be used for the investment of cash surpluses and has to be approved by the Council.

1.2 This Council has always adopted a prudent approach to its investment strategy and in the last few years, there have been regular changes to the list of the approved organisations used for investment of short term surpluses. This list is regularly reviewed to ensure that the Council is able to invest in the best available rates consistent with low risk; the organisations are regularly monitored to ensure that their financial strength and low risk has been maintained.

1.3 When the original strategy for 2016/17 was drawn up in January 2016, the money markets were still concerned about domestic and global credit events. In this climate ensuring the security of investments continues to be difficult and caution has to be taken on where surplus funds can be invested.

1.4 At the same time, the Treasury Management Policy Statement was agreed as unchanged for 2016/17.

East Sussex County Council defined its treasury management activities as:

"The management of the organisation's cash flows, its banking, money market and Capital market transactions (other than those of the Pension Fund) the effective management of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

The Council regards the successful identification, monitoring and management of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.

This authority acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

2. Investment

2.1 When the strategy was agreed in January 2016, it emphasised the continued importance of taking account of the current and predicted future state of the financial sector. The Treasury Management advisors (Link Asset Services) commented on short term interest rates, the UK economy, inflation, the outlook for long term interest rates and these factors were taken into account when setting the strategy.

2.2 Officers regularly review the investment portfolio, counterparty risk and construction, and use market data, information on government support for banks and the credit ratings of that government support. Latest market information is arrived at by reading the financial press and through city contacts as well as access to the key brokers involved in the London money markets.

2.3 This Council in addition to other tools uses the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- credit default swap (CDS) spreads to give early warning of likely changes in credit ratings; and

- sovereign ratings to select counterparties from only the most creditworthy countries.

2.4 The strategy going forward was to continue with the policy of ensuring minimum risk but was also intended to deliver secure investment income of at least bank rate on the Councils cash balances.

2.5 As was clear from the events globally and nationally since 2008, it is impossible in practical terms to eliminate all credit risk.

2.6 The strategy aimed to ensure that in the economic climate it was essential that a prudent approach was maintained. This would be achieved through investing with selected banks and funds which met the Council's rating criteria. The emphasis would continue on security (protection of the Capital sum invested) and liquidity (keeping money readily available for expenditure when needed) rather than yield.

2.7 The Council's investment policy has regard to the DCLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Link Asset Services al Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, and then return.

2.8 Investment instruments identified for use in the financial year are listed in section 3.2 and 3.4 under the 'Specified and Non-Specified' Investments categories. Counterparty limits will be as set through the Council's Treasury Management Practices – Schedules.

2.9 The weighted scoring system produces an end product of a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments, i.e., using counterparties within the following durational bands provided they have a minimum AA+ sovereign rating from three rating agencies:

- Yellow 2 years
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 3 months
- No Colour, not to be used

Y	*P*	*B*	*O*	*R*	*G*	*N/C*
Up to 2yrs	*Up to 2yrs*	*Up to 1yr*	*Up to 1yrs*	*Up to 6 mths*	*Up to 100days*	*No Colour*

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 influence to just one agency's ratings.

Typically the minimum credit ratings criteria the Authority use, will be a short term rating (Fitch or equivalents) of short term rating F1, long term rating A-, viability rating of A-, and a support rating of 1. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.
All credit ratings will be monitored daily. The Authority is alerted to changes to ratings of all three agencies through its use of the Link Asset Services credit worthiness service.

- if a downgrade results in the counterparty or investment scheme no longer meeting the Authority's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Authority will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Authority's lending list.

The Link Asset Services methodology was revised in October 2015 and determines the maximum investment duration under the credit rating criteria. Key features of Link Asset Services credit rating policy are:

- a mathematical based scoring system is used taking ratings from all three credit rating agencies;
- negative and positive watches and outlooks used by the credit rating agencies form part of the input to determine a counterparty's time band (i.e. 3, 6, 9, 12 months etc.).
- CDS spreads are used in Link Asset Services creditworthiness service as it is accepted that credit rating agencies lag market events and thus do not provide investors with the most instantaneous and "up to date" picture of the credit quality of a particular institution. CDS spreads provide perceived market sentiment regarding the credit quality of an institution.
- After a score is generated from the inputs a maximum time limit (duration) is assigned and this is known as the Link Asset Services colour which is associated with a maximum suggested time boundary.

2.10 All of the investments were classified as Specified (i.e., investment is sterling denominated and has a maximum maturity of 1 year) and non-Specified Investments (i.e., any other type of investment not defined as Specified). These investments were sterling investments for up to two years maturity with institutions deemed to be high credit quality or with the UK Government (Debt Management Account Deposit Facility). These were considered low risk assets where the possibility of loss of principal or investment income was small.

2.11 Investment instruments identified for use in the financial year under the 'Non-Specified and Specified' Investments categories. The Council funds would be invested as follows:-

3. Specified Investments

3.1 An investment is a specified investment if all of the following apply:

- the investment is denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling;
- the investment is not a long term investment (i.e. up to 1 year);
- the making of the investment is not defined as Capital expenditure by virtue of regulation 25(1)(d) of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [SI 3146 as amended];
- the investment is made with a body or in an investment scheme of high credit quality (see below) or with one of the following public-sector bodies:
    - The United Kingdom Government;
    - A local authority in England or Wales (as defined under section 23 of the 2003 Act) or a similar body in Scotland or Northern Ireland; and
    - High credit quality is defined as a minimum credit rating as outlined in section 4.2 of this strategy.

3.2 The use of Specified Investments

Investment instruments identified for use in the financial year are as follows:

- The Table below set out the types of investments that fall into each category, counterparties available to the Council, and the limits placed on each of these. A detailed list of each investment type is available in the Treasury Management Practices guidance notes;
- all investments will be within the UK or AAA sovereign rated countries.
- The Council's investment in Lloyds Banking Group were based on the fact that this group is part-nationalised by UK Government, and any changes to their credit ratings will impact on the duration of the Council investment with the Group.

Criteria for specified Investments:

Counterparty	Country/ Domicile	Instrument	Maximum investments	Max. maturity period
Debt Management and Depost Facilities (DMADF)	UK	Term Deposits (TD)	unlimited	1 yr
Government Treasury bills	UK	TD	unlimited	1 yr
Local Authorities	UK	TD	unlimited	1 yr
Lloyds Banking Group • *Lloyds Bank* • *Bank of Scotland*	UK	TD (including callable deposits), Certificate of Deposits (CD's)	£60m	1 yr
RBS/NatWest Group • *Royal Bank of Scotland* • *NatWest*	UK		£60m	1 yr
HSBC	UK		£60m	1 yr
Barclays	UK		£60m	1 yr
Santander	UK		£60m	1 yr
Goldman Sachs Investment Bank	UK		£60m	1 yr
Standard Chartered Bank	UK		£60m	1 yr
Individual Money Market Funds (MMF)	UK/Ireland/ domiciled	AAA rated Money Market Funds	£60m	Liquidity/instant access
Counterparties in select countries (non-UK) with a Sovereign Rating of at least AA+				
Australia & New Zealand Banking Group	Australia	TD / CD's	£60m	1 yr
Commonwealth Bank of Australia	Australia	TD / CD's	£60m	1 yr
National Australia Bank	Australia	TD / CD's	£60m	1 yr
Westpac Banking Corporation	Australia	TD / CD's	£60m	1 yr
Royal Bank of Canada	Canada	TD / CD's	£60m	1 yr
Toronto Dominion	Canada	TD / CD's	£60m	1 yr
Development Bank of Singapore	Singapore	TD / CD's	£60m	1 yr
Overseas Chinese Banking Corp	Singapore	TD / CD's	£60m	1 yr

Counterparty	Country/ Domicile	Instrument	Maximum investments	Max. maturity period
United Overseas Bank	Singapore	TD / CD's	£60m	1 yr
Svenska Handelsbanken	Sweden	TD / CD's	£60m	1 yr
Nordea Bank AB	Sweden	TD / CD's	£60m	1 yr
ABN Amro Bank	Netherlands	TD / CD's	£60m	1 yr
Rabobank	Netherlands	TD / CD's	£60m	1 yr
ING Bank NV	Netherlands	TD / CD's	£60m	1 yr
Deutsche Bank	Germany	TD / CD's	£60m	1 yr
DZ Bank	Germany	TD / CD's	£60m	1 yr
UBS	Switzerland	TD / CD's	£60m	1 yr
Credit Suisse	Switzerland	TD / CD's	£60m	1 yr
Danske Bank	Denmark	TD / CD's	£60m	1 yr
* Nordea Bank	Finland	TD / CD's	£60m	1 yr
* Pohjola Bank	Finland	TD / CD's	£60m	1 yr
* JP Morgan Chase	U.S.A	TD / CD's	£60m	1 yr

* Note – a change per the 2016/17 strategy.

3.3 All Money Market Funds used are monitored and chosen by the size of fund, rating agency recommendation, exposure to other Countries (Sovereign debt), weighted average maturity and weighted average life of fund investment and counterparty quality.

Non Specified Investments

3.4 Non-Specified investments are any other type of investment (i.e. not defined as specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out in the table below. Non specified investments would include any sterling investments.

Non-Specified Investment	Minimum credit criteria	Maximum investments	Max. maturity period
UK Local Authorities	Government Backed	£60m	2 years

3.5 The council had no exposure in Non-Specified investments during the 2015/16.

4. The economy in 2016/17 – Commentary from Link Asset Services (Treasury Management Advisors) in April 2017.

4.1 The two major landmark events that had a significant influence on financial markets in the 2016-17 financial year were the UK EU referendum on 23 June and the election of President Trump in the USA on 9 November. The first event had an immediate impact in terms of market expectations of when the first increase in Bank Rate would happen, pushing it back from quarter 3 2018 to quarter 4 2019. At its 4 August meeting, the Monetary Policy Committee (MPC) cut Bank Rate from 0.5% to 0.25% and the Bank of England's Inflation Report produced forecasts warning of a major shock to economic activity in the UK, which would cause economic growth to fall almost to zero in the second half of 2016. The MPC also warned that it would be considering cutting Bank Rate again towards the end of 2016 in order to support growth. In addition, it restarted quantitative easing with purchases of £60bn of gilts and £10bn of corporate bonds, and also introduced the Term Funding Scheme whereby potentially £100bn of cheap financing was made available to banks.

4.2 In the second half of 2016, the UK economy confounded the Bank's pessimistic forecasts of August. After a disappointing quarter 1 of only +0.2% GDP growth, the three subsequent quarters of 2016 came in at +0.6%, +0.5% and +0.7% to produce an annual growth for 2016 overall, compared to 2015, of no less than 1.8%, which was very nearly the fastest rate of growth of any of the G7 countries. Needless to say, this meant that the MPC did not cut Bank Rate again after August but, since then, inflation has risen rapidly due to the effects of the sharp devaluation of sterling after the referendum. By the end of March 2017, sterling was 17% down against the dollar but had not fallen as far against the euro. In February 2017, the latest CPI inflation figure had risen to 2.3%, above the MPC's inflation target of 2%.

4.3 However, the MPC's view was that it would look through near term supply side driven inflation, (i.e. not raise Bank Rate), caused by sterling's devaluation, despite forecasting that inflation would reach nearly 3% during 2017 and 2018. This outlook, however, is dependent on domestically generated inflation, (i.e. wage inflation), continuing to remain subdued despite the fact that unemployment is at historically very low levels and is on a downward trend. Market expectations for the first increase in Bank Rate moved forward to quarter 3 2018 by the end of March 2017 in response to increasing concerns around inflation.

Appendix B

The Treasury Management activity during the year 2016/17

1. Short term lending interest rates

1.1 Base interest rate was lowered in August 2016 to 0.25%. The average rate for the year was 0.34%.

1.2 There have been continued uncertainties in the markets during the year to date as set out in Section 4 of Appendix A.

1.3 The strategy for 2016/17, agreed in January 2016, continued the prudent approach and ensured that all investments were only to the highest quality rated banks using Link's colour coded credit methodology.

1.4 The total amount received in short term interest for 2016/17 was £1.7m at an average rate of 0.62%. This was above the average of base rates in the same period (0.34%) and against a backdrop of ensuring, so far as possible in the financial climate, the security of principal and the minimisation of risk.

2. Long term borrowing

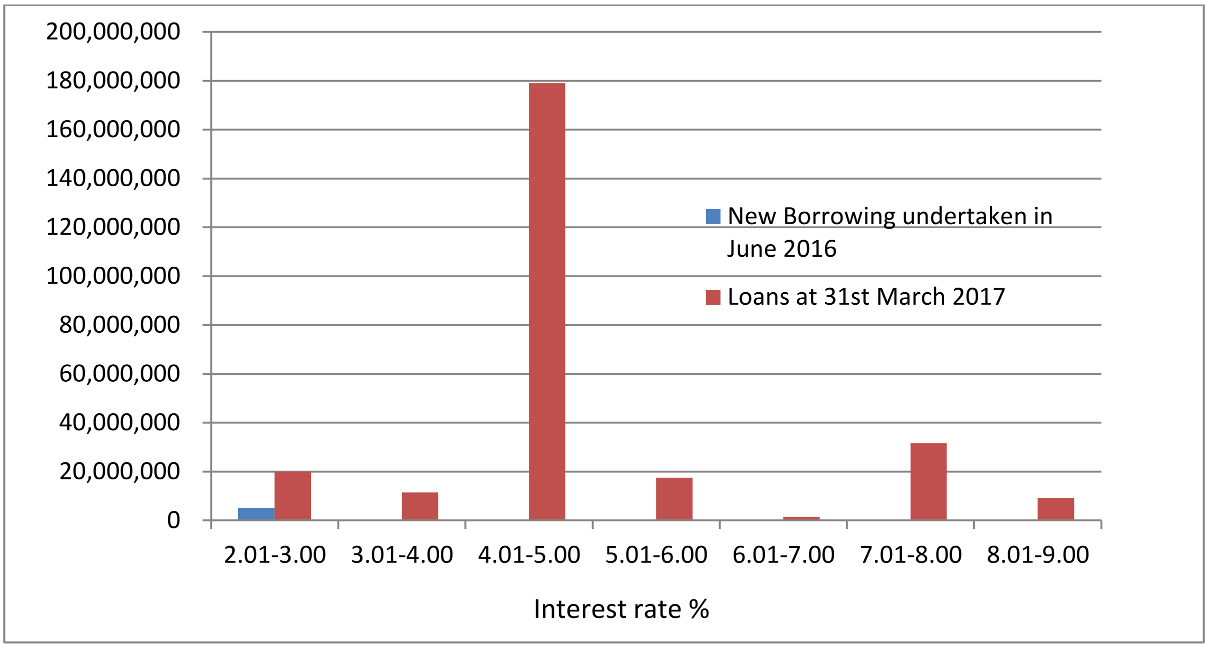
2.1 The Council's strategy was to maintain external borrowing below the level of the CFR – known as internal borrowing. However in the financial climate of low interest rates Officers constantly reviewed the need to borrow taking into consideration the potential increases in borrrowing costs, the need to finance new Capital expenditure, refinancing maturing debt, and the cost of carry that might incur a revenue loss between borrowing costs and investment returns.

2.2 In June 2016 the Council took advantage of attractive PWLB rates and borrowed £5m in order to generate cash for the future Capital programme. This fixed term borrowing was in the 20 year maturity period the rate taken was 2.71%.

2.3 The average interest rate of all debt at 31 March 2017 of £275.4m was 4.90%. No beneficial rescheduling of debt has been available, due to a considerable widening of the difference between new borrowing and repayment rates, which has made PWLB debt restructuring now much less attractive. Consideration would have to be given to the large premiums (cash payments) which would be incurred by prematurely repaying existing PWLB loans. It is very unlikely that these could be justified on value for money grounds if using replacement PWLB refinancing.

2.4 Our opportunity to restructure our debt has been significantly reduced since October 2010 as a result of the PWLB increasing all of its lending rates by 1% as part of the Government's Comprehensive Spending Review. However, it did not increase the rate of interest used for repaying debt so that not only the cost of our future borrowing has increased but our opportunity to restructure our debt when market conditions allow has been significantly reduced.

2.5 The range of interest rates payable in all of the loans is illustrated in the graph below:



3. Short term borrowing

3.1 No borrowing was undertaken on a short-term basis during 2016/17 to date to cover temporary overdraft situations.

4 Treasury Management Advisers

4.1 The Strategy for 2016/17 explained that the Council uses Link as its treasury management consultant on a range of services which include:

- Technical support on treasury matters, Capital finance issues and advice on reporting;
- Economic and interest rate analysis;
- Debt services which includes advice on the timing of borrowing;
- Debt rescheduling advice surrounding the existing portfolio;
- Generic investment advice on interest rates, timing and investment instruments;
- Credit ratings from the three main credit rating agencies and other market information;
- Assistance with training on treasury matters

Whilst the advisers provide support to the internal treasury function, under current market rules and the CIPFA Code of Practice the final decision on treasury matters remained with the Council. This service remains subject to regular review.

4.2 Link is the largest provider of Treasury Management advice services to local authorities in the UK and they claim to be the market leading treasury management service provider to their clients. The advice has been and will continue to be monitored regularly to ensure a continued excellent advisory service.

Appendix C

The Treasury Management Activity Mid-Year Report - 2017/18

1. Background

1.1 As part of the Council's governance arrangements for its treasury management activities, the Audit, Best Value and Community Services Scrutiny Committee is charged with oversight of the Council's treasury management activities. To enable the Committee to fulfil this role, the Committee receives regular reports on treasury management issues and activities. Reports on treasury activity are discussed on a monthly basis with the Chief Finance Officer and the content of these reports is used as a basis for this report to the Committee.

1.2 The Treasury Management and Annual Investment Strategy for 2017/18 were approved by the Cabinet 24 January 2017 and there have been no policy changes to date. This report considers treasury management activity over six months of the financial year.

Summary of financial implications

1.3 During the first half year investments have been held in bank notice accounts, cash money market funds and other local authorities. Counterparty credit quality remains a primary concern for the treasury team, with security, liquidity and yield in that order a priority. Measures have been taken to reduce the level of liquidity (prudently) to improve returns, the impact of this will take effect in the next 6 months. The average investment balance to September 2017 was £262m generated investments income of £622k. The forecast for 2016/17 is £1.4m, dependant on potential bank rate increases.

