



AUDIT COMMITTEE

FRIDAY, 23 SEPTEMBER 2022

10.30 AM COMMITTEE ROOM, COUNTY HALL, LEWES

MEMBERSHIP - Councillor Colin Swansborough (Chair)
Councillors Gerard Fox (Vice Chair), Matthew Beaver, Nuala Geary,
Stephen Holt, Matthew Milligan and Georgia Taylor

A G E N D A

1. Minutes of the previous meeting (*Pages 3 - 6*)
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.
5. Internal Audit Progress Report - Quarter 1 2022/23 (01.04.22 - 30.06.22) (*Pages 7 - 24*)
Report by the Chief Internal Auditor
6. CIPFA Financial Management Code (*Pages 25 - 76*)
Report by the Chief Finance Officer
7. Strategic Risk Register - Quarter 1 2022/23 (01.04.22 - 30.06.22) (*Pages 77 - 96*)
Report by the Chief Operating Officer
8. Managing Back Office Systems (MBOS) Update (*Pages 97 - 102*)
Report by the Chief Operating Officer
9. Work programme (*Pages 103 - 108*)
10. Any other items previously notified under agenda item 4

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

14 September 2022

Contact Sophie Webb, Governance and Democracy Officer,
01273 337495
Email: sophie.webb@eastsussex.gov.uk

AUDIT COMMITTEE

MINUTES of a meeting of the Audit Committee held at Committee Room, County Hall, Lewes on 8 July 2022.

PRESENT Councillors Colin Swansborough (Chair), Gerard Fox (Vice Chair), Matthew Beaver, Stephen Holt, Matthew Milligan and Georgia Taylor

1. MINUTES OF THE PREVIOUS MEETING

- 1.1 The Committee RESOLVED to agree the minutes as a correct record of the meeting held on 29 March 2022.

2. APOLOGIES FOR ABSENCE

- 2.1 Apologies for absence were received from Councillor Geary.
- 2.2 It was noted that Councillor Redstone was in attendance as a substitute for Councillor Geary.

3. DISCLOSURES OF INTERESTS

- 3.1 There were none.

4. URGENT ITEMS

- 4.1 There were none.

5. REPORTS

- 5.1 Reports referred to in the minutes below are contained in the minute book.

6. ASSESSMENT OF THE CORPORATE GOVERNANCE FRAMEWORK AND ANNUAL GOVERNANCE STATEMENT FOR 2021/22

6.1 The Committee considered a report by the Assistant Chief Executive which presented the Council's Annual Governance Statement (AGS), and the assessment of compliance with the Corporate Governance Framework, before they are presented to the Governance Committee.

6.2 The Assistant Chief Executive set out that the format for the AGS had been revised for this year with a view to being more accessible, provide a more detailed commentary on how the Council's governance policies, processes and arrangements related to the principles in the CIPFA/SOLACE Framework.

6.3 The Assistant Chief Executive informed the Committee that the report concluded that there are no significant weaknesses in the Council's governance arrangements, and that the Council has in place satisfactory governance arrangements including a satisfactory system of internal control, which operate effectively.

6.4 The Committee considered the role of Members who were seconded or appointed by the Council to be a Trustee or a Director of an outside body. Members are provided with advice and guidance in this role and it is the responsibility of Member to be mindful of conflicts of interest and act in the accordance with the Code of Conduct or the rules relating to the organisation and role that they are acting within.

6.5 The Committee considered whether it was necessary to include in the AGS the importance of avoiding structural conflict of interests where possible.

6.6 The Committee RESOLVED (with Cllr Beaver voting against) to recommend to the Governance Committee that the Annual Governance Statement includes a statement that, in relation to the appointment of Members to outside bodies, the Council avoids structural conflict of interests where possible.

7. INTERNAL AUDIT SERVICE ANNUAL REPORT AND OPINION 2021/22

7.1 The Committee considered a report by the Chief Operating Officer which set out the opinion on the County Council's control environment for the year from 1 April 2021 to 31 March 2022.

7.2 The Committee discussed the Chief Internal Auditor opinion of substantial assurance that East Sussex County Council has in place an adequate and effective framework of governance, risk management and internal control for the period 2021/22. It was discussed how audits within the audit plan are prioritised based on a risk based approach and previous audit reports are considered when a new audit is commenced. The committee noted that there were no audits with a 'minimal assurance' opinion in the period of 2021/22.

7.3 The Committee discussed the role of internal audit regarding the Pension Fund and climate risks. The Chief Finance Officer explained that Internal Audit look at processes, policies, procedures and finances surrounding the Pension Fund.

7.4 The Committee RESOLVED to:

- 1) note the Internal Audit Service's opinion on the Council's control environment;
- 2) confirm that there are no significant control issues that should be included in the Council's Annual Governance Statement for 2021/22; and
- 3) confirm that the Council's system for internal audit has proved effective during 2021/22.

8. COUNTER FRAUD ANNUAL REPORT

8.1 The Committee considered a report by the Chief Operating Officer which set out irregularity investigations and proactive counter fraud work undertaken by Internal Audit between 1 April 2021 and 31 March 2022.

8.2 The Audit Manager (Counter Fraud), Simon White, explained that this is a new report to be considered by the Committee since Counter Fraud activity has previously been reported within the Internal Audit Service Annual Report.

8.3 The Committee discussed spear phishing and its potential impact on the County Council had it not been intercepted. The Committee explored whether fraud activities could be calculated in terms of potential financial impact. The Chief Internal Auditor, Russell Banks noted

that financial impact cannot not be precisely calculated due to the cumulative effects of fraud over different timescales.

8.4 The Committee RESOLVED to note the irregularity investigations and proactive counter fraud work undertaken by Internal Audit between 1 April 2021 and 31 March 2022.

9. INDEPENDENT EXTERNAL ASSESSMENT OF INTERNAL AUDIT

9.1 The Committee considered a report by the Chief Operating Officer which set out a proposal to commission the Chartered Institute of Internal Auditors to undertake the independent external assessment of Orbis Internal Audit in accordance with Public Sector Internal Audit Standards (PSIAS).

9.2 The Chief Internal Auditor explained why the Chartered Institute of Internal Auditors was the preferred body to conduct the independent external assessment of Orbis Internal Audit and noted that Committee Members may be interviewed as part of the review.

9.3 The Committee unanimously RESOLVED to agree to the appointment of the Chartered Institute of Internal Auditors to carry out the independent external assessment of Orbis Internal Audit in accordance with Public Sector Internal Audit Standards (PSIAS).

10. STRATEGIC RISK MONITORING

10.1 The Committee considered a report by the Chief Operating Officer which presented the Strategic Risk Register.

10.2 The Committee noted that Risk 16 (Covid-19) had been removed from the Risk Register.

10.3 The Committee discussed Risk 9 (Workforce) and recognised the national difficulties regarding recruitment and retention including effects of the cost of living crisis and systemic challenges for those in lower paid roles.

10.4 The Committee discussed how risks are ranked according to impact and likelihood and how some risks appear to have the same RAG rating pre and post mitigation. The Chief Internal Auditor noted that mitigation should reduce the impact or likelihood of the identified risk however this reduction can be smaller than the current scales used to rate risks giving the impression of mitigation not having an effect on the overall RAG. The Committee requested a training session for Committee Members regarding risk management and risk appetite.

10.5 The Committee RESOLVED to:

- 1) note the current strategic risks and the risk controls / responses being proposed and implemented by Chief Officers; and
- 2) request a training session for Committee Members regarding strategic risk monitoring.

11. MANAGING BACK OFFICE SYSTEMS (MBOS) UPDATE

11.1 The Committee considered a report by the Chief Operating Officer setting out a summary of the discussion at the second meeting of the Committee's MBOS Sub-Group.

11.2 The Committee discussed the impact of deadline slippage for the project completion. The Chief Operating Officer noted that although the project is currently working to the go-live deadline of April 2023, and there are plans in place in the case of slippage.

11.3 The Committee RESOLVED to note that the Committee's MBOS Sub-Group has regularly reviewed the Council's Modernising Back Office Systems (MBOS) programme.

12. WORK PROGRAMME

12.1 The Committee considered its current work programme of forthcoming items.

12.2 The Chief Finance Officer noted that the Statement of Accounts may not be ready for the September Audit Committee meeting. The Statement of Accounts will be considered by the Committee at the November meeting of the Audit Committee if they are not available for consideration in September.

12.3 The Committee discussed the forward plan of Internal Audits and requested that a list of Internal Audits due to be conducted in the next quarter is included within the Internal Audit Progress Report. The Chief Internal Auditor agreed to include this in future reports.

12.4 The Committee RESOLVED to note the programme.

The meeting ended at 12.10 pm.

Report to: **Audit Committee**

Date: **23 September 2022**

By: **Chief Operating Officer**

Title of report: **Internal Audit Progress Report – Quarter 1 (01/04/22 – 30/06/22)**

Purpose of report: **To provide Members with an update on all internal audit and counter fraud activity completed during the quarter, including a summary of all key findings. To also provide an update on the performance of the internal audit service during the period.**

RECOMMENDATIONS

The Committee is recommended to:

- 1. note the report and consider any further action required in response to the issues raised.**

1. Background

- 1.1** This progress report covers work completed between 1 April 2022 and 30 June 2022.

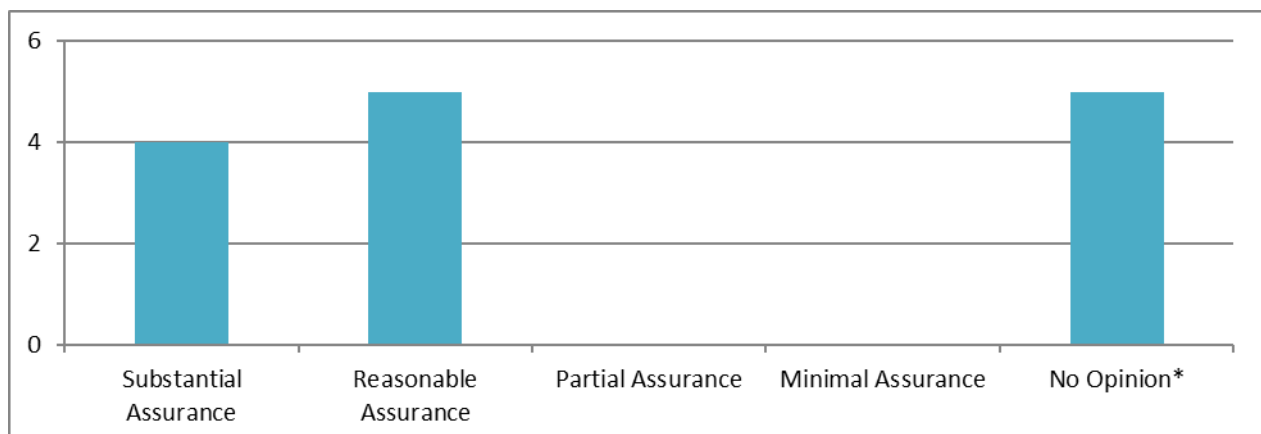
2. Supporting Information

- 2.1** The current annual plan for internal audit is contained within the Internal Audit Strategy and Annual Plan 2022-23 which was approved by Audit Committee on 29 March 2022.

3. Conclusion and Recommendations

- 3.1** Key audit findings from final reports issued during Quarter 1 are summarised in Annexe A.

- 3.2** Overall, of the nine formal audits finalised during the quarter in which a formal audit opinion was given, four received an opinion of 'substantial assurance' (one of which was a school) and five received opinions of 'reasonable assurance'. There were no 'partial' or 'minimal assurance' opinions in Quarter 1.



* No opinion: Typically, this tends to be proactive advice and support activity where, due to the advisory nature of the audit work, provision of formal assurance-based opinions is not appropriate. It also includes grant certification work.

3.3 Although the same range of internal audit opinions is issued for all audit assignments (where an opinion is relevant), 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 assurance that the Council has in place an effective framework of governance, risk management and internal control.

3.4 The overall conclusion above has, therefore, been drawn based on all audit work completed in the year to date and considers the management response to audit findings and the level of progress in subsequent implementation. For example, as at the end of Quarter 1, 100% of high priority actions due had been implemented. This is something which will continue to be monitored and reported on 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'. Two follow-up reviews were completed during the quarter (included within the nine opinion audits above) and these resulted in improved opinions of reasonable assurance in both cases.

3.6 Progress against our performance targets (focussing on a range of areas relating to our service) can also be found in Annexe A (section 5) which shows that all targets are rated as green and on track.

ROS PARKER
Chief Operating Officer

Contact Officers: Russell Banks, Orbis Chief Internal Auditor, Tel: 07824 362739,
Email: russell.banks@eastsussex.gov.uk

Nigel Chilcott, Audit Manager, Tel: 07557 541803
Email: nigel.chilcott@eastsussex.gov.uk

BACKGROUND DOCUMENTS:

Internal Audit Strategy and Annual Plan 2022-23

Internal Audit and Counter Fraud Quarter 1 Progress Report 2022/23

CONTENTS

1. Summary of Completed Audits
2. Counter Fraud and Investigation Activities
3. Action Tracking
4. Amendments to the Audit Plan
5. Internal Audit Performance

1. Summary of Completed Audits

Accounts Receivable

1.1 The Accounts Receivable function is responsible for ensuring that all income due to the Council is collected effectively and efficiently, banked promptly and is correctly accounted for.