1.4 The level of Council debt at 30 September 2017 was £274.1m with two loans totalling £3.3m maturing with the PWLB on 31 December 2017. The forecast for interest paid on long-term debt in 2017/18 is approximately £13.15m and is within the budgeted provision.

2. Treasury Management Strategy

2.1 The Council approved the 2017/18 treasury management strategy at its meeting on 24 January 2017. The Council's stated investment strategy is to prudently manage an investment policy achieving first of all, security (protecting the Capital sum from loss), liquidity (keeping money readily available for expenditure when needed), and to consider what yield can be obtained consistent with those priorities.

2.2 The Council's exposure to security and interest rate risk have been monitored closely. No further external borrowing has been undertaken in the period. Rescheduling any existing loans under the current economic conditions the costs of doing so in terms of interest and premium payable would be prohibitive.

2.3 The Chief Finance Officer is pleased to report that all treasury management activity undertaken from April 2017 to September 2017 period broadly complied with the approved strategy, the CIPFA Code of Practice, and the relevant legislative provisions.

3. Economic Review

3.1 The Monetary Policy Committee (MPC) meeting of 2 November 2017 came up with two major developments: -

- After the MPC painted themselves into a corner with their words following their previous meeting on 14 September, it was a virtual certainty that Bank Rate would go up by 0.25% this time around. The MPC duly delivered on those words by a vote of 7-2 to remove the post EU referendum emergency monetary stimulus implemented in August 2016 by reversing the cut in Bank Rate at that time from 0.5% to 0.25%.

- The MPC also gave forward guidance that they expected to increase Bank Rate only twice more in the next three years to reach 1.0% by 2020. This is, therefore, not quite the 'one and done' scenario but is, nevertheless, a very relaxed rate of increase prediction in Bank Rate in line with previous statements that Bank Rate would only go up very gradually and to a limited extent.

3.2 The markets viewed this result as being more dovish than they had expected and sterling duly responded by falling 0.8% against the dollar and euro on the day. As this was the first increase in Bank Rate for a decade, the MPC was right to avoid alarming consumers and financial markets, and to be very reassuring about the pace of future increases. The quarterly Inflation Report itself, was notably downbeat about economic growth based on a view that the trend rate of growth for the economy has now fallen from 2.2% to only 1.5%, (whereas in the decade before the financial crash it grew at 2.9% p.a.).

3.3 It has to be said that overall, this is really a quite pessimistic outlook for the UK economy. For some commentators, raising Bank Rate with such a weak outlook, did not sit easily together. However, the MPC's main justification for taking action now to raise Bank Rate was that because unemployment was at the lowest rate for 42 years at only 4.3%, there was little spare capacity left in the economy, especially when increases in productivity were expected to be so weak and taking account of Brexit caused expected falls in net immigration.

3.4 They also noted that consumer confidence has remained resilient and the global economy was growing strongly which would help UK exports. In addition, financial conditions were highly accommodative through the current level of monetary policy.

Link Asset Services (LAS) forecasts

3.5 The MPC made some obvious comments around the fact that the UK is going through a period of heightened uncertainty due, particularly, to the unknowns around how the Brexit negotiations will proceed and the likely effect on households and companies. They will adjust their responses according to how these turn out and in the light of how the economy progresses over the next two to three years.

3.6 LAS own forecasts are cautious and in line with this subdued path for increases in Bank Rate; and do not currently see inflation posing a significant threat over the next three years. LAS have 0.25% increases in November 2018 to 0.75%, 1.0% in November 2019 and 1.25% in August 2020. This is much in line with market expectations. LAS central assumption is that the UK will make progress with concluding a satisfactory outcome over the Brexit negotiations with the EU by March 2019, although the UK finance sector is likely to be an area of particular concern and difficulty.

Interest Rate Forecast

3.7 Economic forecasting remains difficult with so many external influences weighing on the UK. LAS Bank Rate forecasts, (and also MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Forecasts for average earnings beyond the three year time horizon will be heavily dependent on economic and political developments. Volatility in bond yields is likely to endure as investor fears and confidence ebb and flow between favouring relatively more "risky" assets i.e. equities, or the "safe haven" of government bonds. LAS is of the view that previous interest rate revision newsflashes of just how unpredictable PWLB rates and bond yields are at present, and the revised forecasts are based on the Certainty Rate (minus 20 bps) which has been accessible to most authorities since 1st November 2012.

3.8 As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts. The general expectation for an eventual trend of gently rising gilt yields and PWLB rates is expected to remain unchanged. Negative, (or positive), developments could significantly impact safe-haven flows of investor money into UK, US and German bonds and produce shorter term movements away from central forecasts. Naturally, we will continue to monitor events and will update our forecasts as and when appropriate.

3.9 The Council's treasury advisor, Link Asset Services (LAS), has provided the following forecast:

	NOW	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
BANK RATE	0.50	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.25	1.25	1.25
3 month LIBID	0.40	0.40	0.40	0.40	0.40	0.60	0.60	0.60	0.70	0.90	0.90	1.00	1.20	1.20	1.20
6 month LIBID	0.45	0.50	0.50	0.50	0.60	0.80	0.80	0.80	0.90	1.00	1.00	1.10	1.30	1.30	1.40
12 month LIBID	0.65	0.70	0.80	0.80	0.90	1.00	1.00	1.10	1.10	1.30	1.30	1.40	1.50	1.50	1.60
5 yr PWLB	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.10	2.10	2.20	2.30	2.30
10 yr PWLB	2.10	2.10	2.20	2.30	2.40	2.40	2.50	2.60	2.60	2.70	2.70	2.80	2.90	2.90	3.00
25 yr PWLB	2.70	2.80	2.90	3.00	3.00	3.10	3.10	3.20	3.20	3.30	3.40	3.50	3.50	3.60	3.60
50 yr PWLB	2.40	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.00	3.10	3.20	3.30	3.30	3.40	3.40

Borrowing advice:

3.10 Although yields have risen from their low points, yields are still around historic lows and borrowing should be considered if appropriate to Council's strategy. LAS still see value in the 40yr to 50yr range at present but that view would be negated if Bank Rate does not climb to at least 2.5% over the coming years. Accordingly, Council's will need to review and assess their risk appetite in terms of any underlying borrowing requirement they may have, and also project forward their position in respect of cash backed resources. Any new borrowing should also take into account the continuing cost of carry, the difference between investment earnings and borrowing rates, especially as LAS forecasts indicate that Bank Rate may rise to only 1.25% by March 2021.

Prudential Indicators which relate to the Treasury function and compliance with limits

1.1 The Council is required by the Prudential Code to report the actual prudential indicators after the end of each year. There are eight indicators which relate to treasury management and they are set on an annual basis and monitored, they comprise:-:

- Operational and authorised borrowing limits which includes short term borrowing (paragraph 1.2 below)
- Interest rate exposure (paragraph 1.3 below)
- Interest rate on long term borrowing (paragraph 1.4 below)
- Maturity structure of investments (paragraph 1.5 below)
- Compliance with the Treasury Management Code of Practice (paragraph 1.6 below)
- Interest on investments (paragraph 1.7 below)
- Capital Financing Requirement and Minimum Revenue Provision (paragraph 1.8 below)

1.2 **Operational and authorised borrowing limits.**

The tables below sets out the estimate and projected Capital financing requirement and long-term borrowing in 2016/17

	Capital Financing Requirement	**2016/17 Estimate**	**2016/17 Actual**
		£m	**£m**
	Capital Financing Requirement at 1 April 2016	**352**	**344**
add	Financing of new assets	55	2
less	Provision for repayment of debt	(15)	(11)
less	Long term Capital loan*	-	-
	Capital Financing Requirement at 31 March 2017	**392**	**335**
add	Short Term Borrowing Provision	10	
	Operational Boundary	**402**	
add	Short Term Borrowing Provision	20	
	Authorised Limit	**422**	

	Actual Borrowing	**2016/17 Actual**
		£m
	Long Term Borrowing at 1 April 2016	**275**
less	Loan redemptions	(4)
add	New Borrowing	5
	Long Term Borrowing at 31 March 2017	**276**

*The Capital loan relates to an outstanding loan with other local authority.

The Capital Financing Requirement includes PFI Schemes and Finance Leases.

The actual Authorised Limit for 2016/17 of £422m reflected the move to International Financial Reporting Standards (IFRS) and previously agreed Private Finance Initiative (PFI) contracts and some leases (being reclassified as finance leases instead of operating leases) coming onto the Council’s Balance Sheets as long term liabilities. This new accounting treatment impacted on the Authorised Limit.

The Operational boundary for borrowing was based on the same estimates as the authorised limit. It reflected directly the authorised borrowing limit estimate with additional amount for a short term borrowing to allow, for example, for unusual cash movements. The Operational boundary represents a key management tool for in year monitoring and long term borrowing control.

The Authorised limit was consistent with the Council's current commitments, existing plans and the proposals for Capital expenditure and financing, and with its approved treasury management policy statement and practices. It was based on the estimate of most likely, prudent but not worst case scenario, with in addition sufficient headroom (short term borrowing) over and above this to allow for day to day operational management, for example unusual cash movements or late receipt of income. Risk analysis and risk management strategies were taken into account as were plans for Capital expenditure, estimates of the Capital financing requirement and estimates of cash flow requirements for all purposes.

The Authorised limit is the "Affordable Borrowing Limit" required by S3 of the Local Government Act 2003 and must not be breached. The Long Term borrowing at 31st March 2017 of £275.4m is under the Operational boundary and Authorised limit set for 2016/17. The Operational boundary and Authorised limit have not been exceeded during the year.

1.3 Interest rate exposure

The Council continued the practice of seeking to secure competitive fixed interest rate exposure for 2015/16. There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs or improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments;
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- Maturity structure of borrowing. These gross limits are set to reduce the council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

	2016/17	**2017/18**	**2018/19**
Interest rate exposure	**Upper**	**Upper**	**Upper**
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates based on net debt	15%	15%	15%
Maturity structure of fixed interest rate borrowing 2016/17			
	Lower	**Upper**	**Actual 2016/17**
Under 12 months	0%	25%	1%
12 months and within 24 months	0%	40%	2%
24 months and within 5 years	0%	60%	4%
5 years and within 10 years	0%	80%	9%
10 years and within 20 years	0%	80%	24%
20 years and within 30 years	0%	80%	16%
30 years and within 40 years	0%	80%	33%
40 years and above	0%	80%	11%

The Council has not exceeded the limits set in 2016/17. Not more than £20m of debt should mature in any financial year and not more than 15% to mature in any two consecutive financial years. New borrowing has been undertaken giving due consideration to the debt maturity profile, ensuring that an acceptable amount of debt is due to mature in any one financial year. This helps to minimise the authority's exposure to the risk of having to replace a large amount of debt in any one year or period when interest rates may be unfavourable. The bar chart in the attached Annex 1 shows the maturity profile.

1.4 **Interest rate on long term borrowing**

The rate of interest taken on any new long term borrowing has been defined with the assistance of Link Asset Services (LAS). The Accounts and Pensions Team have set up a recording process to monitor set trigger rates and work to an agreed protocol for potential future borrowing activity to fund the Capital programme.

1.5 **Maturity structure of investments**

The Investment Guidance issued by the government, allowed local authorities the freedom to invest for more than for one year. All investments over one year were to be classified as Non-Specified Investments. The Council had taken advantage of this freedom and non-Specified Investments are allowed to be held within our overall portfolio of investments and in line with our prudent approach in our strategy, no new long term investments (over 364 days) have been taken since 2014/15.

1.6 **Compliance with the Treasury Management Code of Practice**

East Sussex County Council has adopted the CIPFA *Code of Practice for Treasury Management in the Public Services.*

1.7 **Interest on investments**

1.7.1. The table below sets out the average monthly rate received on our investments and compares it to the Bank of England Base rate to reflect both the interest rates available in the market and limitation in the use of counterparties.

Month	Amount £'000	Monthly rate	Margin against Base Rate
April	174	0.77%	0.27%
May	181	0.75%	0.25%
June	176	0.74%	0.24%
July	185	0.74%	0.24%
August	160	0.64%	0.39%
September	133	0.56%	0.31%
October	130	0.55%	0.30%
November	123	0.55%	0.30%
December	121	0.55%	0.30%
January	120	0.54%	0.29%
February	104	0.47%	0.22%
March	108	0.50%	0.25%
Total for 2016/17	**1,715**	**0.62%**	**0.28%**

1.7.2. The total amount received in short term interest for the year was £1.7m at an average rate of 0.62%. This was above the average of base rates in the same period (0.34%) but ensuring, so far as possible in the financial climate, the security of principal and the minimisation of risk. This Council has continued to follow a prudent approach with security and liquidity as the main criteria before yield.

1.8 **Capital Financing Requirement and Minimum Revenue Provision (MRP)**

1.8.1. The Council's underlying need to borrow for Capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the Capital activity of the Council and resources used to pay for the Capital spend. It represents the 2016/17 unfinanced Capital expenditure (see below table), and prior years' net or unfinanced Capital expenditure which has not yet been paid for by revenue or other resources.

1.8.2. Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the Capital expenditure programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the Capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board [PWLB] or the money markets), or utilising temporary cash resources within the Council.

1.8.3. Reducing the CFR – the Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that Capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision – MRP, to reduce the CFR. This is effectively a repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet Capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

1.8.4 The total CFR can also be reduced by:

- the application of additional Capital financing resources (such as unapplied Capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

1.8.5. The Council's 2016/17 MRP Policy (as required by CLG Guidance) was approved as part of the Treasury Management Strategy Report for 2016/17 on 26 January 2016.

1.8.6. The Council's CFR for the year is shown below, and represents a key prudential indicator. It includes PFI and leasing schemes on the balance sheet, which increase the Council's borrowing need. No borrowing is actually required against these schemes as a borrowing facility is included in the contract.

CFR including appropriate balances and MRP charges for PFI Schemes and Finance Leases.

	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2018/19 Estimate
	£m	£m	£m	£m
Total CFR	**335**	**366**	**369**	**369**
Movement in CFR	(9)	31	3	-

MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT 2016/17 ONWARDS

The statutory requirement for local authorities to charge the Revenue Account each year with a specific sum for debt repayment. A variety of options is provided to councils to determine for the financial year an amount of minimum revenue provision (MRP) that it considers to be prudent. This replaces the previous requirement that the minimum sum should be 4% of the Council's Capital Financing Requirement (CFR).

A Statement on the Council's policy for its annual MRP should be submitted to the Full Council for approval before the start the financial year to which the provision relate. The Council is therefore legally obliged to have regard to CLG MRP guidance in the same way as applies to other statutory guidance such as the CIPFA Prudential Code, the CIPFA Treasury Management Code and the CLG guidance on Investments.

The MRP guidance offers four options under which MRP might be made, with an overriding recommendation that the Council should make prudent provision to redeem its debt liability over a period which is commensurate with that over which the Capital expenditure is estimated to provide benefits (i.e. estimated useful life of the asset being financed).

The guidance also requires an annual review of MRP policy being undertaken and it is appropriate that this is done as part of this annual Treasury Management Policy and Strategy.

The International Financial Reporting Standards (IFRS) involves Private Finance Initiative (PFI) contracts and some leases (being reclassified as finance leases instead of operating leases) coming onto the Council's Balance Sheet as long term liabilities. This accounting treatment impacts on the Capital Financing Requirement with an annual MRP provision being required.
To ensure that this change has no overall financial impact on Local Authorities, the Government has updated their "Statutory MRP Guidance" which allows MRP to be equivalent to the existing lease rental payments and "Capital repayment element" of annual payments. The implications of these changes are reflected in the Council's MRP policy from 2016/17.

The *revised* policy recommended for adoption from 1 April 2016 and 1 April 2017 retains the key elements of the policy previously approved including provisions regarding PFI, closed landfill, and finance leases. The ongoing policy from 2016/17 and future years is therefore as follows:-

For borrowing incurred before 1 April 2008, the MRP policy will be:

- Straight line basis over the next 45 years to coincide with the repayment of external debt.

From borrowing incurred after 1 April 2008, the MRP policy will be:

- Asset Life Method (equal instalment method) – MRP will be based on the estimated life of the assets, in accordance with the proposed regulations. This option will also be applied for any expenditure Capitalised under a Capitalisation directive.

For PFI schemes, finance leases and closed landfill sites that come onto the Balance Sheet, the MRP policy will be:

- Asset Life Method (annuity method) - The MRP will be calculated according to the flow of benefits from the asset, and where the principal repayments increase over the life of the asset. Any related MRP will be equivalent to the "Capital repayment element" of the annual charge payable.