1.2 This audit aimed to provide assurance over the key controls operating within the Accounts Receivable system, including those in place for ensuring the accuracy of customer details, the accuracy of invoicing, the recording and matching of payments to invoices, and completeness of debt recovery.

1.3 Overall, we were able to provide an opinion of **substantial assurance** in this area. We found the system to be well-controlled, with areas of good practice including that:

- An up-to-date income collection policy is in place and available to all staff via the intranet;
- Invoices requests are supported by adequate proof of debt;
- There is a robust process for dealing with incorrectly raised debts and overpayments;
- Credit notes are appropriately authorised;
- Unallocated income is held in suspense accounts which are regularly reviewed to ensure the correct allocation of monies; and
- An aged debt analysis is completed and distributed to nominated officers to review on a monthly basis.

1.4 Whilst we were able to provide a substantial audit opinion in this instance, a small number of areas for improvement were identified, including the need to ensure that reconciliations, undertaken to confirm that customer balances match the relevant control accounts, are approved in a timely manner. Actions to address this and some other minor actions were agreed with management.

Procure to Pay

1.5 Procure to Pay is the end-to-end process from the purchasing of services to the payment of the supplier. The central Accounts Payable (AP) Team is responsible for the processing of payments to suppliers using the AP system, which is a sub-module within SAP, the Council's main financial system.

1.6 This audit aimed to provide assurance over the key controls operating within the Procure to Pay system, including those in place for ensuring the accuracy of vendors' details, processing of invoices, goods receipting and promptness of payments.

1.7 As a result of our work, we were able to provide an audit opinion of **substantial assurance** in this area, with key controls in place and operating as expected. Only a small number of actions were agreed with management to further improve controls, including the need to remind cost centre approvers of their responsibilities in checking non-order invoice payments prior to approval.

Pension Fund Administration – People, Processes and Systems

1.8 East Sussex County Council (ESCC) is the designated statutory administering authority of the East Sussex Pension Fund. The Council has statutory responsibility to administer and manage the fund in accordance with the Local Government Pension Scheme (LGPS) Regulations. The day-to-day administration of the Fund was previously provided by Orbis Business Operations, but this responsibility was transferred to the Pensions Team at ESCC on 1 April 2022.

1.9 This audit tested the controls employed by management in relation to the calculation and payment of pension benefits; transfers to and from the Pension Fund; and the collection and recording of pension contributions (including contributions from admitted and scheduled bodies).

1.10 In completing this work, we were able to provide an opinion of **reasonable assurance** over the adequacy and effectiveness of controls in place. However, whilst a number of areas of good practice were identified, including the majority of actions agreed as part of the previous audit being implemented, some opportunities for improvement were also found, including the need to ensure that:

- When submitting monthly pension contributions and returns, employers, via their Section 151 Officer or equivalent, certify that the returns are correct, thus helping to ensure that all contributions due are accurate and received;
- Historical data, that sits outside of the pension system and relates to members transferring into the scheme, is properly safeguarded via password protection and only retained for as long as is necessary in line with General Data Protection Regulations (GDPR);
- Procedure notes are in place to cover the many processes undertaken by the Pension Team;
- Data integrity is maintained when setting up new members in the pension system and that no assumptions are made where key data is missing e.g., title, gender, etc., with the need to seek clarification where necessary; and
- Checklists, which are used to ensure calculations are correct, are fully completed.

1.11 Actions to address these areas were agreed with management within a formal management action plan.

Commissioning and Delivery of Property Projects Follow-Up

1.12 In undertaking an audit of Commissioning and Delivery of Property Projects, which was completed in April 2021, we concluded an audit opinion of minimal assurance. The review focussed on the commissioning, planning and delivery of a sample of property projects within the Council. In providing this opinion, we found fundamental weaknesses in relation to various parts of the commissioning and delivery of projects.

1.13 Whilst this work was being undertaken, details of an overspend on the project to extend the SEND facility at Robertsbridge Community College (RSENP) emerged. We were therefore requested to carry out specific work to identify the reasons why this project's budget had over-spent. Because the

control issues were common to both audits, no audit opinion was provided for this additional review, but an action plan for improvement was agreed with management.

1.14 As a result of the opinion given, we undertook a follow-up audit to provide assurance that all the agreed actions had been implemented. As the control weaknesses identified in both audits were similar, and many of the agreed management actions in the resultant reports were identical, we combined the results of our follow-up testing into a single report. This allowed us to agree, with management, a single, consolidated, action plan to provide a clear way forward to address any outstanding issues.

1.15 Overall, we found that significant progress had been made by management in addressing the findings of our previous reviews. As a result, we were able to give an improved opinion of **reasonable assurance**.

1.16 Whilst clear improvement had been achieved, there were some actions that had only been partially implemented and these were consolidated into a plan containing seven new findings, all of which we deemed medium risk. These related to the need to:

- Further strengthen project governance arrangements by defining roles and responsibilities more clearly;
- Document the circumstances when project initiation documents (PID) are not required, to promote consistency and improve project control;
- Produce further guidance on change control and contract variations, to help control costs more effectively;
- Strengthen risk management arrangements;
- Ensure that the scope and any limitations to feasibility studies are fully understood by client teams before they make decisions based on them;
- Provide further support to client teams in the production of their business cases; and
- Include guidance to ensure that any changes to a project's scope are agreed by the client.

1.17 Robust actions with new timescales were agreed with management to address all of these findings.

Adult Social Care Being Digital Programme – Governance Arrangements

1.18 The Adult Social Care and Health (ASCH) Being Digital Programme was established to improve and increase digitisation across the department. We were asked by management to undertake a high-level review of the governance arrangements for this programme as these were being developed, to ensure they were robust and to manage key risks to the achievement of the programme's delivery. Due to its real time nature, this was a non-audit opinion piece of work.

1.19 Based on the work we completed, we found appropriate governance and risk management arrangements in place. However, some areas were identified to further strengthen these which were

discussed and agreed with management and will be incorporated into current governance arrangements. These included:

- Reviewing and updating terms of reference for the Steering, Inclusion and Project groups of the programme where staff changes had occurred, to ensure they accurately reflect the responsibilities and membership of the group;
- The development of a Programme Initiation Document; and
- Regular review and update of programme level risks.

Contract Management Follow-Up - APEX Prime Care

1.20 Apex Prime Care Ltd is one of ESCC's top providers, by value, of homecare services. It provides homecare for the elderly and specialist support for anyone who cannot wholly look after themselves. Apex Prime Care Ltd is responsible for ensuring that the homecare service provided meets the Council's needs, including compliance with safeguarding requirements.