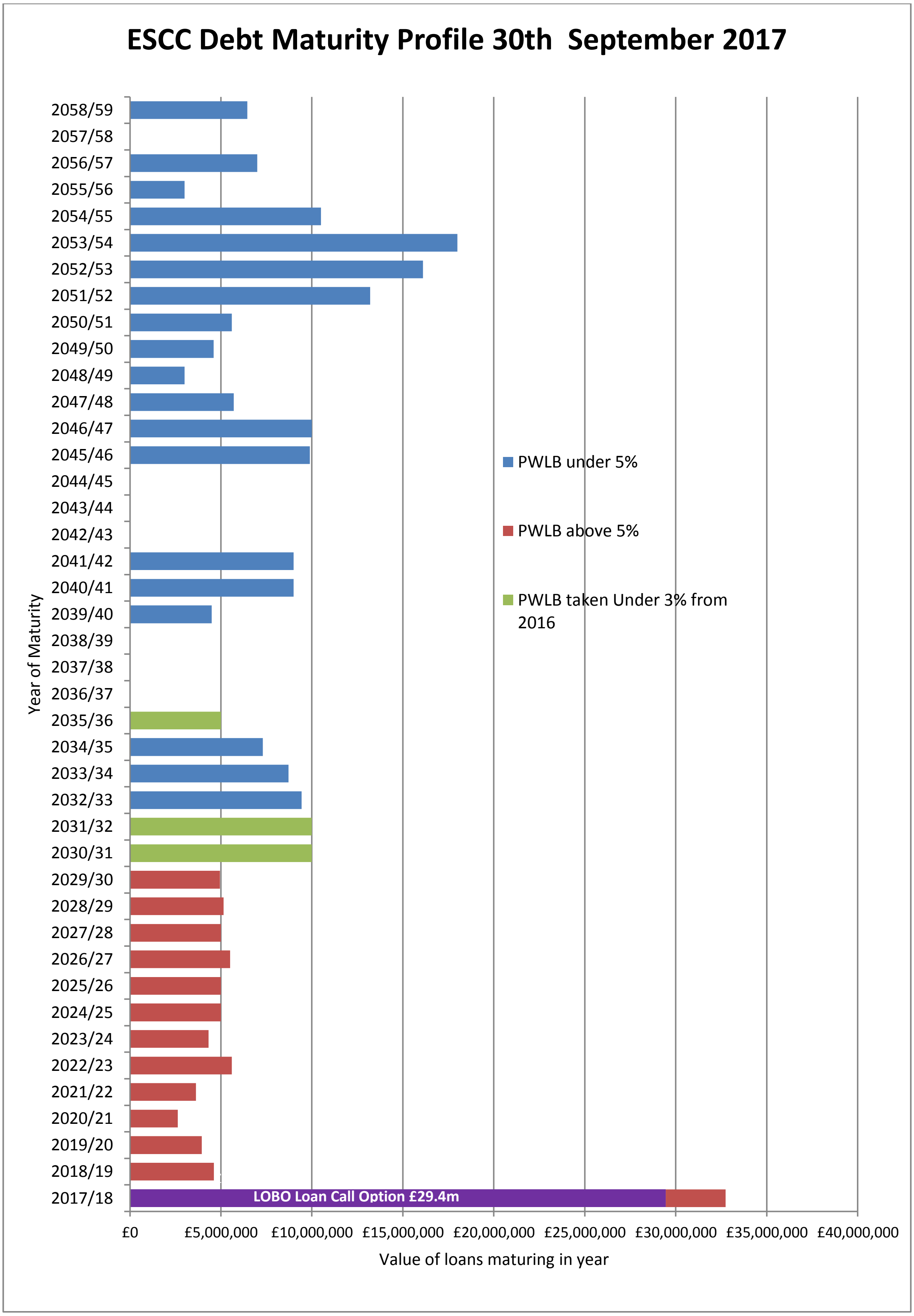
There is the option to charge more than the prudent provision of MRP each year through a Voluntary Revenue Provision (VRP).

For loans to third parties that are being used to fund expenditure that is classed as Capital in nature, the policy will be to set aside the repayments of principal as Capital receipts to finance the initial Capital advance in lieu of making an MRP.

In view of the variety of different types of Capital expenditure incurred by the Council, which is not in all cases capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure.

This approach also allows the Council to defer the introduction of an MRP charge for new Capital projects/land purchases until the year after the new asset becomes operational rather than in the year borrowing is required to finance the Capital spending. This approach is beneficial for projects that take more than one year to complete and is therefore included as part of the MRP policy.

Annex 1


ESCC Debt Maturity Profile 30th September 2017
2058/59
2057/58
2056/57
2055/56
2054/55
2053/54
2052/53
2051/52
2050/51
2049/50
2048/49
2047/48
2046/47
2045/46
2044/45
2043/44
2042/43
2041/42
2040/41
2039/40
2038/39
2037/38
2036/37
2035/36
2034/35
2033/34
2032/33
2031/32
2030/31
2029/30
2028/29
2027/28
2026/27
2025/26
2024/25
2023/24
2022/23
2021/22
2020/21
2019/20
2018/19
2017/18
Year of Maturity
LOBO Loan Call Option £29.4m
PWLB under 5%
PWLB above 5%
PWLB taken Under 3% from 2016
£0
£5,000,000
£10,000,000
£15,000,000
£20,000,000
£25,000,000
£30,000,000
£35,000,000
£40,000,000
Value of loans maturing in year

This page is intentionally left blank

Report to: **Audit, Best Value and Community Services Scrutiny Committee**

Date of meeting: **29 November 2017**

By: **Chief Operating Officer**

Title: **Orbis Business Plan - Update report**

Purpose: **To provide an update on the progress made to date in the development of a revised business plan for the Orbis Partnership**

RECOMMENDATIONS

1) The Committee reviews and notes the progress to date in developing a revised business plan for Orbis and this is due for completion early in the New Year

---

1 Background

1.1 Orbis is a Partnership between East Sussex, Surrey and Brighton & Hove Councils in relation to back office services. Services included are: Finance, IT & Digital, Property, Procurement, Human Resources and Business Operations.

1.2 Orbis is the largest local government shared service in the UK with 2000 staff and an operating budget of around £63million per annum.

1.3 The original Orbis business plan that was approved by Cabinet in October 2015 covered a 3 year period commencing in April 2016. This was based around the formation of the partnership and the benefits that can be achieved through integrating services, management delayering and reduction in duplication.

1.4 With the advent of Brighton & Hove City Council (BHCC) joining the partnership in May 2017 it was recognised that a refreshed business plan would be required to take into consideration the impact of an additional partner and to take the opportunity to take a longer term view in relation to the partnership.

1.5 This work in progress version of the Orbis business plan was presented to the Orbis Joint Committee on 16 October 2017, with the full business plan due to be completed early in 2018.

2 Supporting information

2.1 Orbis aims to continue supporting and enabling each sovereign partner to deliver its own strategic priorities. For East Sussex these are; driving economic growth, helping people to help themselves, keeping vulnerable people safe and making the best use of resources.

2.2 Orbis contributes to a number of the key performance measures and targets for the County Council. The main sections Orbis contributes to are *Making Best Use of Resources* and elements of *Driving Economic Growth*- see appendix 2 for further details.

2.3 Orbis will be taking a place based approach for supporting each of the sovereign partners and is actively involved in a number of key programmes within East Sussex. These include; East Sussex Better Together (ESBT), services to schools as they transition to academies and supporting the local economy by using our procurement activity to drive spend through local suppliers.

2.4 Orbis continues to play a key role developing strategies and plans in response to Government policy changes, two recent examples of this are in relation to the Apprentice Levy and the General Data Protection Regulation (GDPR) changes that will come into effect from May 2018.

2.5 Orbis needs to continually evolve as a partnership to ensure it is fit for purpose and that it delivers value to the three Councils. The original business plan was effective from April 2016 to March 2019, but with BHCC joining and the significant changes ongoing around shape of the public sector, it provided an opportunity to refresh the Orbis business plan at this point.

2.6 Whilst recognising the importance of a longer term business plan there are a number of key priorities that Orbis will deliver in the shorter term:

Table 1 – Short term priorities

Priority area
Completion of Business Plan
Completion of fully costed Service Catalogues
Strategy & roadmap for automation (robotics)
Revised growth plan / strategy
Orbis traded services to schools strategy
BHCC Bus Ops transaction centre
Integrated Budgets and Inter Authority Agreement in place
Identify collaboration opportunities with LGSS & OneSource*
Develop plans for 2019/20 & 2020/21 savings targets

**LGSS is the shared service between Northamptonshire and Cambridge Councils, OneSource is the shared service between the London Boroughs of Newham & Havering.*

2.7 The Original Orbis Business Plan articulated the three year savings targets:

2016/17	£1.1m
2017/18	£3.8m
2018/19	£3.9m
Total	£8.8m

2.8 Orbis has to date delivered savings over and above the 2016/17 target and is on track to do so again in 2017/18:

Table 2 ESCC & SCC Orbis Benefits to March 2018 additional In year savings

	2016/17 £000	2017/18 £000	Total £000
Business Operations	34	-0	34
Finance	-594	-350	-944
HR & OD	-564	-115	-679
IT & Digital	-1,343	-250	-1,593
Management	-294	-340	-634
Procurement	-0	-30	-30
Property	-620	0	-620
Total	-3,381	-1,085	-4,466
ESCC	-1,016	-327	-1,343
SCC	-2,365	-758	-3,123
	-3,381	-1,085	-4,466

Business Plan

2.9 There are a number of key components that have been developed to date that will help to inform the final content of the business plan:

a) 10 year (2027) vision for Orbis, with a more detailed 3 year delivery plan
b) Review of progress against the original business plan
c) Maturity Assessment of the partnership against a number of key indicators and the aspiration for future development
d) Challenges & Opportunities for the partnership
e) Key priorities for the partnership for the next three years
f) Updated financial baseline and benefits

2.10 A brief summary of these sections is provided in this report, with full details available in the accompanying slide deck (Appendix 1).

Vision

2.11 The long term vision for the next 10 years has been informed by feedback from the Chief Executives of the three Sovereign Councils. The steer from them was to take a more placed based approach with a deeper dive within the existing Orbis geography.

2.12 In reality this will mean looking at opportunities that may exist in areas such as Health/Social Care integration, rather than actively seeking to attract another large external partner. Orbis therefore needs to effectively support and enable transformation in front line services and be at the forefront to ensure key strategic initiatives are successful.

2.13 There are a number of core elements that underpin the vision, and details of these can be located on slide 6 of Appendix 1.

Maturity Assessment

2.14 A maturity assessment has been undertaken with a view to understanding how Orbis measures against a number of criteria for shared services. This helps to define the relative maturity of the partnership at the current time.

2.15 Orbis scored well in a number of the categories including customer, people, leadership and technology. Areas for further development were identified as performance management, data, process and controls.

2.16 As part of the maturity assessment an aspiration has been set for future progress across all these categories, further detail can be found in Appendix 1 slide 8.

Challenges and Opportunities

2.17 It is important for the partnership to be clear about the opportunities that can be achieved through working together, as well as being cognisant of the challenges both within Local Government and for the partnership moving forward. More detail on these can be found on slides 10 and 11.

Key Priorities

2.18 Although Orbis has set a longer term vision for the next 10 years it is realised that the refreshed business plan should focus on the next 3 years. The business plan will need to articulate the priorities to ensure clear direction and focus for the business. The table on slide 13 provides more details of the currently identified priority areas.

Financial Baseline & Benefits

2.19 As part of BHCC joining Orbis, work has been progressing on a revised baseline for the partnership, this will determine the contribution ratios for the three partners in the future. Appendix 1 slide 16 details the latest baseline position as of September 2017 with the contribution ratios currently projected to be in the region of:

- Surrey 56%
- East Sussex 24%
- Brighton & Hove 20%

2.20 Work will continue to refine the baseline numbers with a view to finalising the financial position for the Inter Authority Agreement (IAA) and integration of budgets in April 2018.

2.21 It is recognised that the benefits of integration will have been realised by April 2019 and therefore any additional savings will start to have a real impact on the level of service provision.

2.22 Initial workshops have been held with each service in Orbis to identify "areas of search". These are potential areas to focus on should there be a requirement for Orbis to deliver further savings in the financial years 2019/20 and 2020/21.

2.23 The areas of search have been themed around eight categories to help shape the discussions and focus the outcomes. Further detail of these can be found on in Appendix 1, slide 21.

3. Conclusion and reasons for recommendations

3.1 The Business plan is still in development and is expected to be completed in January 2018. The finished version will not include all of the content provided as part of this report, some of this is for background information only.

3.2 The financial aspects of the business plan need to be aligned to the Medium Term Financial Plan (MTFP) process to ensure clear articulation and understanding of the savings Orbis will deliver during the next 3 years.

3.3 Work will continue to develop, refine and complete the business plan during the next few months, with an expected completion date early in the New Year. As part of this process a number of communication and engagement activities will take place with staff, unions and stakeholders.

3.4 A report detailing progress on the revised business plan will be taken to the Orbis Joint Committee in January 2018.

3.5 The revised business plan will be implemented from April 2018 alongside a full Inter Authority Agreement and integration of budgets.

3.6 The Audit, Best Value and Community Services Scrutiny Committee is recommended to review and note the progress to date in developing a revised business plan for Orbis, and that this is due for completion early in the New Year.

KEVIN FOSTER
Chief Operating Officer

Contact Officer: Adrian Stockbridge (Orbis Programme Manager)
Tel. No: 07837 170418
Email: adrians@surreycc.gov.uk

LOCAL MEMBERS

All

BACKGROUND DOCUMENTS

Orbis Business Plan report to Cabinet – October 2015

APPENDICES

Appendix 1 – Presentation Slides

Appendix 2 – Orbis contribution to ESCC measures and targets orbis

ABVCSSC

Orbis Business Plan Update

November 2017

Brighton & Hove City Council

East Sussex County Council

SURREY

Appendix 1

Content

1. Vision
2. Maturity Assessment
3. Challenges and Opportunities
4. Key Priorities
5. Financial Baseline & Benefits
6. Work in progress elements and completion timeline

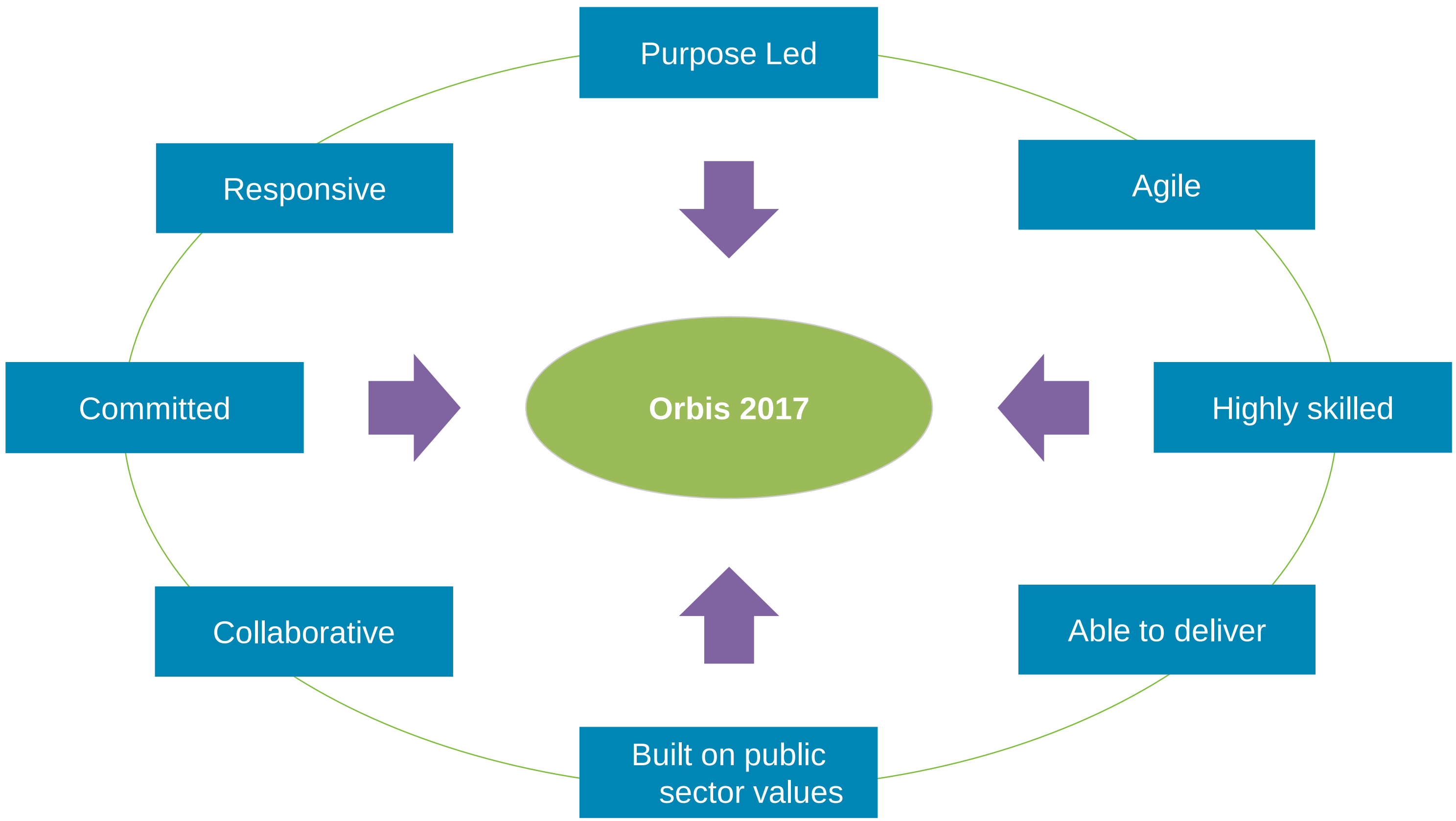
Vision

- Description of the Orbis vision up to 2027
- Outline of how the Partnership will respond and adapt to the challenges that it faces
- Vision determines the characteristics and areas to focus on that underpin how the Partnership will operate

What are our key strengths?

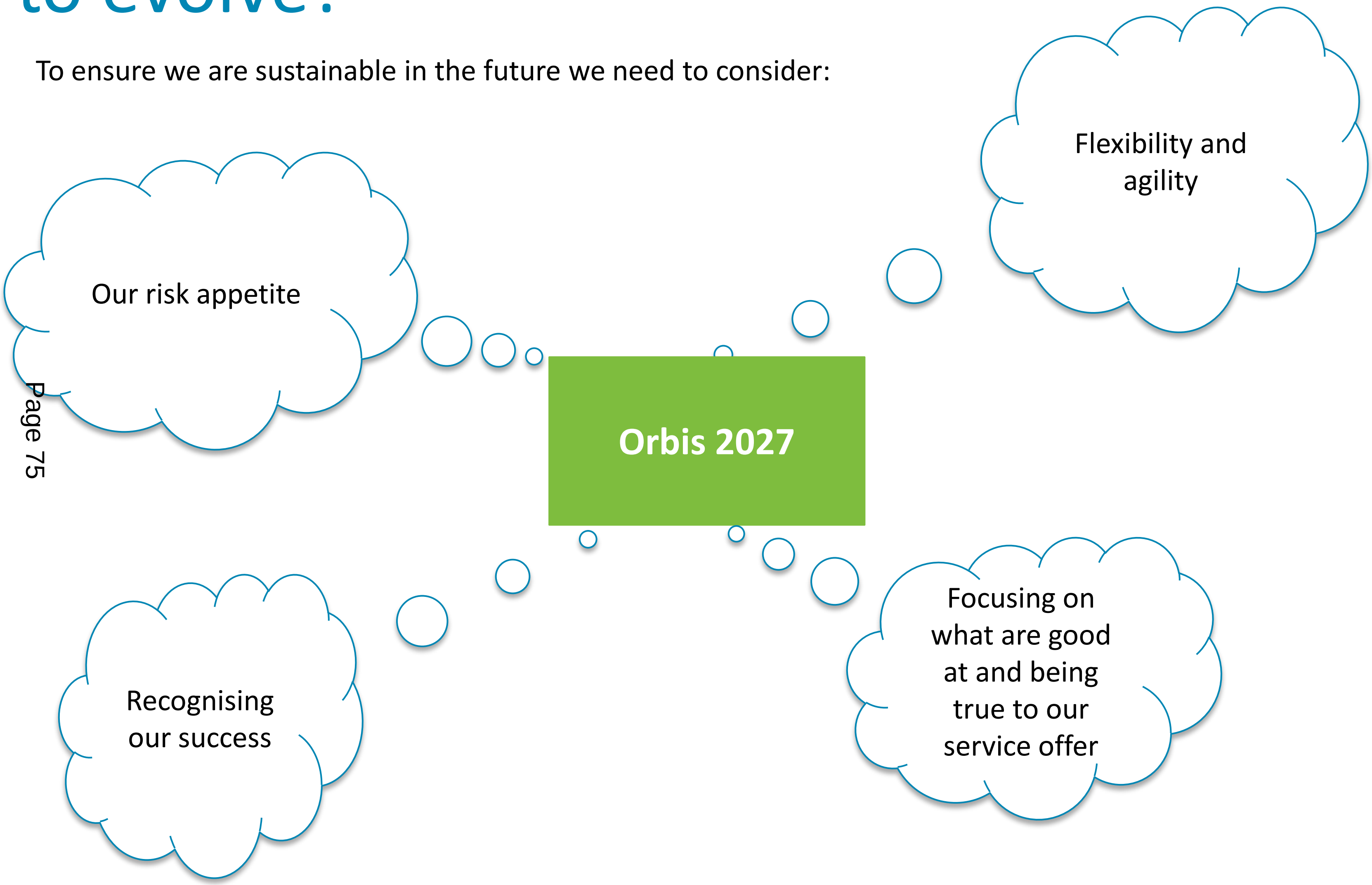
At the OLT Away Day on 29th June we started to consider our key strengths as a partnership and what we want to achieve together by 2027.

We think Orbis is…..



How might our strengths need to evolve?

To ensure we are sustainable in the future we need to consider:



What do we want to achieve by 2027?

- By 2027 the external environment may look very different
- Orbis will need to be responsive and able to adapt to the challenges ahead to remain sustainable
- We therefore want to build a vision on a set of characteristics that will underpin how our partnership will operate
- Our emerging thoughts for Orbis 2027 are…..

Customer focused, flexible and responsive

Remain a **purpose led** organisation; we are proud of our public sector values	Continue to strive to deliver **best value**; build on what we are good at and work as efficiently as we can	Take a **place based approach** to add value to our sovereign areas broader than local authority services	Focus on **outcomes for our customers**, not inputs and functions	Explore and actively encourage **digital innovations** in ways of working to deliver our aspirations and add value

Invest in our people to build a workforce equipped with the skills and capabilities required to deliver our aspirations

Adding value and enabling successful service delivery in 3 sovereign authorities

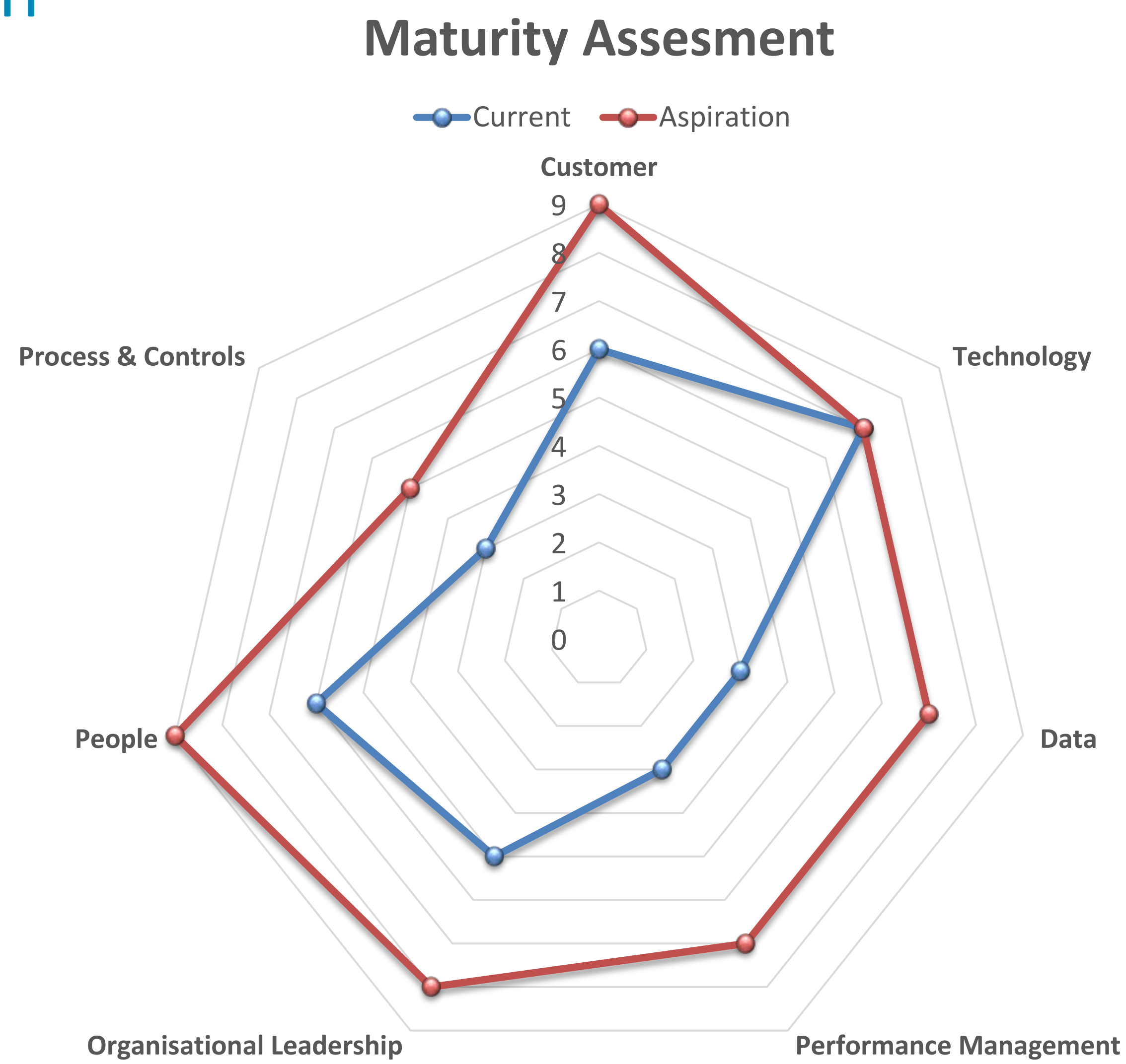
Current & Future Maturity Assessment

- Subjective, but honest assessment in Year 2 of the Partnership's operation and what has been achieved against 7 key criteria:
  - Performance Management
  - Customer
  - Data
  - Process & Controls
  - People
  - Organisational Leadership
  - Technology

- The assessment is intended to be used as a high level guide to inform future priorities

- Future aspirations also determined against the criteria to be achieved by 2021

Our assessment to date and 2021 aspiration



Page 78

Challenges & Opportunities

- Identification of the key strategic challenges and opportunities facing Orbis up to 2021 to inform the revised business plan prioritisation

Challenges	Opportunities
Remaining sustainable	Strengthen place based approach
Building a workforce fit for the future	Remain an intelligent partner
Integrating services	Trail blaze new technologies and approaches
Retaining the Unique Selling Point	Build a high performing workforce

What are the key challenges facing Orbis up to 2021?

orbis

Remaining sustainable

- Managing increasing **demand** and customer expectations
- Delivering additional **budget reductions** whilst continuing to deliver good quality services
- **Retaining the customer base** in a rapidly changing external context (schools and social care in particular)
- Responding to the unique **political direction** of the three sovereign authorities
- Understand cost and value

Building a workforce fit for the future

- Embedding the **Orbis culture** and way of working at all levels of the organisation
- Building an **agile workforce** that can respond to change (technological, service, organisational)
- Equipping the workforce with the **skills they need** for the future when these are not yet known
- Attract and retain staff with the skills required for future roles (i.e. Gen Z)

Integrating services

- Maintaining a focus on the **integration of services** across three authorities whilst sustaining business as usual
- Balancing a requirement for **simplification** and **standardisation** to drive efficiencies whilst retaining scope to **tailor services** to sovereign priorities
- Common processes and practices across the partnership to help rationalise and consolidate systems

Retaining the Unique Selling Point

- **Strengthening sovereign relationships** and maintaining a strong understanding of customers in a context of reduced visibility and time pressures
- Navigating a complex array of metrics to **demonstrate a clear value proposition** for Orbis services
- Delivering **customer focused services** at a partnership level, not in individuals silos
- Relevant & sustainable

What are the key opportunities for Orbis up to 2021?

orbis

Strengthen place based approach

- Drive presence and value in the sovereign localities by **expanding the customer base** to include Health, Police, Education and Third Sector
- Deliver added value to sovereign authorities by utilising public sector relationships as a catalyst for **further joint working**

Remain an intelligent partner

- Retain strong working relationships with the sovereign authorities to **maintain customer insight** and support future sustainability
- **Proactively offer solutions** to sovereign services to support future sustainability
- Continue to be **seen part of the sovereign business** not a provider to it

Adopt new approaches and applied technologies

- Experiment with **new ways of working and technologies**, adopting or rejecting quickly to **improve efficiency** and offer solutions to sovereign services as appropriate
- Develop **insight** through effective use of data to deliver a **range of capabilities (i.e. analytics)** to drive value in the business and to the sovereign services

Build a high performing workforce

- **Recruit talent** through the diverse Orbis offer and strong public sector values
- **Retain talent** and develop **existing workforce** by offering flexible career paths across a diverse range of services
- Utilise **broad labour market** across the Orbis geography to attract and retail talent
- Maintain **organisational youth** and energy to build a **confident workforce**

Priorities

- Key priorities identified to enable the delivery of the 2021 Business Plan

1. Serve our Customers
2. Develop our People
3. Lead to Create Conditions for Success
4. Know our Business
5. Utilise Digital Solutions
6. Perform to our Highest
7. Standardise

Primary Priorities

Relevant Orbis Principle

1. Serve our Customers	2. Develop our People	3. Lead to Create Conditions for Success
Place the customer at the heart of everything we do	*Have a workforce who are proud and passionate and given the opportunity to succeed and flourish*	*Embed a partnership culture, empowering our people to make decisions based on the right thing for our business and our customers*

- Develop Orbis wide customer metrics and a performance dashboard for senior customers
- Establish mechanisms to seek regular customer feedback
- Develop a customer access strategy to ensure service delivery is focused on the end user and not determined by function and structure
- Strengthen relationships with sovereign bodies to remain an intelligent partner
- Develop greater customer insight to enable proactive responses to customer needs

- Continue to embed the EPIC culture and behaviours to all levels of the organisation to build loyalty to Orbis
- Embed the Orbis performance framework
- Enable more staff to access opportunities across the partnership via secondments and training
- Remain aware of the organisational mood and tailor communication and marketing of development programmes accordingly
- Equip staff with skills and expertise to respond to changing environment and technology, building agility
- Recruit and retain talent to help deliver our vision, including securing more flexible resources to meet fluctuating demand

- Embed the Orbis culture across all layers of the organisation and all partners
- Empower staff to take more decisions and positively role model this
- Continue to engage with staff regarding what it means to be part of Orbis
- Communicate and engage with staff regularly and in an accessible form

Secondary Priorities

4 Know our Business	5 Utilise Digital Solutions	6 Perform to our Highest	7 Standardise

Relevant Orbis Principle

- Be the public services supplier of choice, allowing our existing and future Partners to benefit from our increased standardisation, insight and reduced duplication.
- Have a thriving business which is sustainable now and in the future

4 Know our Business

- Develop our analytics offer to understand our customers
- Develop a data management strategy to improve data quality and reduce manual interventions

5 Utilise Digital Solutions

- Develop our technological capabilities to support the delivery of our services
- Develop an evaluation framework to assess the value added from technology and digital transformation
- Share and promote capabilities of existing systems to avoid reinventing the wheel
- Explore the use of robotic process automation to enhance our business offer and realise capacity

6 Perform to our Highest

- Undertake scenario planning regarding existing and emerging risks to sustainability
- Develop an action plan for high risk areas e.g. potential loss of customer base from schools and social care
- Explore opportunities to reduce delivery costs further e.g. use of robotics to automate processes
- Remain receptive to the impact budget reductions and further pressures will have on the organisational mood and culture

7 Standardise

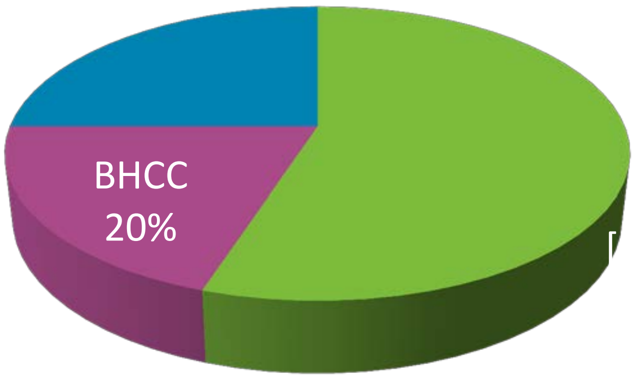
- Continue to explore ways to improve standardisation and duplication within services
- Identify and exploit existing and emerging opportunities with other partners in the local area e.g. health and social care, to drive further service improvements
- Map existing processes and regularly review and challenge to improve and standardise

Financial baseline & benefits

- Outline of the contribution ratios for each of the three Partners
- Definition of the financial and non-financial benefits delivered through the delivery of the 2021 Business Plan
- Exploration of 'Areas of Search' to identify potential additional benefits

Financial baseline & benefits

Work on the financial baseline is nearing completion, the revised contribution ratios for the operating budget are likely to be in the region of:



- Initial sessions held with each service to start discussions around “areas of search”.
- Areas of search (focused on a number of themes) are seeking to understand the viability and impact of delivering an additional 2-8% savings
- Follow up sessions are being arranged with each service as this will need to be an iterative process.

Brighton & Hove City Council

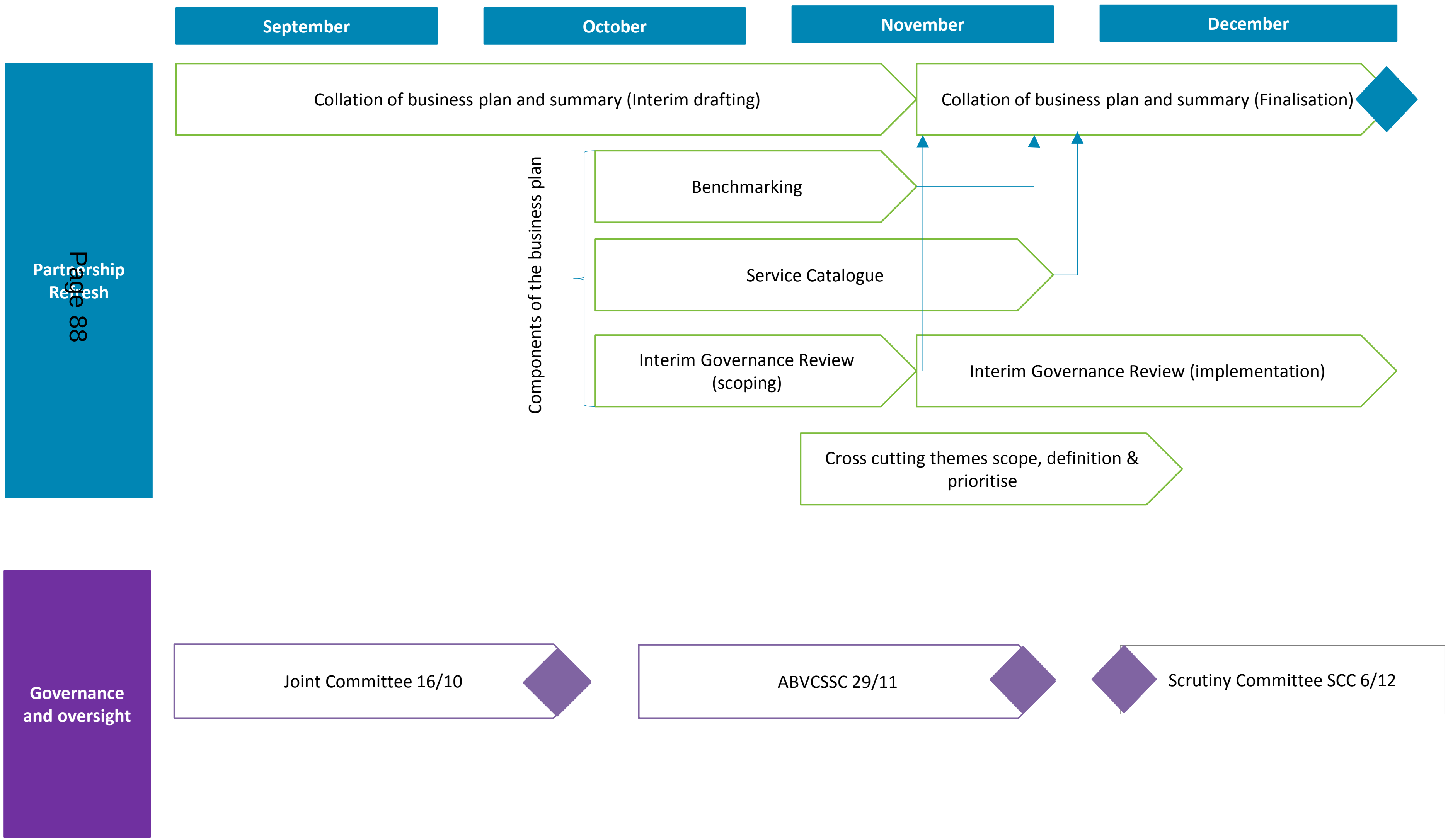
East Sussex County Council

SURREY

Savings - areas of Search Categories

Continuous Improvement	Benefits that can be realised through continuous improvement and the integration of services across three sovereign authorities (e.g. streamlining processes, removal of duplication, reduction)
Demand Management	Adjusting service level and provision to meet demand. For example if the service currently supports 100 staff and this reduces to 50, the level of service provision can be reduced accordingly
Reduce Capacity/ Service Level	The scope of service remains unchanged but the level of capacity to deliver this reduces e.g. the service will be reduced by 10%
Cease Delivery	Some aspects of service delivery cease
End to End Process Review	Potential efficiencies that could be realised from an end to end process review, which may involve moving functions or duties to other parts of Orbis to maximise the opportunity for standardisation
Capitalisation of costs	Charges are moved from revenue to capital
Transformation	The way in which the service is delivered is transformed
Growth	Potential for income generation