1.21 The Apex Prime Care Ltd contract commenced on 25 October 2014 and was due to run until 26 October 2021. Due to COVID-related delays in re-procuring its replacement, the contract was extended until January 2023.

1.22 An audit of the contract management arrangements of this contract was completed in June 2019 and we provided an opinion of partial assurance. We have, therefore, undertaken a follow-up review to assess the extent to which the agreed actions from the previous audit had been implemented. Based on our work, there had been an improvement in control and, as a result, we were able to provide an opinion of **reasonable assurance**. We found that:

- Provider performance is managed through regular provider meetings and liaison. Performance issues are identified and monitored through provider data and user feedback;
- Risks are captured, discussed and assessed;
- Market intelligence from the Care Quality Commission (CQC) is utilised to provide assurance that Home Care suppliers are financially viable and have the resources needed to provide, and continue to provide, services to the required standards; and
- Contract variations are controlled by Adult Social Care (ASC) procurement. Variations are routinely made as part of the operational recommissioning process.

1.23 Only two actions had not been fully implemented relating to the need to:

- Clarify roles and responsibilities for commissioning, contract management and procurement to help ensure intended outcomes are achieved;
- Establish a contract management plan.

1.24 Measures to address these findings were agreed with management, with opportunities to further strengthen controls to be taken following re-procurement, when a new homecare contract goes live.

Managing Back Office Systems (MBOS) Programme

1.25 The Modernising Back Office Systems Programme (MBOS) was approved by the Corporate Management Team (CMT) in September 2019 to enable the Council to go to market for a replacement to its current Enterprise Resource Planning (ERP) tool - SAP. The MBOS Programme is seeking to implement a new system that better meets the current and future needs of the Council and which provides optimal return on its investment. The current SAP ERP system was implemented in 2004 and will no longer be supported beyond 2025.

1.26 Whilst we have not concluded any specific audit work in this quarter, we continue to support the programme through attendance at the Programme Board and Working Groups where we provide ad-hoc advice, challenge and support. A program of audit work has been agreed with the Board to support the programme going forward, and work currently in progress includes reviewing the adequacy of controls within proposed business processes, providing assurance over data quality and archiving, as well as revisiting and re-reviewing governance arrangements as the programme prepares to move into the post-procurement stage.

Electronic Signatures

1.27 Electronic signatures deliver a way to sign documents online and their use is increasing across the organisation. This can make Council processes more efficient due to the ability to sign documents remotely, particularly at a time when many people are working at home. The use of electronic signatures makes document creation and signing seamless and retains the value of an, historically, offline process.

1.28 The purpose of this audit was to provide assurance that:

- Adequate arrangements are in place to ensure the Council is aware of electronic signature usage and has had the opportunity to ensure that risks associated with this are properly managed, prior to implementation; and
- Adequate controls exist over the implementation and usage of electronic signatures.

1.29 In completing this work, we found that the use of electronic signatures falls into two broad categories. Firstly, the use of external software/electronic signatures such as ADOBE Sign and DocuSign which can pose risks to the Council if the level of security and protection of the systems are not assessed and controlled. Secondly, the use of scanned images of handwritten signatures which are retained and appended to documents as required.

1.30 Overall, we were able to provide an audit opinion of **reasonable assurance** over the adequacy and effectiveness of controls in place. Whilst a number of areas of good practice were identified, including the Council's Information Security and Governance Team having a robust risk assessment process for the roll out of electronic signature systems, some areas for improvement were identified, including the need to:

- Ensure technical risk assessments are performed prior to using electronic signature software, and to increase awareness of this requirement;
- Establish corporate guidance which specifies the Council's expectations over the use and control of electronic and scanned signature usage; and
- Improve controls over the management of scanned signatures where these are used, including in relation to the retention and deletion of these.

1.31 Actions for improvement relating to these findings were agreed with management.

Post Brexit Information Governance

1.32 On 31st January 2020, Brexit saw the UK withdraw from the European Union (EU). This was followed by a transition period lasting until 31st December 2020, during which time the UK remained subject to EU laws. These laws included regulations relating to information governance, such as the EU's General Data Protection Regulation (GDPR), intended to strengthen data protection rights for individuals within the EU.

1.33 This audit sought to provide assurance that Council data is being stored appropriately and in line with relevant legislation, following the Brexit transition period.

1.34 At the time of this work, we noted that no changes to information governance arrangements had been required post-Brexit and that controls are in place to identify any changes to regulations and action needed going forward. In addition, proactive work is taking place to future-proof arrangements should the current situation change.

1.35 In giving an audit opinion of **substantial assurance**, we noted that:

- The Council's Data Protection Officer (DPO) is aware of the adequacy agreement with the UK relating to the GDPR and the Law Enforcement Directive and what this means in relation to information governance at the authority. The adequacy agreement is anticipated to be in place until at least 2025 (although it could end at any point).
- The ICO website and news bulletins are monitored to ensure that amendments to regulations are quickly identified, and any necessary action is implemented. In addition, the Council has begun to future-proof arrangements in the event that this should happen.
- The Council is aware of where data is held for major systems as this is identified when a Data Protection Impact Assessment (DPIA) takes place, as well as being recorded by IT&D and Procurement. This information will be of importance to ensure that appropriate action is taken if changes to information governance arrangements are required going forward.

1.36 It was noted, however, that there are likely to be instances of “shadow IT” in use at the Authority. This is where systems are used by service areas without IT&D or Procurement awareness. These systems are often free to use or have only a minimal cost associated with them, and cloud-based. In such situations, it is possible that data location is unknown or not recorded, which could pose an increased risk if legislation around data hosting and processing were to be amended.

IT Strategic and Operational Risk Management

1.37 IT risk management is the process to continually identify, assess, and reduce IT-related risk. With organisations placing an even greater reliance on IT and the support provided by their IT departments, the Council should adapt to address IT-related risks accordingly and ensure that ownership is appropriate.

1.38 This audit aimed to provide assurance that appropriate risk management arrangements are in place across the Council in relation to IT&D, with awareness and ownership of risks across all departments, including within IT&D.

1.39 In providing an audit opinion of **reasonable assurance**, we found that:

- Significant IT-related risks that could impact the Council were found to be included as part of the Council's strategic risk register;
- IT&D have their own departmental risk register covering both strategic and operational levels, which identifies risks for both ESCC, as well as the wider shared partnership of Orbis IT&D;
- Robust processes are in place to identify risks, ensure appropriate action is taken to mitigate these and appropriately assign responsibility within IT&D;
- Risk assessments are undertaken by IT&D for the implementation of new systems, as well as the roll-out of upgrades/patches and the introduction of new elements of the IT infrastructure. Where these exercises identify risks within different departments across the Council, action to mitigate the risk is agreed with the service area, with responsibility appropriately assigned to an officer within that department; and
- Business Partners within IT&D play an important role in ensuring that IT-related risks are known, understood and appropriately accepted by departments and their management teams.