Business Plan Completion Timeline



Appendix 2

Council Performance Measures and Targets that Orbis contribute towards:

Driving Economic Growth

Performance measure	Outturn 2016/17	Target 2017/18	Target 2018/19	Target 2019/20
The percentage of Council procurement spend with local suppliers	50%	≥50%	≥50%	To be set in 2017/18
Develop a strategy and action plan supporting the implementation of the Apprenticeship Levy within the Council	New measure	Finalise the Strategy and action plan	To be set in 2017/18	To be set in 2017/18
Economic, social and environmental value committed through contracts, as a percentage of our spend with suppliers	New measure	Charter agreed and baseline to be established	To be set in 2017/18	To be set in 2018/19

Making the Best Use of Resources

Performance measure	Outturn 2016/17	Target 2017/18	Target 2018/19	Target 2019/20
Number of working days lost per FTE (Full Time Equivalent) employee due to sickness absence in non-school services	8.73	9.24	9.24	9.24
Develop an asset investment strategy based on a balanced portfolio approach	Work on the Asset Investment Strategy continues, however presentation of a report to Cabinet has been deferred pending further stakeholder engagement to shape the principles and direction of the strategy	Development and approval of Asset Investment Strategy and implementation plan	To be set in 2017/18	To be set in 2017/18
Cost of occupancy of corporate buildings per square metre	£146 / square metre	£143	2% reduction on 2017/18 costs	To be set in 2018/19

Report to:	**Audit, Best Value and Community Services Scrutiny Committee**
Date:	**29 November 2017**
By:	**Kevin Foster, Chief Operating Officer**
Title of report:	**Expenditure on agency workers in East Sussex County Council 2017**
Purpose of report:	**To consider the latest information available about the use of agency workers via Adecco**

RECOMMENDATION: The Committee is recommended to:

1) consider and comment on the findings and conclusions presented in this report; and

2) agree whether the Committee wish to continue to receive an annual update report on the use of agency workers.

1. Background

1.1 A report was presented to the ABVCSSC on 4 March 2011 detailing the outcomes of the scrutiny review of the use of agency workers and consultants in the Council. Progress updates were provided in October 2011, June 2012, and annually each November since 2013. This report is the latest update.

2. Supporting Information

2.1 The Council has a planned approach to strategic workforce planning and the use of agency workers is integral to this. There are a wide range of circumstances where the Council makes a clear choice to engage Agency workers, including to:

i) manage capacity during periods of workload peaks;

ii) facilitate the move to new structures and models of service delivery, for example, using agency workers rather than recruiting to posts to minimise the risk of redundancy to permanent staff;

iii) provide a flexible staffing model to ensure cover for short term absences such as annual leave or sickness;

iv) ensure minimum staffing levels are maintained in services where this is a regulatory requirement, for example, in Adult Social Care (ASC) Directly Provided Services;

v) provide cover for vacancies where there are recruitment difficulties;

vi) secure specialist knowledge or activity where it is not efficient for the Council to employ a permanent resource, and

vii) provide additional capacity to key projects and workstreams where it is not appropriate and/or viable for internal resources to be released.

<u>Summary and Key Findings</u>

2.2 Attached at Appendix 1, Table 1, is a summary of the use of agency workers in the Council showing expenditure for the periods 2014/15, 2015/16, 2016/17 and 2017/18. The figures for 2017/18 have been forecast based on the actual quarter 1 (April to June 2017) spend. It should therefore be noted that these figures may change as we progress through the year, for example, as a consequence of seasonal variations etc.

2.3 The predicted expenditure on agency workers for 2017/18 is lower than 2016/17. This was expected as some of the large scale change programmes have now completed, for example, delivery of the Agile Working Programme and the contracting out of some services such as the Highways Contract in CET.

2.4 Salary expenditure by department is summarised in Appendix 1, Table 2. In considering the departmental spend further:

i) in overall terms, the predicted spend on agency workers for 2017/18 is reduced compared to the previous year's spend;

ii) whilst the Business Services Department (BSD) continues to have the highest proportion of agency workers compared to permanent, contracted staff (6.39% of the BSD workforce spend engaged through agencies) this is a reduction on 2016/17 when 7.36% of BSD workforce spend was through agencies. The proportion of agency workers has significantly reduced since 2015/16 when it was 12.39%;

iii) BSD was forecast to spend £1.6m on agency workers in 2016/17; the actual spend of £1.3m was considerably less. Further reductions in spend are forecast for 2017/18;

iv) Children's Services (CS) were forecast to continue to reduce spend on agency workers for 2016/17, however spend increased by 5.7% and spend is forecast to increase in 2017/18 by 34% compared to 2016/17 spend. This is mainly in the area of Residential Services where standards around minimum staffing levels apply;

v) Adult Social Care and Health are forecast to reduce spend on agency workers in 2016/17 with the proportion of agency workers to permanent, contracted staff, forecast to likewise reduce;

vi) Communities, Economy and Transport (CET) is expected to significantly reduce spend on agency workers in 2017/18 and the proportion of agency workers to permanent contracted staff is predicted to decrease. This is due to the Highways Contract which came into effect in 2016.

vii) Governance Services (GS) are currently showing a predicted decrease in spend compared to 2016/17.

2.5 Attached at Appendix 2 is a detailed summary of the departmental agency expenditure and rationale for the use of agency workers.

2.6 A direct comparison of the costs between agency workers and employees is not readily possible as there are a range of factors in play. For agency workers there are essentially four strands of cost: (i) the basic hourly rate (that is paid to the worker), (ii) on-costs, including pensions (1% of salary) and national insurance contributions (iii) Adecco's costs (as the Managed Service Provider*)*, and (iv) the actual agency's costs (eg Nine to Five etc).

2.7 The latter costs vary, ranging from, for example, 0.42p per hour for Admin & Clerical work through to £3.10 per hour for a qualified Social & Healthcare worker (eg a Social Worker). For staff directly employed, there are 2 strands of cost: (i) the basic hourly rate of pay (salary), and (ii) the on-costs, including pensions and national insurance contributions. As such, the costs of agency workers and employees are, in practice, relatively similar.

2.8 Given that one of the key reasons for the use of Agency workers is to cover for short term absences such as sickness absence, previous reports have included a summary of agency spend in relation to sickness absence. The Council Plan target in relation to sickness is 9.24 days lost per FTE employee. The 2015/16 sickness absence outturn for the Council was 9.09 days lost per FTE employee; a reduction of over 11% compared to 2014/15 and within the 15/16 target. There are a number of initiatives in place aimed at reducing sickness absence which, based on these figures, are beginning to have an impact. Attached at Appendix 3 is a short summary of the range of initiatives and work being undertaking in this area.

Legal Changes Affecting Agency Workers

2.9 The Government published a consultation in late 2016 on proposed amendment to 'IR35', which governs the tax treatment of off-payroll workers who are registered as a limited company. As a limited company the worker pays less tax as some of their income is apportioned for the running and development of their business. The changes came in to effect on 6th April 2017 and Councils are now required to determine if limited company workers should pay the same tax as an employee. The agency or the client is now responsible for deducting tax and NI contributions before they are paid if IR35 applies to their assignment with the Council.

2.10 The change currently only affects off-payroll workers who work for the Public Sector. Public Sector organisations shared concerns that workers will choose to work in the private sector where they will pay less tax or will only work for the Public Sector if their wages are increased to compensate for the additional tax.

2.11 Since the change came into effect there has been some impact on the Council's ability to recruit agency workers but no wage increases have been requested by agency workers as a result of this change.

2.12 Staff Nurses have been the most affected staffing group. Staff Nurses were already difficult to recruit due to national shortages and competition with the NHS and the private sector. The change to IR35 has resulted in a number of agency Nurses choosing to only work in the private sector.

Audit

2.13 In May 2017, an audit of the Adecco Contract Management arrangements was undertaken by Internal Audit. An opinion of 'partial assurance' was provided. In response to this, a number of actions have been undertaken to put in place more robust arrangements. Of the 12 findings reported, good progress has been made against all and in particular, the two 'high priority' findings have been resolved.

Financial Appraisal

2.14 There are no direct financial implications resulting from the recommendations in this report as the use of agency workers is funded as part of the existing staffing establishment. It is worth noting that agency expenditure as percentage of our pay bill is 3.43% for the Q1 period of 2017/18. Benchmarking data from other Councils shows this figure for the same period as being in the range of 4.1% to 4.38%.

2.15 The current contract through Adecco provides for the Council to access agency workers via a contractual agreement with a range of agencies. Essentially, this provides for some certainty (without giving any guarantees) to be given to agency providers as to the level of expenditure by the Council and in return, the Council is able to access highly competitive rates.

3. Conclusion and Reason for Recommendations

3.1 Robust monitoring and review arrangements are in place to manage the new contract with Adecco. As part of our overall performance management arrangements, we have in place Agency Contract Management Groups (comprising representatives from Adecco and across the Council) which meet on a quarterly basis to monitor operational issues around the day to day management of the contract, as well as performance against the agreed key performance indicators of the contract.

3.2 In addition, agency expenditure continues to be reviewed on a monthly basis with details provided to the Corporate Management Team via the Workforce Dashboard. We are therefore confident that we have in place sound arrangements for monitoring and challenging appropriately the expenditure on agency workers.

3.3 The Committee is recommended to consider the findings and conclusions presented in this report, and agree whether the Committee wishes to continue to receive an annual update report on the use of agency workers.

KEVIN FOSTER
Chief Operating Officer

Contact officers: Sarah Mainwaring, Head of HR/OD and Ruth Wilson, HR Adviser
Tel Nos: 01273 482060 and 01273 481762

This page is intentionally left blank

Appendix 1

Table 1: Summary of Departmental Agency Expenditure for 2014/15, 2015/16, 2016/17 and 2017/18

Department	2017 – 2018 (Forecasted based on Q1 figures)	2016 – 2017	2015 - 2016	2014 - 2015
ASC and Health	£2,380,112	£2,950,429	£2,757,040	£2,076,892
BSD	£1,176,265	£1,337,425	£2,366,584	£3,606,068
CSD	£898,317	£669,159	£631,067	£795,983
CET	£294,540	£524,051	£722,359	£493,957
GS & CEX	£218,670	£262,858	£172,653	£129,869
Total	**£4,967,905**	**£5,743,922**	**£6,649,704**	**£7,105,393**

Table 2: Summary of Agency Spend as a Percentage of Total Salary Spend – Forecasted for 2017/18 using Q1 figures

Department	Salary Spend	Agency Spend	Total Spend	% Agency Spend 2017/18	% Agency Spend 2016/17
ASC and Health	£53,134,819.32	£2,380,112	£55,514,931.32	4.48%	5.65%
BSD	£18,412,976.64	£1,176,265	£19,589,241.64	6.39%	7.36%
CSD	£53,739,649.48	£898,317	£54,637,966.48	1.67%	1.23%
CET	£15,179,502.52	£294,540	£15,474,042.52	1.94%	3.33%
GS & CEX	£4,472,122.24	£218,670	£4,690,792.24	4.89%	7.22%
Total	**£144,939,070.20**	**£4,967,905**	**£149,906,975.20**	**3.43%**	**3.99%**

*Of the total projected spend for BSD approximately 51% of it i.e. £601,533 is forecast to be spent on key organisational wide corporate projects, with the remaining 49% i.e. £574,732 being spent on business as usual temporary cover arrangements in the absence of permanent staff or to cover during recruitment.

Appendix 2

Departmental Agency Spend and Rationale for Agency Use

The figures in this appendix are from 2016/17 agency spend and usage, as using 2017/18 figures from quarter 1 to forecast for the full year would not provide a complete or accurate picture, given seasonal variations in usage.

Adult Social Care & Health

- The nature of some services provided by Adult Social Care & Health (ASC&H) requires that staffing shortages must be covered to ensure minimum staffing levels are met.

- The nature of ASC&H services also creates fluctuating staffing needs. Unplanned activity and changing conditions in client needs, additional numbers of clients, or clients with more complex needs can increase the staffing levels required for a period of time.

- The integration of health and social care services and the strategy to increase the number of joint intermediate care beds, the aim being to reduce the length of a patient's stay in hospital, and the need for long term support, has led to an increased need for qualified workers, particularly nurses.

- The highest usage categories for agency workers within ASC&H in 2016/17 were;

  Social and Healthcare Qualified (e.g. Nurse, Social Worker) - £906,387
  Social and Healthcare Unqualified (e.g. Care Worker) - £896,370
  Executive Interim - £636,712

- These categories were also the highest spend areas in 2015/16;

  Social and Healthcare Qualified (e.g. Nurse, Social Worker) - £1,171,682
  Social and Healthcare Unqualified (e.g. Care Worker) - £680,172
  Executive Interim - £420,415

- Spend on Social and Healthcare Qualified roles has decreased since 2015/16 by 22.64%. In the previous year spending in this area had increased. The assignment within Social and Healthcare Qualified included; Social Worker (£243k), Occupational Therapist (£317k), Staff Nurse (£258k) and Physiotherapist (£78k).

- Spend on Social and Healthcare Unqualified roles has increased since 2015/16 by 32%. In 2015/16 spending decreased by 26% compared to spend in 2014/15.

- The spend on Executive Interim has increased by 34% to support the Commissioning reforms and partnership working with the NHS.

The table below summarises the number of assignments for each category (listed from highest to lowest category of spend for ASC&H) for each reason:

	Holiday Cover	Internal Expertise unavailable	Mat. Leave	Cover during Permanent Recruitment	Project or additional workload	Restruc -ture	Secondment cover	Sickness or absence	Other	Total No
Social and Healthcare Qualified	-	-	-	2 (2%)	15 (15%)	56 (58%)	-	1 (1%)	23 (24%)	97
Social and Healthcare Unqualified	13 (3%)	9 (2%)	-	89 (17%)	2 (<1%)	-	-	189 (36%)	216 (42%)	518
Executive Interim	-	-	-	-	1 (14%)	-	-	1 (14%)	5 (71%)	7
All other categories	27 (20%)	0	2 (1%)	5 (4%)	21 (16%)	1 (1%)	5 (4%)	15 (11%)	58 (43%)	134
Total All Categories	40 (5%)	9 (1%)	2 (<1%)	96 (13%)	39 (5%)	57 (8%)	5 (1%)	206 (27%)	302 (40%)	756

Social and Healthcare Qualified

- The majority of Social and Healthcare Qualified assignments were to cover during a restructure (58%), projects or additional workload (15%). This shift from the main reasons for temporary cover in 2015/16 when the most common reason was to cover during permanent recruitment.

- These assignments were to cover Occupational Therapists, Physiotherapists, Senior Practitioners (Social Work), experienced Social Workers and registered Nurses which are all hard to recruit to roles.

- A significant number of qualified nurses were required at short notice so that Directly Provided Services could run their establishments at their maximum capacity of intermediate care beds.

Social and Healthcare Unqualified

- The majority of Social and Healthcare Unqualified assignments were for 'other reasons' (42%), to cover sickness or absence (36%) and to cover during permanent recruitment (17%).

- Whilst much of the agency comparison information is provided by assignment numbers this can be a misleading measure in ASC&H when considered in isolation. For example, an agency admin and clerical worker may be employed on one assignment for several months but in contrast an unqualified care worker in a Directly Provided Services (DPS) establishment can cover a large number of short-term, say one or two day, assignments over the same period but in fact works considerably less hours overall. The analysis of agency usage within ASC&H therefore needs to include actual spend as well as the number of assignments.

- ASC continued to use qualified Social Workers and Occupational Therapy agency staff through Adecco in 2016/2017. This was partly due to the difficulty in recruiting to these roles permanently, particularly given that both roles are occupations where there are national shortages.

- In considering Occupational Therapy, there was a high area of spend out of the ASC total in 2016/17 at £317,462. This is a slight decrease on the spend in 2014/15, which was £355,145. Occupational Therapists are very difficult to recruit both locally and nationally for all local authorities.

- There was a pilot initiative to introduce a Nursing unit at Milton Grange as part of the strategy to increase the number of intermediate care beds. Spend on Staff Nurses was high in 2015/16 (£239K) as experienced Nurses are hard to recruit nationally. During 2016 permanent Staff Nurse Vacancies were advertised and it was anticipated that this would reduce the level of agency spend in 2016/17. The spend of Staff Nurses has however increased to £257,519 for three reasons;

    - A second unit opened in early 2016 which increased the beds from 10 to 19
    - Client needs changed and more Staff Nurses were required to meet these needs
    - The service were unable to recruit to the permanent vacancies in 2016/17

Executive Interim

- The majority of Executive Interim assignments were for other reasons (71%). These were mainly to support the East Sussex Better Together partnership working and associated commissioning reforms. (71%).

- 5 of the 7 executive interim assignments were supporting Commissioning reforms and partnership working with the NHS (£593k). The other 2 assignments were to cover management positions;Head of Service (£17k) and Practice Manager (25k).

Other spend

- A total of £510,961 was spent within Adult Social Care on other job categories such as Admin, Facilities and Catering, Project Support.

Children's Services

- As with ASC, the nature of some services provided by Children's Service's (CS) requires staffing shortages to be covered by permanent staff or temporary workers to ensure that minimum staffing levels are met.

- The highest usage categories for agency workers within Children's Services in 2016/17 were;

  Social and Healthcare Unqualified (e.g. Support Worker) - £459,572
  Admin and Clerical - £116,254
  Executive Interim - £56,480

- These categories were also the highest spend areas in 2015/16;

  Social and Healthcare Unqualified (e.g. Support Worker) - £321,926
  Admin and Clerical - £147,256
  Executive Interim - £91,660

- There has been an increase of 30% in the spend on Social and Healthcare Unqualified roles in 2016/17. The spend was on three roles; Support Worker (£320K), Group Worker (£107K) and Nursery Assistant (£32K).

- There have been difficulties in recruiting Support Workers and Group Workers for a number of years which has resulted in year on year increases in agency spend on these staff groups.

- The spend for Admin and Clerical has decreased since 2015/16 by 27%. There were a number of service reviews within CSD in 2014/15 and 2015/16. Covering some permanent vacancies across CSD by agency workers during such reviews enables the council to avoid the potential for compulsory redundancies and provides redeployment opportunities for staff who may be displaced as a result of such service reviews. Cover arrangements led to an increase in agency workers expenditure in 2014/15. Spend has now decreased for 2 successive years.

- The spend for Executive Interim has decreased from £91,660 in 2015/16 to £56,480 in 2015/16, a decrease of 62%. This is significantly different from 2015/16 when the cost of Executive Interims increased by 328% compared to the spend in 2014/15.

The table below summarises the number of assignments for each category (listed from highest to lowest category of spend for Children's Services) for each reason:

	Holiday Cover	Internal Expertise unavailable	Mat. Leave	Cover during Permanent Recruitment	Project or additional workload	Restruc -ture	Secondment cover	Sickness or absence	Other	Total No
Social and Healthcare Unqualified	**14** (6%)	**-**	**1** (<1%)	-	25 (11%)	**-**	-	132 (59%)	**51** (23%)	223
Admin and Clerical	**-**	**-**	**-**	7 (19%)	11 (31%)	**-**	1 (3%)	4 (11%)	**13** (36%)	36
Executive Interim	**-**	**1** (50%)	**-**	-		**-**	-		**1** (50%)	2
All other categories	**2** (11%)	**0**	**0**	0	5 (26%)	**-**	0	10 (53%)	**2** (11%)	19
Total All Categories	**16** (6%)	**1** (<1%)	**1** (<1%)	7 (3%)	41 15(%)	**-**	1 (<1%)	146 (52%)	**67** (24%)	280

Social and Healthcare Unqualified

- The majority of Social and Healthcare Unqualified assignments were to cover sickness or absence (59%) or for 'other reasons' (23%).

- There are staffing ratios required to care for children safely. If the service is below this ratio because of sickness or leave, the service will seek to cover shifts with permanent or relief staff before going to agencies. Permanent and relief posts were advertised through two recruitment drives in the last year, however there was a poor response to the adverts and few positions were filled.

- There have been changes to children's needs within the residential and respite care homes which has increased the staffing requirements. More children are requiring a 2-1 staffing ratio as normal group staffing ratios are not sufficient to meet their more complex needs. There was an increase in school exclusions for children which increased the staffing requirements in school hours.

Admin and Clerical

- The majority of Admin and Clerical assignments were for other reasons (36%) or to cover projects or additional work (31%).

Executive Interim

- Two of the Executive Interim assignments were because internal expertise were not available (50%) and for 'other reasons' (50%).

Other spend

- A total of £36,853 was spent within Children's Services on other job categories such as Information Technology for a Web and Intranet Editor, Social and Healthcare Qualified and Facilities and Catering.

Business Services

- The highest usage categories for agency workers within BSD in 2016/17 were;

  Information Technology - £749,632
  Finance - £353,832
  Management - £170,839

- Two of these categories were also the highest spend areas in 2015/16;

  Information Technology - £1,016,540
  Finance - £396,673

- The spend on Information Technology has decreased by 26% when compared to the spend in 2015/16.

- The spend on Finance has decreased by 10% when compared to the spend in 2015/16.

The table below summarises the number of assignments for each category (listed from highest to lowest category of spend for BSD) for each reason:

	Holiday Cover	Internal Expertise unavailable	Mat. Leave	Cover during Permanent Recruitment	Project or additional workload	Restruc -ture	Secondment cover	Sickness or absence	Other	Total No
Information Technology	-	1 (3%)	1 (3%)	-	22 (63%)	-	-	-	11 (31%)	35
Finance	1 (3%)	-	3 (8%)	-	9 (23%)	-	-	-	27 (68%)	40
Manage- ment	-	-		-	3 (60%)	-	-	-	2 (40%)	5
All other categories	-	3 (13%)	2 (8%)	-	2 (8%)	2 (8%)	-	8 (33%)	7 (29%)	24
Total All Categories	1 (1%)	4 (4%)	6 (6%)	-	36 (35%)	2 (2%)	-	8 (8%)	47 (45%)	104

Work Programmes

- BSD leads on a number of significant corporate programmes for the benefit of the organisation. For example, the Agile Working Programme, the Desktop Anywhere project, the replacement of the current Social Care Information System, implementation of SharePoint 2013, implementation of the Central Postal Hub and the 'Scan it, Store it, Scrap it' project. These transformational change programmes require a significant amount of additional capacity to implement and often specialist skills that would otherwise be expensive to retain permanently. Using agency resource, funded from the specific investment programmes, to augment establishment staff is an efficient way of flexing resource for a time limited period in order to deliver transformational change. The need for this specialist capability and additional capacity has decreased for the last 2 years as the programmes have finished. This is reflected in the spend for 2016/17.

Management

- Many of the services delivered by BSD are of a specialist nature, for example, Finance roles and Interim Managers are therefore engaged for their specialist knowledge and expertise.

ICT

- Agency workers are predominantly used tactically in ICT for time limited periods to augment the staff base temporarily in order to deliver transformational change. Core establishment staffing levels are predominantly designed to support business as usual and routine growth activity. Increasing capacity to deliver major change projects ensures that day to day business is not impacted during project implementation. These assignments are funded by the specific investment projects, the cost of implementation factored into the business case and the gross establishment of the ICT staff base flexed only for the minimal delivery time required by the project. This tactical deployment of resource accounts for 81% of assignments in 2016/17 (62% in 2015/16 and 83% in 2014/15).

- Using agency workers in this way allows for flexibility in resourcing, ensuring there are adequate staffing levels to deliver projects efficiently whilst maintaining business as usual. To ensure consistency and credibility, agency workers are carefully integrated with the team to either provide additional project capacity direct, often bringing specialist skills to the team and imparting knowledge or by providing backfill to the establishment staff in order that existing skills can be utilised and knowledge can be retained within the establishment support staff.

- It is worth noting that nationally, the ICT market is a highly competitive area, especially when the roles are of a more technical or specialist nature. The close proximity to London and Brighton makes the local market competitive as skilled ICT professionals have a range of job opportunities available to them. The pay rates for specialist agency workers therefore reflects the local market and the fixed term nature of these positions.

Finance Services

- The majority of Finance Services assignments were for other reasons (68%) and to cover project or additional workload (23%).

- Transactional financial activity accounts for £198,844 (56%) of the spend on finance assignments. Whilst this activity sits within Business Operations it is linked to client delivery (ASC payments). Spend on transactional finance has increase since 2015/16 when it accounted for 44% of finance spend.

- Strategic and advisory financial support assignments account for £223,446 (56%) of the spend on finance assignments. Vacancies were being covered with agency workers as an interim measure whilst the new Business Operations team was forming as part of the wider Orbis integration. Some of these positions will no longer be required in future so using agency avoids the need for redundancies.

Other spend

- A total of £187,249 was spent within BSD on other job categories such as Manual Labour, Admin and Clerical, Catering and Procurement.

- The majority of assignments in other categories were to cover sickness or absence (33%) and for other reasons (29%). The majority of the assignments to cover sickness or absence were for catering roles in order to ensure adequate staffing of the front facing income generating role and to maintain customer service.

Communities, Economy and Transport

- The highest usage categories for agency workers within CET in 2016/17 were;

  Engineering and Surveying - £244,500
  Management - £97,823
  Admin and Clerical - £96,630

- Two of these categories were also the highest spend areas in 2015/16;

  Engineering and Surveying - £483,464
  Admin and Clerical - £167,668

- The spend on Engineering and Surveying has decreased by 49% as a result of the Highways Service outsourcing. In 2015/16 spend had increased by 151% as a result of the lead up to the Highways Service outsourcing

- The spend on Admin and Clerical has decreased by 42%. Spend on Admin and Clerical also decreased in 2015/16.

The table below summarises the number of assignments for each category (listed from highest to lowest category of spend for CET) for each reason:

	Holiday Cover	Internal Expertise unavailable	Mat. Leave	Cover during Permanent Recruitment	Project or additional workload	Restruc -ture	Secondment cover	Sickness or absence	Other	Total No
Enginee-ring and Surveying	-	2 (10%)	-	-	-	1 (5%)	-	-	17 (85%)	20
Manageme nt	-	1 (50%)	-	1 (50%)	-	-	-	-	-	2
Admin and Clerical	3 (8%)	-	-	-	8 (22%)	-	5 (14%)	6 (16%)	15 (41%)	37
All other categories	0	0	-	0	3 (%)	0	1 (%)	0	1 (%)	5
Total All Categories	**3 (5%)**	**3 (5%)**	**-**	**1 (2%)**	**11 (17%)**	**1 (2%)**	**6 (9%)**	**6 (9%)**	**33 (52%)**	**64**

Engineering and Surveying

- The majority of Engineering and Surveying assignments were for other reasons (85%) and because internal expertise was unavailable (10%).

- The Council has a statutory duty to inspect the roads and pathways across the County and keep regular reports which can be used in Court as evidence. If the Council is unable to provide these reports, it will not be possible to defend any cases brought against them. This in turn would result in the Council being unable to claim any awards payable from the insurance company. Seven agency workers were therefore used to cover the work of Highway Inspectors when low staffing levels presented a risk to the Council being able to meet this statutory duty.

- Two assignments were for Engineers, who are hard to recruit to on permanent contracts due to the competitive nature of the employment market for Engineers.

- The majority of the Highways Service was outsourced from 1st May 2016. Agency spend in Highways has therefore significantly reduced from that date.

Admin and Clerical

- The majority of Admin and Clerical assignments were for other reasons (41%) and to cover projects or additional workload (22%).

- There were 495 permanent full time equivalent staff employed in March 2017 of which just 15 (3%) were employed in an administrative capacity. Agency administrators are engaged to support short term projects or to support seasonal pressures rather than employing more permanent administrators, who would not be required throughout the whole year.

Other spend

A total of £85,097 was spent within CET on other job categories such as Trades and Operatives and Facilities and Environmental Services.

Governance Services

- The highest usage categories for agency workers within GS in 2016/17 were;

  Legal - £237,400
  Management - £23,105

- These categories were also the highest spend areas in 2015/16;

  Legal - £126,775
  Management - £21,724

- Spend on Legal assignments has increased by 8% compared to 2015/16.

The table below summarises the number of assignments for each category (listed from highest to lowest category of spend for GS) for each reason:

	Holiday Cover	Internal Expertise unavailable	Mat. Leave	Cover during Permanent Recruitment	Project or additional workload	Restruc -ture	Secondment cover	Sickness or absence	Other	Total No
Legal	-	-	-	-	4 (31%)	1 (8%)	-	2 (15)	6 (39%)	13
Manage-ment	-	-	-	-	-	-	-	-	1 (100%)	1
All other categories	-	-	-	-	2 (67%)	-	-	1 (33%)	0	3
Total All Categories	**-**	**-**	**-**	**-**	**6** (35%)	**1** (6%)	**-**	**3** (18%)	**7** (41%)	17

Legal

- The majority of Legal assignments were for other reasons (39%) and to cover projects or additional work load (31%).

- Legal roles included Legal Assistants, Legal Officers, Legal Secretaries and Solicitors.

Executive Interim

- Legal Services have begun the journey of forming Orbis Public Law. By working with Surrey CC, Brighton CC and West Sussex CC Legal Services aim to build resilience and draw off the legal expertise of the Solicitors employed by the four Councils. This should result in reduced costs for all partners as less agency workers and external legal advice will need to be sourced.

- During the integration period some permanent vacancies and peaks in workload have been covered by interim Solicitors to avoid the need for potential redundancies once Orbis Public Law is fully integrated.

Management

- The management assignment was to cover projects. The current projects that are being supported include orbis public law and the Coroner’s service.

Other spend

A total of £917 was spent within GS on an Admin and Clerical assignment.

This page is intentionally left blank

Appendix 3

Agency Spend and Sickness Absence

1. Background

1.1 Agency cover is used for a number of reasons including to provide cover for staff absences in frontline services such as Adults and Children's Services. Given the costs associated with this, a considerable amount of work has been done to ensure that we have in place robust arrangements for the management of sickness absence.

1.2 At a strategic level, the following key performance measures in relation to sickness absence exist:

- Council Plan target of 9.24 days lost due to sickness absence per FTE employee, and
- Portfolio Plan target of 90% of 'return to work interviews' to be completed within seven days

1.3 Performance against these targets is monitored regularly through both the corporate Council Plan quarterly monitoring process and in the form of monthly dashboards presented to CMT. In terms of days lost due to sickness, the addendum attached shows our performance from 2014/15 to 2017/18. As can be seen from this, there has been a year on year improvement and we have achieved the Council Plan target for the second year running.

1.4 In terms of performance against the 'return to work interviews' target, the table below sets this out over the same time period. Significant improvement has been achieved since Q4 in 2015/16 and in Q1 2017/18 we were only 1% off reaching the 90 % target:

	Q1	Q2	Q3	Q4
2014/15	78%	75%	77%	71%
2015/16	70%	73%	72%	86%
2016/17	85%	85%	88%	86%
2017/18	89%			

1.5 Set against this background, a considerable amount of work has been undertaken to manage down sickness levels across the Council over the last 2 years. A number of initiatives, in conjunction with departments, have been put in place, a summary of which is detailed below.

2. Attendance Management Initiatives

2.1 Management Information

- Sickness absence levels are included in the monthly dashboard of workforce indicators that goes to the Corporate Management Team. Sickness trends, top reasons for absence, numbers of days lost and benchmarking of our Occupational Health referrals are amongst the information included, thereby ensuring on-going visibility of sickness absence levels and reasons at the most senior level within the Council.
- In addition, a range of reports are issued to local managers at team level.

2.2 Mental Health and Stress Related Absence

Stress and mental health are currently the most common reasons for sickness absence. However, ESCC are only 1 in 9 local authorities to see a reduction in this area.

- Mental Health
  Following our commitment to the 'Time for Change' pledge, opportunities for collaboration are being explored with Public Health, Trade Union colleagues and our new Occupational Health Provider. A number of planned activities are due to take place in the autumn including a manager's workshop for World Mental Health Day alongside a dedicated communications plan aimed to raise awareness. Online resources have been developed to assist managers, including guidance videos and a 'Wellness Plan'. These tools have been well received and the metrics demonstrate they are widely used. Explorative work is currently being undertaken to train members of staff as 'Mental Health First Aiders' which will entail upskilling designated individuals in our workforce to spot the early signs of mental ill health and provide initial signposting, guidance and support

- Stress
  As previously reported an LGA grant of £10k has been successfully secured which has enabled ESCC to pilot an online mindfulness programme to support staff to be resilient at work. 60 members of staff participated in this course which completed on 31 March 2017. An independent evaluation is now in process with a full report due autumn 2017. This will include data and recommendations for supporting employee wellbeing and resilience in the workplace.
- In addition, a specialist nurse from our absence provider is due to deliver a targeted session to provide guidance for managers with high level of stress in their teams. As part of our ongoing corporate training programme the 'Managers Managing Stress' course has also been recommissioned. Following staff feedback a Mindfulness 'resources' page has been created on the intranet and over 100 members of staff have registered an interest in the mindfulness 'drop in' sessions which continue to take place on a regular basis in Eastbourne and Lewes.
- An automated process is now in place to ensure that all managers who have employees absent due to mental health or stress are contacted on the first and tenth day of absence. The email is sent direct from Firstcare and provides guidance directly to managers on supporting staff. It also prompts them to make contact since research suggests that establishing open lines of communication at the initial stage of an employee's absence is important in securing an earlier return to work.

2.3 Musculoskeletal Absence

Absence due to musculoskeletal reasons is now the second most common cause for time lost; dedicated initiatives are in place to address this:

- An automated trigger notification has been developed; signposting managers directly to the physiotherapy service on the first day when an employee reports the absence enabling prompt intervention. The decrease in musculoskeletal absence set against the increase in physiotherapy referrals since the introduction of this automated guidance is indicative of this being a successful intervention.

- The absence statistics demonstrate that the majority of musculoskeletal absence is experienced by older workers who undertake manual handling. Exploration work is underway to identify manual handling training specific to our workforce needs.

- Future preventative interventions are also being explored with Public Health and our new Occupational Health Provider.

2.4 Return to Work Interviews

Return to work (RTW) conversations are recognised as a critical event in the successful management of sickness absence. A number of initiatives to support managers with completing RTW interviews have been implemented. Of specific note:

- The development of an online video guide for managers to increase confidence in this area, with over 500 unique views.

- On 12 June 2017 a new Return to Work form was launched with the aim of promoting relevant conversations and to enable appropriate signposting at the earliest opportunity. These revised dynamic forms provide tailored questions for specific conditions, for example stress and musculoskeletal absences.

- The automated return to work email has been revised and reiterates the importance of having these conversations to prevent future absence.

2.5 On Site Health Checks

- A joint venture with Public Health offering ESCC staff work base health checks launched on 19 June 2017. The aim is to improve the health and wellbeing of adults aged 40-74 years through the promotion of earlier awareness, assessment, and management.

- It is anticipated that these checks will help to prevent the onset of cardiovascular disease. There has been a positive response to this with over 250 employees having received a health check to date.