1.40 Despite these areas of good practice, some areas for improvement were identified and agreed with management, including the need to ensure that:

- Agreed actions to mitigate risks are properly recorded in the risk register; and
- Technical risk assessments undertaken by IT&D can be accessed by all relevant stakeholders to allow for a more holistic approach to IT related risk management.

Schools Audit

1.41 We have a standard audit programme in place for all school audits, with the scope of our work designed to provide assurance over key controls operating within schools. The key objectives of our work are to ensure that:

- Governance structures are in place and operate to ensure there is independent oversight and challenge by the Governing Body;
- Decision making is transparent, well documented and free from bias;
- The school is able to operate within its budget through effective planning;
- Unauthorised or inappropriate people do not have access to pupils, school systems or the site;
- Staff are paid in accordance with the schools pay policy;
- Expenditure is controlled and funds are used for an educational purpose. The school ensures value for money on contracts and larger purchases;
- All income due to the school is collected, recorded and banked promptly;
- All Voluntary Funds are held securely, and funds are used in accordance with the agreed aims; and
- Security arrangements keep data and assets secure and are in accordance with data protection legislation.

1.42 At the time of writing, school audits are being undertaken through remote working arrangements.

1.43 The table below shows a summary of the school audited, together with the final level of assurance it received.

| Name of School | Audit Opinion | Areas Requiring Improvement |
|---|-----------------------|--|
| Dallington Church of England Primary School | Substantial Assurance | <ul style="list-style-type: none"> • School Local Financial Procedures require updating; • Develop an approved Terms of Reference for the School Fund; • Refreshing declarations of interest for all staff. |

Grants

Supporting Families Programme

1.44 The Supporting Families (SP) programme has been running in East Sussex since January 2015 and is an extension of the original Troubled Families scheme that began in 2012/13. The programme is intended to support families who experience problems in certain areas, with funding for the local

authority received from the Department of Levelling Up, Housing and Communities (DLUHC), based on the level of engagement and evidence of appropriate progress and improvement.

1.45 Children's Services submit periodic claims to the DLUHC to claim grant funding under its 'payment by results' scheme. The DLUHC requires Internal Audit to verify 10% of claims prior to the Local Authority's submission of its claim. We therefore reviewed 17 of the 169 families included in the April/June 2022 grant cohort.

1.46 In completing this work, we found that valid 'payment by results' (PbR) claims had been made and outcome plans had been achieved and evidenced. All the families in the sample of claims reviewed had firstly met the criteria to be eligible for the SP programme and had either achieved significant and sustained progress and/or had moved from out of work benefits into continuous employment. We therefore concluded that the conditions attached to the SP grant determination programme had been complied with.

Department for Transport – Local Transport Authority Covid-19 Bus Service Support Grant Restart (Revenue) Grant Determination

1.47 The nationwide lockdown imposed in March 2020 as a result of the COVID-19 pandemic led to a significant drop in patronage on public bus services. To support operators through this time of reduced income, the Department for Transport (DfT) released funding for Local Transport Authorities (LTA's) to distribute to tendered services that had been affected by, or needed to be adjusted because of, the impact of COVID-19. This funding came in the form of a 'restart' grant, which aimed to support operators to increase capacity and enable them to continue operating services which may otherwise have not been financially viable.

1.48 The grant conditions required that the funding could only be spent on supporting services that have been affected by, or need to be adjusted because of, the impact of COVID-19, and that all usual payments, such as contractual payments, concessionary fares and freedom pass payments must be paid at usual levels. We were required to confirm that the funding had been used in line with these conditions.

1.49 We were able to conclude that the grant conditions had been met. Accordingly, a confirmation letter was signed by the Chief Internal Auditor and Chief Executive and returned to the DfT.

Adult Weight Management Grant

1.50 The adult weight management grant is a ringfenced grant available to local authorities to support the commissioning of adult behavioural weight management services. The Department of Health and Social Care (DHSC) provided ESCC with £248,627 for this purpose.

1.51 We conducted appropriate checks that the grant terms and conditions have been complied with and were able to confirm this. A confirmation letter was signed by the Chief Internal Auditor and Chief Executive and returned to the DHSC.

Broadband Grant

1.52 The Department of Digital, Culture, Media and Sport (DCMS) provide funding under the Superfast Broadband Programme for providers to roll-out superfast broadband infrastructure within East Sussex. At the time of this certification, work was being undertaken by Openreach, who provided data as to the Total Homes Passed (THP), i.e., those residential and business premises who now have access to functional superfast broadband.

1.53 Although the claims are made by Openreach, the Council must summarise the claims along with any expenditure incurred by the Council and Openreach in implementing the scheme each year.

1.54 No formal audit opinion was provided for this work, but we were able to sign the return as correct. There were no findings arising and no actions for improvement identified.

2. Counter Fraud and Investigation Activities

Summary of Completed Investigations

Cash Handling

2.1 Following concerns over cash banking arrangements, advice and support was provided to improve arrangements over cash handling at a care home.

Confidential Reporting Disclosure

2.2 A concern was reported through the Confidential Reporting Hotline regarding school testing support provided by the Standards and Learning Effectiveness Service. The concern was not of a financial nature and was passed to the relevant Senior Officer to investigate and review.

3. Action Tracking

3.1 All high priority actions agreed with management as part of individual audit reviews are subject to action tracking. As at the end of quarter, 100% of high priority actions due had been implemented.