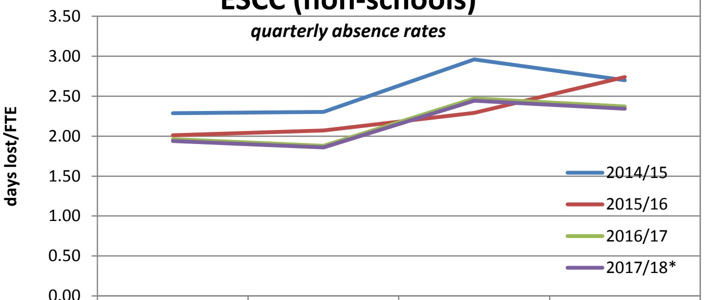
3 Conclusion

The initiatives highlighted above are indicative of the range of interventions we have in place to improve attendance levels across the Council, as well as deliver on our continued commitment to reducing absence levels.

Quarterly absence rates 2014/15 to 2017/18 (projected)

ESCC (non-schools)

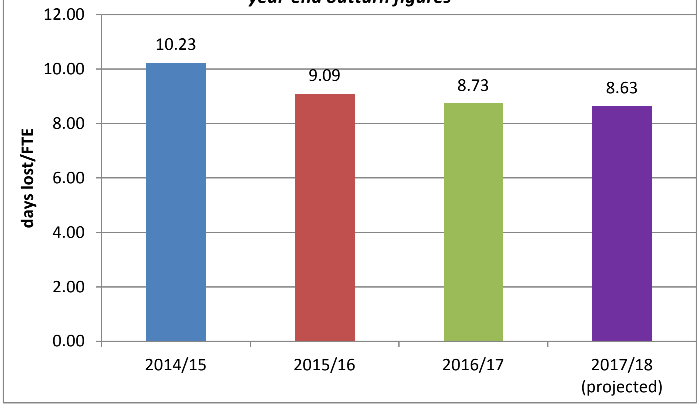
quarterly absence rates



	Q1	Q2	Q3	Q4
2014/15	2.29	2.30	2.96	2.70
2015/16	2.01	2.07	2.29	2.74
2016/17	1.96	1.88	2.47	2.37
2017/18*	1.94	1.86	2.44	2.34

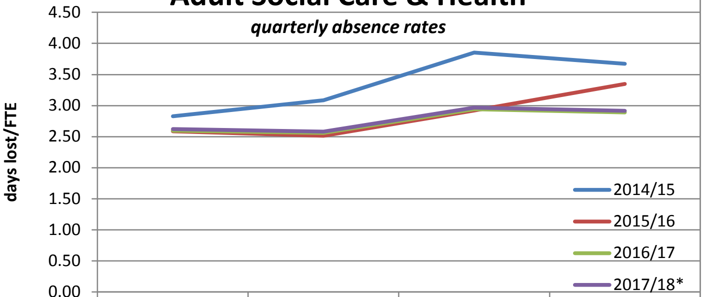
ESCC (non-schools)

year-end outturn figures



Adult Social Care & Health

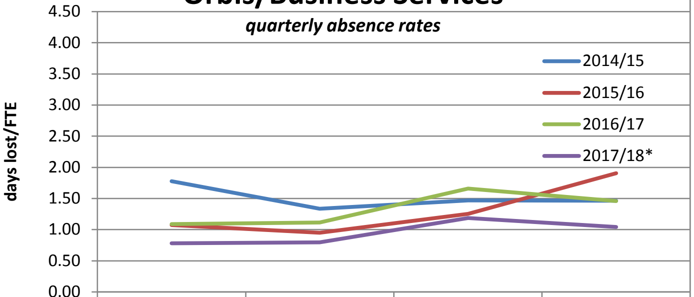
quarterly absence rates



	Q1	Q2	Q3	Q4
2014/15	2.83	3.09	3.85	3.67
2015/16	2.58	2.51	2.92	3.35
2016/17	2.60	2.56	2.94	2.89
2017/18*	2.62	2.58	2.97	2.92

Orbis/Business Services

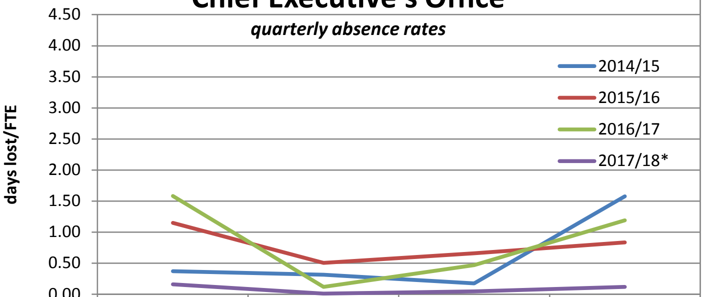
quarterly absence rates



	Q1	Q2	Q3	Q4
2014/15	1.78	1.33	1.47	1.46
2015/16	1.08	0.95	1.25	1.90
2016/17	1.09	1.12	1.66	1.46
2017/18*	0.78	0.80	1.19	1.04

Chief Executive's Office

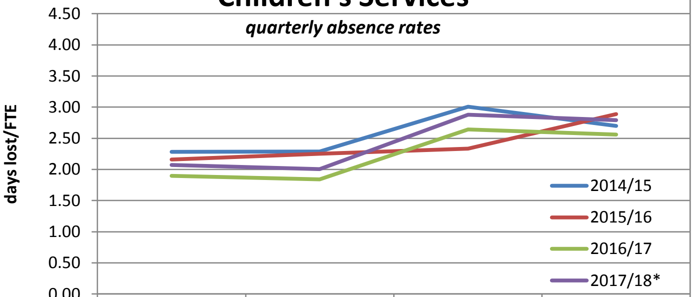
quarterly absence rates



	Q1	Q2	Q3	Q4
2014/15	0.37	0.32	0.18	1.57
2015/16	1.15	0.51	0.66	0.84
2016/17	1.58	0.12	0.47	1.19
2017/18*	0.16	0.01	0.05	0.12

Children's Services

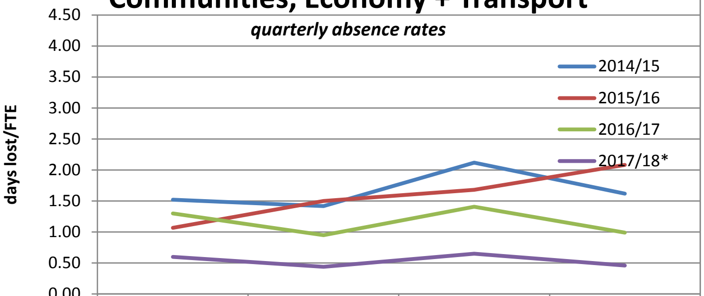
quarterly absence rates



	Q1	Q2	Q3	Q4
2014/15	2.28	2.29	3.01	2.70
2015/16	2.16	2.25	2.33	2.89
2016/17	1.90	1.84	2.64	2.56
2017/18*	2.07	2.01	2.88	2.79

Communities, Economy + Transport

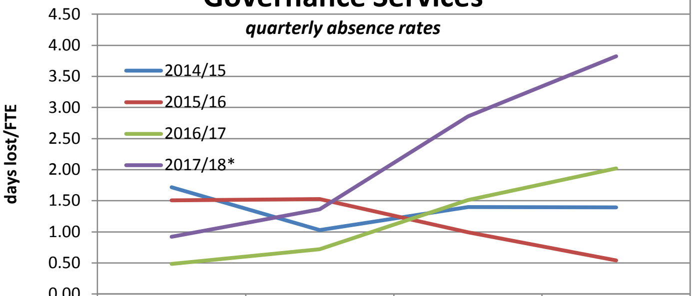
quarterly absence rates



	Q1	Q2	Q3	Q4
2014/15	1.52	1.42	2.12	1.62
2015/16	1.07	1.50	1.68	2.08
2016/17	1.30	0.95	1.41	0.99
2017/18*	0.60	0.44	0.65	0.46

Governance Services

quarterly absence rates



	Q1	Q2	Q3	Q4
2014/15	1.72	1.03	1.40	1.39
2015/16	1.51	1.53	0.99	0.54
2016/17	0.49	0.72	1.51	2.02
2017/18*	0.92	1.36	2.86	3.82

**2017/18 Q2+3+4 are projected from Q1*
absence rate is days lost per FTE, expressed quarterly (not cumulative quarters as used for Council Plan monitoring)
excludes staff on temporary contracts with less than one year's ESCC service

Report to:	**Audit, Best Value and Community Services (ABVCS) Scrutiny Committee**
Date:	**29 November 2017**
By:	**Chief Executive**
Title of report:	**Reconciling Policy, Performance and Resources (RPPR)**
Purpose of report:	**To provide an update on the Council's business and financial planning process (Reconciling Policy, Performance and Resources) and the Committee's comments and requests for further information.**

RECOMMENDATIONS:

The Scrutiny Committee is recommended to:

(1) consider any additional information requested at the September Scrutiny Committee meeting on RPPR;

(2) review the updated savings plans for 2018/19 and areas of search for savings in 2019/20 and 2020/21, as outlined in the RPPR Cabinet report of 10 October 2017, and suggest any amendments or potential alternatives that should be explored; and

(3) identify any further work or information needed to aid the Scrutiny Committee's contribution to the RPPR process for consideration at the December RPPR Board or as part of the Committee's ongoing work programme.

1. Background

1.1 As reported in September, the Council is currently in year two (2017/18) of a three year service and financial plan which was agreed by Council in February 2016. This was developed against a background of permanent reduction in the size of the public sector, including councils. The Council will have seen Revenue Support Grant fall from £100.2m in 2010 to £15m in 2018/19. By the end of the planning period it will no longer exist. Demand for services continues to grow due to demographic change, particularly for older people, and Council Tax rises are currently capped below the rate of inflation.

1.2 It was reported in September that Chief Officers were continuing to develop plans for savings of £21.9m (6% of the net revue budget) in 2018/19, broadly in line with the allocations agreed by Council in February 2017. Consideration was also being given to high level proposals for further savings required across the subsequent two years, 2019/20 and 2020/21. Cabinet had asked Chief Officers to bring updated savings proposals for 2018/19 and areas of search for 2019/20 - 2020/21 to its meeting on 10 October 2017 for initial consideration.

1.3 The report to Cabinet in October updated the Medium Term Financial Plan, set spending and savings priorities in 2018/19, articulated the implications of the need to make further savings of an estimated £36.2m over the two years 2019/20 and 2020/21 and suggested areas of search in those two years.

2. Scrutiny engagement in RPPR

2.1 At the September meeting the scrutiny committees discussed the current Portfolio Plans and Savings Plans for 2017/18 for those services within their remit. The Committee also reviewed the existing savings proposals for 2018/19 and made comments or requests for further information.

2.2 The **November 2017 scrutiny committees** are invited to:

- consider any additional information requested at the September meeting in preparation for the RPPR Board in December;
- review the updated savings plans for 2018/19 and areas of search for savings for 2019/20-2020/21 and suggest any amendments or potential alternatives that should be explored; and
- fine tune the scrutiny committee's work programme to ensure the Committee is in the best position to contribute to the ongoing RPPR process.

Appendix 1 contains extracts from the 10 October Cabinet RPPR report, which detail the updated savings plans for 2018/19 for those services within the remit of this committee and the proposed areas of search for savings across the Council for 2019/20 and 2020/21.

2.3 The **RPPR scrutiny board** will meet on 12 December 2017 to agree detailed comments and any recommendations on the emerging portfolio plans and savings proposals to be put to Cabinet on behalf of their parent scrutiny committees in January 2018. The Chairs of all the scrutiny committees are invited to attend all the scrutiny review boards.

2.4 The **March 2018 scrutiny committees** will review the process and their input into the RPPR process and receive feedback on how scrutiny input has been reflected in final plans. Any issues arising can be reflected in the future committee work programme.

2.5 Running alongside this process, there will be a number opportunities for Members to engage in the RPPR process.

BECKY SHAW
Chief Executive

Contact Officer: Martin Jenks, Senior Democratic Services Advisor (01273 481327)

Local Member: All

Background Documents:

10 October Cabinet RPPR Report.

East Sussex County Council
Updated Savings 2018/19 and Estimated Savings 2019/20 & 2020/21

Department	2017/18 Net Budget £'000s	2018/19 Updated Savings		Estimated Savings Required		
				2019/20 £'000s	2020/21 £'000s	Total £'000s
Business Services/Orbis	20,984	1,396				
Children's Services (excl. schools)	68,757	5,335				
Communities, Economy & Transport	63,384	2,119				
Governance Services	6,414	84				
Centrally Held Budgets	35,835	0				
TOTAL ESCC (excluding ASC/ESBT)	**195,374**	**8,934**				
Adult Social Care	39,220	2,359				
East Sussex Better Together	129,491	10,576				
Members' Allowances	866	n/a				
TOTAL	**364,951**	**21,869**		**17,504**	**18,725**	**36,229**

MTFP:	
savings adjustment re additional IBCF	445
savings	21,424
	21,869

Appendix 1

Business Services / Orbis 2018/19 Savings			Gross Budget * 2016/17	Updated Savings 2018/19
Service description	**Description of savings proposal**	**Impact assessment**	**£'000**	**£'000**
Orbis is a Business Services partnership between East Sussex and Surrey County Councils and Brighton and Hove City Council. The Partnership is managed through a Joint Committee and therefore remains a wholly public sector operated arrangement. Orbis has created single leadership and management of business services in order to deliver efficiencies and share best professional practice that enables the ongoing delivery of resilient professional support for the Partners.	Bringing all of the services within Orbis into single points of leadership so that services can be redesigned and integrated in order to operate coherently across the 3 partners. The significant majority of proposals relate to savings in staffing as this is where the significant operating costs are. The savings are focussed on reducing management posts, the hierarchy and levels of management and areas of duplication. Where there are areas of non-staff savings proposals these will focus on the ICT and Business Operations areas. The savings proposals are shown net of some additional investment costs in IT in order to enable modern ways of working and develop technology that automates processes. The spread of savings proposals across Orbis and the savings targetted for East Sussex are: Business Operations - £50k Finance - £280k HR & OD - £200k IT & Digital - £390k Procurement - £15k Property - £230k Orbis Partnership Wide - £230k .	Key factors for delivery of the Orbis Business Plan by the end of 18/19 include: - Delivering a level of integration that is optimum for each service; - Recognising the different needs of each partner and getting the right balance between the most efficient common approach and differentiated approach taylored to each partners requirements - Investing in partnership and collaborative working and development of staff to operate effectively within a Partnership supporting 3 partners. - Creating and Orbis identity and culture whilst equally being part of the identities and cultures of the 3 partners - Investing and and exploiting the benefits of technology and transitional / programme support to support, enable and deliver changes.	21,688	1,396
TOTAL BSD/ORBIS				**1,396**

* The gross budgets shown reflect the areas against which savings have been proposed.

Governance Services 2018/19 Savings			Gross budget *	Updated Savings
			2016/17	2018/19
Service description	**Description of savings proposal**	**Impact assessment**	**£'000**	**£'000**
Communications	Cease production/ delivery of hard copies of Your County magazine	Your County to be available on line only - this would reduced our ability to reach all residents with key messages and is likely to impact on older people and more disadvantaged people without internet access.	1,283	54
3rd Sector	Cease corporate support for AiRs (18/19); Reduction in Generic infrastructure or Healthwatch	Reduced support for the VCS.	937	30
TOTAL GS				**84**

* The budgets shown reflect the areas against which savings have been proposed.

Communities, Economy & Transport 2018/19 Savings			Gross budget * 2016/17	Updated Savings 2018/19
Service description	**Description of savings proposal**	**Impact assessment**	**£'000**	**£'000**
Operations and Contract Management				
Waste Disposal Service	Review of Current approach during 2017/18	The review will consider options for: demand management; asset management; income generation and the impact of any changes on residents. This will include a review of the existing HWRS. Developed proposals will be consulted on. [A small number of savings have been identified in a recent review of the County Council's waste disposal contract. The remainder will come from a wider review of waste operations, including the operation of household waste recycling centres, including the option of introducing charging for some non-household waste streams. Proposals will be consulted on.]	28,680	800
Grass Cutting	Review of grass cutting policy	This will review the amount of grass cutting we undertake and in consultation with Parishes, Boroughs and Districts we will develop proposals which reduce cost and will likely provide a reduction in the numbers of cuts we undertake.	950	400
Economy				
Review fees & charges across the Planning Service.	To charge for pre-application advice on major/significant County matter proposals , and review Ordinary Watercourse Consents fees.	Proponents of major schemes are unlikely to be resistant to making a pre-application charge, although they will expect a certain level of service in return, which they are probably already receiving. Proponents of smaller schemes, particularly waste uses, may be put off from having pre-application dialogue if charges are introduced. Hence, a threshold for schemes we do and do not charge for will need to be introduced. Certain District & Borough Council's may be reluctant to introduce ESCC as a party on their PPA's - we will need to clearly demonstrate the benefits of doing so. Potential that a substantial increase in OWC fees may put off people applying for OWC consent in the first place - this could lead to a greater need for enforcement. However, statutory consultation on major planning applications is assisting in identifying where OWC is required.	1,855	25
Communities				
Library and Information Service	Libraries Transformation Programme - internal review of the Library and Information Service	The staffing restructure and changing to how we manage book stock including a review of library opening hours is complete.	6,444	125

Communities, Economy & Transport 2018/19 Savings			Gross budget * 2016/17	Updated Savings 2018/19
Service description	**Description of savings proposal**	**Impact assessment**	**£'000**	**£'000**
Library and Information Service	Libraries Transformation Programme - development and implementation of the Libraries' Strategic Commissioning Strategy	The Strategic Commissioning Strategy outlines a series of proposals including a reduction in the number of libraries, improved outreach services and development of the home library service. The proposals identify £653k savings, the balance of the savings will be found from within the department. The strategy is currently out for consultation. the results of the consultation will be considered in the new year and a final strategy, with recommendations, based upon the results of the consultation will come before Cabinet for consideration.	6,444	750
The Keep	Improved staff utilisation across a range of functions, increased income generation and reduction in sinking fund	An Income Generation Strategy is currently being developed. The Governance Board has approved, in principle, the approach of the sinking fund.	689	19
TOTAL CET				**2,119**

* The budgets shown reflect the areas against which savings have been proposed.