4. Amendments to the Audit Plan

4.1 In accordance with proper professional practice, the internal audit plan for the year remains under regular review to ensure that the service continues to focus its resources in the highest priority areas based on an assessment of risk. Through discussions with management, the following reviews have been added to the audit plan so far this year:

| Review | Rationale for Addition |
|---|--|
| Ukraine | Support and advice in relation to cash payments to Ukrainian guests. |
| Broadband Grant | Additional grant that required certification. |
| Covid Bus Services Support Grant 22/23 | New grant that required certification. |
| Additional Dedicated Home to School and College Transport Grant 22/23 | New grant that required certification. |
| Department for Levelling Up, Housing and Communities Deep Dive | The provision of support to CET who were compiling a response to DLUHC, which was carrying out a detailed review of expenditure made under grants that were disbursed through the Council. |

4.2 The following audit work is currently in progress or is scheduled for quarter 2:

In Progress:

- Pension Fund Governance
- Capital Project Management
- Building Security Follow-Up
- LCS/Controcc
- Elective Home Education
- Procurement Data Analytics
- Children's Safeguarding Data Handling
- Public Health Grant
- UK Community Renewal Fund
- Contract Management
- Use of Consultants
- Network Access Management
- MBOS Key Control Work

Scheduled:

- Adult Social Care Reform
- IT Asset Procurement (Value for Money)
- I-Connect Application Controls (Pensions)
- Climate Change
- Beacon/Grove Park Project Management
- Corporate Governance

- Health and Safety
- Vehicle Use Follow-Up
- Building Condition Asset Management Follow-Up
- Adults Safeguarding
- Waste Management
- Transport Capital Grant Certification
- Bus Services Operators Grant
- Supporting Families – Quarter 2

5. Internal Audit Performance

5.1 In addition to the annual assessment of internal audit effectiveness against Public Sector Internal Audit Standards (PSIAS), the performance of the service is monitored on an ongoing basis against a set of agreed key performance indicators as set out in the following table:

| Aspect of Service | Orbis IA Performance Indicator | Target | RAG Score (RAG) | Actual Performance |
|--|---|---------------|-----------------|---|
| Quality | Annual Audit Plan agreed by Audit Committee | By end April | G | The Annual Plan was and approved by the Audit Committee on 29 March 2022. |
| | Annual Audit Report and Opinion | By end July | G | The Annual Report and Audit Opinion was approved by the Audit Committee on 8 July 2022. |
| | Customer Satisfaction Levels | 90% satisfied | G | 100% |
| Productivity and Process Efficiency | Audit Plan – completion to draft report stage | 90% | G | 24.1% achieved to the end of Q1, against a Q1 target of 22.5%. |
| Compliance with Professional Standards | Public Sector Internal Audit Standards | Conforms | G | <p>January 2018 – External assessment by the South-West Audit Partnership gave an opinion of ‘Generally Conforms’ – the highest of three possible rankings.</p> <p>April 2022 – Updated self-assessment against the standards within the PSIAS underway and</p> |

| Aspect of Service | Orbis IA Performance Indicator | Target | RAG Score (RAG) | Actual Performance |
|---------------------------------|---|--------------------------------------|-----------------|--|
| | | | | <p>preparations for the full independent external assessment in progress.</p> <p>June 2022 – Internal quality review identified no major areas of non-conformance.</p> |
| | 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 | 97% for high priority agreed actions | G | 100% |
| Our staff | Professionally Qualified/Accredited | 80% | G | 94% |

Audit Opinions and Definitions

| 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. |

This page is intentionally left blank

Report to: Audit Committee

Date of meeting: 23 September 2022

By: Chief Finance Officer

Title: CIPFA Financial Management Code

Purpose: To provide the annual overview of Financial Management Code compliance.

RECOMMENDATION:

The Committee is recommended to note the annual overview of Financial Management Code compliance.

1. Background

- 1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) Financial Management Code (FM Code), attached at Appendix 1, sets out the expected standards of financial management for local authorities. It is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability.
- 1.2 Local authorities should be able to demonstrate that they are compliant with the FM Code. While the Code is not statutory, CIPFA would encourage councils to adopt its principles into practice and should be considered as a resource to support improvement internally. There is currently no formal form of assessment of the Code.
- 1.3 CIPFA are clear that the FM Code should not be considered in isolation and accompanying tools, including the use of objective quantitative measures of financial resilience, should form part of the suite of evidence to demonstrate sound decision making. The FM Code will be included in the annual assessment of the Corporate Governance Framework and Annual Governance Statement process from this year.

2. Principles, Standards and Compliance

- 2.1 In determining financial sustainability and sound decision making the Code looks at evidence that demonstrate 6 standards; organisational **leadership** and **accountability**, that financial management is undertaken with **transparency**, the promotion of professional **standards**, sources of **assurance** (including political scrutiny and the results of external audit, internal audit and inspection) and that the long-term **sustainability** of local services is at the heart of all financial management processes, evidenced by the prudent use of public resources.
- 2.2 Compliance to these standards is then focussed on 7 key areas, which are converted into compliance statements A to Q (see 'The Applicability and Structure of the Financial Management Code' section of the FM Code in Appendix 1). The 7 areas are summarised below :-
 - **The responsibilities of the Chief Finance Officer** – evidence that the authority complies with the CIPFA Statement on the Role of the Chief Finance Officer in

Local Government and that the leadership team can demonstrate service Value for Money.

- **Governance and Management** – that the process is understood and that internal controls are in place.
- **Medium to long medium term financial management** - The authority has carried out a credible and transparent Financial Resilience Assessment, it has a Capital Strategy, it complies with the Prudential Code and it has a multi-year Medium Term Financial Plan (MTFP).
- **The annual budget** - The authority complies with its statutory obligations in respect of the budget setting process and setting a balanced budget.
- **Stakeholder engagement and business cases** - The authority has engaged with key stakeholders in developing its long-term financial strategy, MTFP and annual budget.
- **Performance monitoring** - The authority acts using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.
- **External financial reporting** - The Chief Finance Officer has personal responsibility for ensuring that the statutory accounts provided to the local authority comply with the Code of Practice on Local Authority Accounting in the United Kingdom.

- 2.3 The evidence to demonstrate compliance to the areas set out above is wide ranging, including but are not limited to: Financial regulations and schemes of delegation; Governance procedures and the roles of the relevant Committees; Training, including member training; The outcomes of internal and external audits, including the annual Value for Money (VfM) audit; The Reconciling Policy, Performance and Resources (RPPR) process, together with the annual Budget Summary, the annual Statement of Accounts and various benchmarking activities carried out by services.

3. Outcomes and next steps

- 3.1 ESCC is part of a County Council collaboration group with Surrey, Kent, Essex, West Sussex and Hertfordshire County Councils. Its aim is to develop a consistent approach for evidencing compliance and provide a peer review on one another's compliance to provide external assurance.
- 3.2 Table 1 scores activity that demonstrates compliance between 1-5, with scores of between 3-5 being compliant (per CIPFA's own scoring mechanism).

Table 1: ESCC compliance assessment score

| FM Code 6 standards | Relevant compliance statement/criteria | ESCC Average score |
|-------------------------------------|---|---------------------------|
| Leadership | A+B+O | 4 |
| Accountability | D+P+Q | 4 |
| Transparency | L+M | 3.5 |
| Adherence to professional standards | H+J+K | 4 |
| Sources of Assurance | C+F+N | 3.7 |
| Long Term Sustainability | E+G+I | 4 |

- 3.3 Overall, the authority can establish that documents, processes and procedures are in place that provide assurance and evidence that all 6 FM Code standards have been met, by scores of 3 and above. In areas of weaker compliance, focussed work will be undertaken to see where improvements can be made. Officers will keep key documents current on an ongoing basis where this is not already in place.

4. Recommendation

- 4.1 The Audit Committee is recommended to review and note the content of the report showing compliance with the CIPFA FM Code.

IAN GUTSELL

Chief Finance Officer

Contact Officer: Rachel Jarvis (rachel.jarvis@eastsussex.gov.uk).

This page is intentionally left blank

financial management code



CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed. As the world's only professional accountancy body to specialise in public services, CIPFA's qualifications are the foundation for a career in public finance. We also champion high performance in public services, translating our experience and insight into clear advice and practical services. Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance.

CIPFA values all feedback it receives on any aspects of its publications and publishing programme. Please send your comments to customerservices@cipfa.org.

Our range of high quality advisory, information and consultancy services help public bodies – from small councils to large central government departments – to deal with the issues that matter today. And our monthly magazine, *Public Finance*, is the most influential and widely read periodical in the field.

Here is just a taste of what we provide:

- TISonline
- Benchmarking
- Advisory and consultancy
- Professional networks
- Property and asset management services
- CIPFA-Penna recruitment services
- Research and statistics
- Seminars and conferences
- Education and training

Call or visit our website to find out more about CIPFA, our products and services – and how we can support you and your organisation in these unparalleled times.

020 7543 5600

customerservices@cipfa.org

www.cipfa.org



financial management code

Published by:

CIPFA \ THE CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY

77 Mansell Street, London E1 8AN

020 7543 5600 \ customerservices@cipfa.org \ www.cipfa.org

© October 2019 CIPFA

ISBN 978 1 84508 524 7

Printed by Rapidity, London.

No responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication can be accepted by the authors or publisher.

While every care has been taken in the preparation of this publication, it may contain errors for which the publisher and authors cannot be held responsible.

Apart from any fair dealing for the purposes of research or private study, or criticism or review, as permitted under the Copyright, Designs and Patents Act, 1988, this publication may be reproduced, stored or transmitted, in any form or by any means, only with the prior permission in writing of the publishers, or in the case of reprographic reproduction in accordance with the terms of licences issued by the Copyright Licensing Agency Ltd. Enquiries concerning reproduction outside those terms should be sent to the publishers at the above mentioned address.

Executive summary

The tightening fiscal landscape has placed the finances of local authorities under intense pressure. Where finance in local government works well there is often a common understanding and ownership of issues supported by good financial management.

While organisations have done much to transform services, shape delivery and streamline costs, for these approaches to be successful it is crucial to have good financial management embedded as part of the organisation. Good financial management is an essential element of good governance and longer-term service planning, which are critical in ensuring that local service provision is sustainable.

The Financial Management Code (FM Code) is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. For the first time the FM Code sets out the standards of financial management for local authorities.

Local government finance in the UK is governed by primary legislation, regulation and professional standards as supported by statutory provision. The general financial management of a local authority, however, has not until now been supported by a professional code. The FM Code has been introduced because the exceptional financial circumstances faced by local authorities have revealed concerns about fundamental weaknesses in financial management, particularly in relation to organisations that may be unable to maintain services in the future. There is much good practice across the sector, but the failures of a small number threatens stakeholders' confidence in local government as a whole. Most importantly, the financial failure of just one local authority is one too many because it brings with it a risk to the services on which local people rely.

This publication has several components. The first is an introduction explaining how the FM Code applies a principles-based approach and how it relates to other statutory and good practice guidance on the subject. This is a good starting point for those new to the FM Code.

This introduction is followed by the CIPFA Statement of Principles of Good Financial Management. These six principles have been developed by CIPFA in collaboration with senior leaders and practitioners who work within or have a stake in good local authority financial management. These principles are the benchmarks against which all financial management should be judged. CIPFA's view is that all financial management practices should comply with these principles.

To enable authorities to test their conformity with the CIPFA Statement of Principles of Good Financial Management, the FM Code translates these principles into financial management standards. These financial management standards will have different practical applications according to the different circumstances of each authority and their use should therefore reflect this. The principle of proportionality is embedded within this code and reflects a non-prescriptive approach.

The purpose of the FM Code itself is to establish the principles in a format that matches the financial management cycle and supports governance in local authorities. A series of financial management standards set out the professional standards needed if a local authority is to meet the minimal standards of financial management acceptable to meet fiduciary duties to taxpayers, customers and lenders. Since these are minimum standards, CIPFA's judgement is that compliance with them is obligatory if a local authority is to meet its statutory responsibility for sound financial administration. Beyond that, CIPFA members must comply with it as one of their professional obligations.

While the statutory local authority budget setting process continues to be on an annual basis, a longer-term perspective is essential if local authorities are to demonstrate their financial sustainability. Short-termism runs counter to both sound financial management and sound governance.

Reflecting on the importance of longer term financial planning, one of the objectives of the FM Code is to support organisations to demonstrate that they have the leadership, capacity and knowledge to be able to plan effectively. This must be balanced against retaining the integrity of the annual budget preparation process when the need to make difficult decisions may threaten its integrity.

CIPFA recognises that local authorities may need additional practical guidance on some aspects of the FM Code. Such 'hands on' guidance will be produced by CIPFA to meet practitioner demand.

Contents

| | |
|---|-----------|
| EXECUTIVE SUMMARY | 3 |
| INTRODUCTION | 7 |
| THE CIPFA STATEMENT OF PRINCIPLES OF GOOD FINANCIAL MANAGEMENT | 9 |
| THE APPLICABILITY AND STRUCTURE OF THE FINANCIAL MANAGEMENT CODE | 11 |
| APPLICATION DATE | 13 |
| THE STRUCTURE OF THE FM CODE | 13 |
| THE CIPFA FINANCIAL MANAGEMENT STANDARDS..... | 15 |
| SECTION 1. THE RESPONSIBILITIES OF THE CHIEF FINANCE OFFICER AND LEADERSHIP TEAM | 17 |
| THE ROLE OF THE LEADERSHIP TEAM | 17 |
| THE ROLE OF THE CHIEF FINANCE OFFICER | 18 |
| SECTION 2. GOVERNANCE AND FINANCIAL MANAGEMENT STYLE | 21 |
| GOOD GOVERNANCE..... | 21 |
| FINANCIAL MANAGEMENT STYLE..... | 22 |
| SECTION 3. MEDIUM TO LONG-TERM FINANCIAL MANAGEMENT | 25 |
| FINANCIAL RESILIENCE AND LONG-TERM FINANCIAL STRATEGY | 25 |
| THE PRUDENTIAL CODE FOR CAPITAL FINANCE IN LOCAL AUTHORITIES | 26 |
| PRACTICAL MEDIUM-TERM FINANCIAL PLANNING..... | 27 |
| SECTION 4. THE ANNUAL BUDGET | 29 |
| SECTION 5. STAKEHOLDER ENGAGEMENT AND BUSINESS CASES..... | 31 |
| STAKEHOLDER ENGAGEMENT..... | 31 |
| BUSINESS CASES | 31 |
| SECTION 6. PERFORMANCE MONITORING..... | 33 |
| SECTION 7. EXTERNAL FINANCIAL REPORTING | 35 |
| ANNEX A. IFAC/CIPFA GUIDANCE ON IMPLEMENTING THE PRINCIPLES FOR GOOD GOVERNANCE IN THE PUBLIC SECTOR (EXTRACT) | 37 |
| ANNEX B. IFAC/PAIB PROJECT AND INVESTMENT APPRAISAL FOR SUSTAINABLE VALUE CREATION..... | 39 |
| PRINCIPLES IN PROJECT AND INVESTMENT APPRAISAL | 39 |
| GLOSSARY | 41 |
| BIBLIOGRAPHY | 44 |