Areas of Search for Savings 2019/20 & 2020/21 and beyond (extract from 10 October 2017 Cabinet report, section 8)

8.1 The level of uncertainty about the Government's plans and funding for services provided by Local Government means that there could be fundamental changes in both the resources the Council has available and its expectations for service delivery, so the process for the latter two years of the Council's medium term financial plan (MTFP) will, necessarily be iterative. Currently, the MTFP is predicated on the need to make £36.2m of savings during these two years.

8.2 If there are no new resources from Government, by 2021/22 the Council will be left with a minimum service offer. It will provide safeguarding for all ages, will still meet critical and substantial need in ASC and will deal with the highest level of need and risk cases in Children's' Services. We will continue to use our influence to assist with the economic development of the county, but will not be able to invest directly in the way we have in the past. We will be able to carry out maintenance on our roads so that they are safe for users. Central services will be reduced to a democratic core with minimum support for departments and more self-service. We will not be able to fund early intervention or prevention services in Adult and Children's Social Care or support to schools to improve attainment. We will have to move away from assets management in highways towards more reactive maintenance, leading to long-term deterioration of condition.

8.3 This challenging outlook places a premium on our lobbying work and the need to explore all our options. Cabinet is asked to endorse a renewed focus on commercialisation and income generation, partnership working and the following areas of search for savings in future years, in order that a balanced budget, focused on priorities, can be achieved in 2019/20 and 2020/21:

- All areas of ASC not directly involved in providing for critical and substantial need;
- Standards and Learning Effectiveness Service;
- Remaining Children's early help offer;
- Highways maintenance;
- Public transport and concessionary fares;
- Road safety and school crossing patrols; and
- All support services.

Audit, Best Value and Community Services (ABVCS) Scrutiny Committee

East Sussex County Council

Future work at a glance

Updated: November 2017

This list is updated after each meeting of the scrutiny committee
Follow us on Twitter for updates: @ESCCScrutiny

Items that appear regularly at committee	
Internal Audit Progress Reports	Summary of quarterly key audit findings, highlighting significant control issues and reporting on delivery of the audit plan and internal audit services' performance against performance indicators.
Strategic risk monitoring log	The latest version of the County Council's strategic risk register.
The Council's **Forward Plan**	The latest version of the Council's **Forward Plan** is included on each scrutiny committee agenda. The Forward Plan lists all the key County Council decisions that are to be taken within the next few months together with contact information to find out more. It is updated monthly. The purpose of doing this is to help committee Members identify important issues for more detailed scrutiny *before* key decisions are taken. This has proved to be significantly more effective than challenging a decision once it has been taken. As a last resort, the **call-in** procedure is available if scrutiny Members think a Cabinet or Lead Member decision has been taken incorrectly. Requests for further information about individual items on the Forward Plan should be addressed to the listed contact. Possible scrutiny issues should be raised with the scrutiny team or committee Chairman, ideally before a scrutiny committee meeting.
Committee work programme	This provides an opportunity for the committee to review the scrutiny work programme for future meetings and to highlight any additional issues they wish to add to the programme.

Future committee agenda items		*Presenting officer*
22 March 2018		
Internal Audit Progress Report	Internal Audit Progress report – Quarter 3, 2017/18 (01/10/17 – 31/12/17)	Nigel Chilcott, Senior Audit Manager/Russell Banks, Chief Internal Auditor
Internal Audit Strategy and Plan	Consideration of the Internal Audit Strategy and Plan for 2018/19	Russell Banks, Chief Internal Auditor
Strategic Risk Monitoring	Strategic risk monitoring report – Quarter 3, 2017/18 (01/10/17 – 31/12/17)	Rawdon Phillips, Risk & Insurance Manager /Russell Banks, Chief Internal Auditor
External Audit Plan 2017/18	This report sets out in detail the work to be carried out by the Council's External Auditors.	Ian Gutsell, Chief Finance Officer & External Auditors/ Ola Owolabi, Head of Accounts and Pensions
External Audit Report on Grants Claim Certification 2016/17	External auditors are required to certify certain grant claims; this is an annual report summarising that grant work and highlights the key issues arising.	Ian Gutsell, Chief Finance Officer & External Auditors/ Ola Owolabi, Head of Accounts and Pensions
External Audit Plan for East Sussex Pension Fund 2017/18	To consider and comment upon the External Audit Plan for the East Sussex Pension Fund for 2017/18.	Ian Gutsell, Chief Finance Officer & External Auditors/ Ola Owolabi, Head of Accounts and Pensions
Reconciling Policy, Performance and Resources (RPPR)	To provide the Committee with an opportunity to review its input into the RPPR process and receive feedback on how scrutiny input has been reflected in final plans. Any issues arising can be reflected in the future committee work programme.	Scrutiny / Chief Executive

Future committee agenda items		***Presenting officer***
13 July 2018		
Internal Audit Services Annual Report and Opinion 2017/18	An overall opinion on the Council's framework of internal control, summarises the main audit findings and performance against key indicators (includes Internal Audit Progress report – Quarter 4, 2017/18, 01/01/18 – 31/03/18).	Russell Banks, Chief Internal Auditor / Nigel Chilcott, Senior Audit Manager
Strategic Risk Monitoring	Strategic risk monitoring report – Quarter 4, 2017/18 (01/01/17 – 31/03/18)	Rawdon Phillips, Risk & Insurance Manager /Russell Banks, Chief Internal Auditor
Review of Annual Governance Report & 2017/18 Statement of Accounts	Report of the external auditors following their audit of the Council's statutory accounts. It allows the committee to review the issues raised and assess the management response.	External Auditors/ Ian Gutsell, Chief Finance Officer / Ola Owolabi, Head of Accounts and Pensions
Review of Pension Fund Annual Governance Report and 2017/18 Statement of Accounts	Report of the external auditors following their audit of the Pension Fund. It allows the committee to review the issues raised and assess the management response.	External Auditors/ Ian Gutsell, Chief Finance Officer / Ola Owolabi, Head of Accounts and Pensions
Monitoring Officer's Annual Review of the Corporate Governance Framework	Sets out an assessment of the effectiveness of the Council's governance arrangements and includes an improvement plan for the coming year, and the corporate assurance statement which will form part of the statement of accounts.	Philip Baker, Assistant Chief Executive
20 September 2018		
Internal Audit Progress Report	Internal Audit Progress report – Quarter 1, 2018/19 (01/04/18 – 30/06/18)	Russell Banks, Chief Internal Auditor / Nigel Chilcott, Senior Audit Manager

Future committee agenda items		*Presenting officer*
Strategic Risk Monitoring	Strategic risk monitoring report – Quarter 1, 2018/19 (01/04/18 – 30/06/18)	Rawdon Phillips, Risk & Insurance Manager /Russell Banks, Chief Internal Auditor
Reconciling Policy, Performance and Resources (RPPR)	RPPR 2019/20. The Committee will start the process of examining the savings plans and Portfolio Plans for those services within the remit of the Committee.	Scrutiny / Chief Executive / Senior Officers
22 November 2018		
Internal Audit Progress Report	Internal Audit Progress report – Quarter 2, 2018/19 (01/07/18 – 30/09/18)	Nigel Chilcott, Senior Audit Manager/Russell Banks, Chief Internal Auditor
Strategic Risk Monitoring	Strategic risk monitoring report – Quarter 2, 2018/19 (01/07/18 – 30/09/18)	Rawdon Phillips, Risk & Insurance Manager/Russell Banks, Chief Internal Auditor
Annual Audit Letter	To consider the Annual Audit letter and fee update from the External Auditor	Ian Gutsell, Chief Finance Officer / Ola Owolabi, Head of Accounts and Pensions
Treasury Management	To consider a report on the review of Treasury Management performance for 2017/18 and for outturn for the first six months of 2018/19, including the economic factors affecting performance, the Prudential Indicators and compliance with the limits set within the Treasury Management Strategy.	Ian Gutsell, Chief Finance Officer / Ola Owolabi, Head of Accounts and Pensions
Reconciling Policy, Performance and Resources (RPPR)	RPPR 2019/20. The Committee will consider additional information requested at the September meeting.	Scrutiny / Senior Officers

Current scrutiny reviews and other work underway	Date available
Libraries' Transformation Programme. The Scrutiny Committee has formed a Review Board which is acting as a Reference Group in the development of the Libraries Strategic Commissioning Strategy (SCS), which looks at the future provision of library services in East Sussex. The Review Board will submitted comments on the draft SCS to Cabinet in September, and will be undertaking further work on the Strategy proposals.	**March 2018.**

Potential future scrutiny work **(Proposals and ideas for future scrutiny topics appear here)**

Background / information reports circulated to the Committee **(Items in this list are circulated to Members by email and appear on committee agendas only when proposed for scrutiny by committee members)**		**Date to be circulated**

Enquiries: Democratic Services
Author: Simon Bailey, Democratic Services Officer
Telephone: 01273 481935
Email: **simon.bailey@eastsussex.gov.uk**

Access agendas and minutes of Audit, Best Value and Community Services Scrutiny Committee:

https://democracy.eastsussex.gov.uk/mgCommitteeDetails.aspx?ID=132

Version number: v.53

Accessibility help
Zoom in or out by holding down the Control key and turning the mouse wheel.
CTRL and click on the table of contents to navigate.
Press CTRL and Home key to return to the top of the document
Press Alt-left arrow to return to your previous location.

You can follow East Sussex Scrutiny on Twitter: @ESCCScrutiny

EAST SUSSEX COUNTY COUNCIL’S FORWARD PLAN

The Leader of the County Council is required to publish a forward plan setting out matters which the Leader believes will be the subject of a key decision by the Cabinet or individual Cabinet member in the period covered by the Plan (the subsequent four months). The Council’s Constitution states that a key decision is one that involves

(a) expenditure which is, or the making of savings which are, significant having regard to the expenditure of the County Council’s budget, namely above £500,000 per annum; or

(b) is significant in terms of its effects on communities living or working in an area comprising two or more electoral divisions.

As a matter of good practice, the Council's Forward Plan includes other items in addition to key decisions that are to be considered by the Cabinet/individual members. This additional information is provided to inform local residents of all matters to be considered, with the exception of issues which are dealt with under the urgency provisions.

For each decision included on the Plan the following information is provided:

- the name of the individual or body that is to make the decision and the date of the meeting
- the title of the report and decision to be considered
- groups that will be consulted prior to the decision being taken
- a list of other appropriate documents
- the name and telephone number of the contact officer for each item.

The Plan is updated and published every month on the Council’s website two weeks before the start of the period to be covered.

Meetings of the Cabinet/individual members are open to the public (with the exception of discussion regarding reports which contain exempt/confidential information). Copies of agenda and reports for meetings are available on the website in advance of meetings. For further details on the time of meetings and general information about the Plan please contact Andy Cottell at County Hall, St Anne’s Crescent, Lewes, BN7 1UE, or telephone 01273 481955 or send an e-mail to andy.cottell@eastsussex.gov.uk.

For further detailed information regarding specific issues to be considered by the Cabinet/individual member please contact the named contact officer for the item concerned.

EAST SUSSEX COUNTY COUNCIL
County Hall, St Anne's Crescent, Lewes, BN7 1UE

For copies of reports or other documents please contact the officer listed on the Plan or phone 01273 335274.

FORWARD PLAN – EXECUTIVE DECISIONS (including Key Decisions) –3 November 2017 TO 28 February 2018
Additional notices in relation to Key Decisions and/or private decisions are available on the Council's website.

Cabinet membership:

Councillor Keith Glazier - Lead Member for Strategic Management and Economic Development
Councillor David Elkin – Lead Member for Resources
Councillor Bill Bentley – Lead Member for Communities and Safety
Councillor Rupert Simmons – Lead Member for Economy
Councillor Nick Bennett – Lead Member for Transport and Environment
Councillor Carl Maynard – Lead Member for Adult Social Care and Health
Councillor Sylvia Tidy – Lead Member for Children and Families
Councillor Bob Standley – Lead Member for Education and Inclusion, Special Educational Needs and Disability

Date for Decision	Decision Taker	Decision/Key Issue	Decision to be taken wholly or partly in private (P) or Key Decision (KD)	Consultation	List of Documents to be submitted to decision maker	Contact Officer
14 Nov 2017	Lead Member for Resources	3 Council Cottages, Selmeston Seeking authority to declare the property surplus and for disposal		Local Members	Report, other documents may also be submitted	Kate Nicholson 01273 336487
14 Nov 2017	Lead Member for Resources Lead Member for Resources	Old Nursery and land at Catsfield Road, Crowhurst Seeking authority to declare the property surplus and for disposal.			Report, other documents may also be submitted	Kate Nicholson 01273 336487
14 Nov 2017	Lead Member for	School Appeals Digital Project	***P***		Report, other	Paul Dean

	Resources	Next steps for the School Appeals Digital Project			documents may also be submitted	01273481751
27 Nov 2017	Lead Member for Adult Social Care and Health	Employment Opportunities – Future arrangements To consider the future arrangements for successful supported employment and skills development pathways for people with learning disabilities.			Report, other documents may also be submitted	Kay Holden 01323 464470
11 Dec 2017	Lead Member for Education and Inclusion, Special Educational Needs and Disability	Enlargement of Polegate School - Final decision To consider the final decision regarding the enlargement of Polegate School - Final decision		Local Members	Report, other documents may also be submitted	Gary Langford 01273 481758
11 Dec 2017	Lead Member for Children and Families	To approve the business case for submission of the planning application for extension of Lansdowne Secure Unit To determine whether East Sussex County Council should submit a planning application develop and extend the existing Secure Unit to add capacity for 5 more beds to the Unit		Local Members	Report, other documents may also be submitted	Nicky Scott 01323 747179 Helen Simmons 01323 466030
11 Dec 2017	Lead Member for Education and Inclusion, Special Educational Needs and Disability	To approve the outcome of the ESCC funding formula consultation with Schools and Academies. Proposed changes to the ESCC's school funding formula were put forward for consultation with Schools and Academies		All Primary and Secondary Schools and Academies in ESCC.	Report, other documents may also be submitted	Ed Beale 01273 337984

		and now require lead member approval.				
12 Dec 2017	Cabinet	Annual Audit Letter 2016/17 To consider the Annual Audit letter and fee update from the External Auditor.	***KD***		Report, other documents may also be submitted	Ola Owolabi 01273 482017
12 Dec 2017	Cabinet	Council Monitoring: Quarter 2 2017/18 The consider a Reconciling Policy, Performance and Resources (RPPR) update and the Council Monitoring report for Quarter 2, 2017/18.			Report, other documents may also be submitted	Jane Mackney 01273 482146
12 Dec 2017	Cabinet	Looked After Children Annual Report To consider the Looked After Children's Annual Report			Report, other documents may also be submitted	Teresa Lavelle-Hill 01323 747197
12 Dec 2017	Cabinet	Treasury Management Annual Report 2016/17 and mid year report 2017/18 To consider a report on the review of Treasury Management performance for 2016/17 and for outturn for the first six months of 2017/18, including the economic factors affecting performance, the Prudential Indicators and compliance with the limits set within the Treasury Management Strategy.	***KD***		Report, other documents may also be submitted	Ola Owolabi 01273 482017
18 Dec 2017	Lead Member for Transport and Environment	Rescinding of highway improvement scheme at Broad Oak, Brede To seek Lead Member approval to rescind the highway improvement scheme at Broad Oak, Brede and declare such land as necessary surplus to CET requirements		Four week consultation with local residents	Report, other documents may also be submitted	Jonathan Wheeler 01273 482212

20 Dec 2017	Lead Member for Communities and Safety	Registration Service Income Generation For the Lead Member to note the breadth of income generation schemes currently being progressed within the Registration Service and consider proposals to: 1) refer customers who are getting married to an approved Will writer, in return for a referral fee (predicated on the fact that marriage annuls all former wills). 2) refer customers to an approved insurance broker to organise Ceremony insurance for them in return for a fee from the insurance broker. 3) hold funeral services and wakes at Southover Grange. 4) offer a fee reduction of up to 25% for non-statutory optional ceremonies if they are booked at the same time as the customer transacting other business with the service.	***KD***		Report, other documents may also be submitted	Steve Quayle 01273 337148
20 Dec 2017	Lead Member for Communities and Safety	Road Safety Policies Update To consider a report regarding the updates to Road Safety Policies.			Report, other documents may also be submitted	Claire Scriven 0345 6080193
22 Jan 2018	Lead Member for Education and Inclusion, Special Educational Needs and Disability	Education Commissioning Plan 2017-2021 To seek approval for publication of the Education Commissioning Plan 2017-2021	***KD***		Report, other documents may also be submitted	Gary Langford 01273 481758

22 Jan 2018	Lead Member for Education and Inclusion, Special Educational Needs and Disability	Final decision on a proposal to enlarge Willingdon Community School For the Lead Member to take the final decision on the proposal to enlarge Willingdon Community School from 1 September 2020	***KD***		Report, other documents may also be submitted	Gary Langford 01273 481758
22 Jan 2018	Lead Member for Education and Inclusion, Special Educational Needs and Disability	To approve the DSG Budget for 2018/19 The DSG allocations are notified to the Local Authority in December and the DSG budget requires approval.			Report, other documents may also be submitted	Ed Beale 01273 337984
23 Jan 2018	Cabinet	Conservators of Ashdown Forest Budget 2018/19 To consider the Conservators of Ashdown Forest Budget for 2018/19.	***KD***		Report, other documents may also be submitted	Ian Gutsell 01273 481399
23 Jan 2018	Lead Member for Strategic Management and Economic Development	Local Growth Fund - Amendments to spend profiles 2017/18 To seek approval for the changes to 2017/18 Local Growth Fund profiles			Report, other documents may also be submitted	Ben Hook 01273 336408
23 Jan 2018	Cabinet	Reconciling Policy, Performance and Resources (RPPR) 2018/19: Draft Council Plan To consider the revenue budget, savings proposals, capital programme and draft Council Plan for 2018/19.	***KD***		Report, other documents may also be submitted	Jane Mackney 01273 482146
23 Jan 2018	Cabinet	Treasury Management Strategy 2018/19			Report, other	Ola Owolabi

		To consider the Treasury Management Strategy for the financial year 2018/19.	***KD***		documents may also be submitted	01273 482017

Page 129

This page is intentionally left blank