Introduction

The Financial Management Code (FM Code) is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The FM Code therefore for the first time sets the standards of financial management for local authorities.

One of the strengths of UK local government is its diversity, with authorities having a different organisational culture – even those of the same size and type. It is this that allows a close relationship between local authorities and the communities that they serve. Its style of financial management should reflect, for example, its reliance on local tax income or scope to utilise additional grant or generate trading income. This code is therefore not prescriptive.

The FM Code is based on a series of principles supported by specific standards which are considered necessary to provide the strong foundation to:

- financially manage the short, medium and long-term finances of a local authority
- manage financial resilience to meet unforeseen demands on services
- manage unexpected shocks in their financial circumstances.

The FM Code is consistent with other established CIPFA codes and statements in being based on principles rather than prescription. This code incorporates their existing requirements on local government so as to provide a comprehensive picture of financial management in the authority.

Each local authority (and those bodies designated to apply the FM Code) must demonstrate that the requirements of the code are being satisfied. Demonstrating this compliance with the FM Code is a collective responsibility of elected members, the chief finance officer (CFO) and their professional colleagues in the leadership team. It is for all the senior management team to work with elected members in ensuring compliance with the FM Code and so demonstrate the standard of financial management to be expected of a local authority. In doing this the statutory role of the section 151 officer will not just be recognised but also supported to achieve the combination of leadership roles essential for good financial management.

While CIPFA has provided leadership, the development of the FM Code reflects a recognition that self-regulation by the sector must be the preferred response to the financial management failures that have the potential to damage the reputation of the sector as a whole. The FM Code has sought therefore to rely on the local exercise of professional judgement backed by appropriate reporting. To ensure that self-regulation is successful, compliance with the FM Code cannot rest with the CFO acting alone.

Significantly, the FM Code builds on established CIPFA Prudential and Treasury Management Codes which require local authorities to demonstrate the long-term financial sustainability of their capital expenditure, associated borrowing and investments. The introduction of the Prudential Framework based on the CIPFA codes enabled local authorities to make their own capital finance decisions on matters that had hitherto been subject to central government

control. The FM Code should not be considered in isolation and accompanying tools, including the use of objective quantitative measures of financial resilience, should form part of the suite of evidence to demonstrate sound decision making.

The CIPFA Statement of Principles of Good Financial Management

The FM Code applies a principle-based approach. It does not prescribe the financial management processes that local authorities should adopt. Instead, this code requires that a local authority demonstrates that its processes satisfy the principles of good financial management for an authority of its size, responsibilities and circumstances. Good financial management is proportionate to the risks to the authority's financial sustainability posed by the twin pressures of scarce resources and the rising demands on services. The FM Code identifies these risks to financial sustainability and introduces an overarching framework of assurance which builds on existing best practice but for the first time sets explicit standards of financial management. These are minimum standards, which for many in the sector are self-evident. Recent experience in some local authorities suggests, however, that they are by no means universally achieved.

The underlying principles that inform the FM Code have been developed in consultation with senior practitioners from local authorities and associated stakeholders. The principles have been designed to focus on an approach that will assist in determining whether, in applying standards of financial management, a local authority is financially sustainable.

- Organisational **leadership** – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture.
- **Accountability** – based on medium-term financial planning that drives the annual budget process supported by effective risk management, quality supporting data and whole life costs.
- Financial management is undertaken with **transparency** at its core using consistent, meaningful and understandable data, reported frequently with evidence of periodic officer action and elected member decision making.
- Adherence to professional **standards** is promoted by the leadership team and is evidenced.
- Sources of **assurance** are recognised as an effective tool mainstreamed into financial management, including political scrutiny and the results of external audit, internal audit and inspection.
- The long-term **sustainability** of local services is at the heart of all financial management processes and is evidenced by prudent use of public resources.

The FM Code has been developed and tested in partnership with a range of different types of local authorities. However, given the diversity of UK local government, it is not possible (or desirable) for the FM Code to anticipate all eventualities. If any doubt arises as to whether

or how the FM Code should be applied, then reference should be made to these Principles of Good Financial Management to establish whether the proposed financial management practice is acceptable. A financial management practice that conflicts with one or more of these principles will not be acceptable if not explicitly ruled out by the financial management standards contained in the FM Code.

The applicability and structure of the Financial Management Code

CIPFA's intention is that the Financial Management Code (FM Code) will have the same scope as the *Prudential Code for Capital Finance in Local Authorities* (CIPFA, 2017), which promotes the financial sustainability of local authority capital expenditure and associated borrowing. So, although the FM Code does not have legislative backing, it applies to all local authorities, including police, fire, combined and other authorities, which:

- in England and Wales are defined in legislation for the purposes of Part 1 of the Local Government Act 2003
- in Scotland are defined in legislation for the purposes of Part 7 of the Local Government in Scotland Act 2003, or to the larger bodies (such as integration joint boards) to which Section 10 of this Act applies
- in Northern Ireland are defined in legislation for the purposes of Part 1 of the Local Government Finance Act (Northern Ireland) 2011.

While the FM Code applies to all local authorities, it recognises that some have different structures and legislative frameworks. Where compliance with this code is not possible, adherence to the principles is still considered appropriate.

In addition to its alignment with the *Prudential Code for Capital Finance in Local Authorities* (CIPFA, 2017), the FM Code also has links to the *Treasury Management in the Public Sector Code of Practice and Cross Sectoral Guidance Note* (CIPFA, 2017) and the annual *Code of Practice on Local Authority Accounting in the United Kingdom*. In this way the FM Code supports authorities by re-iterating in one place the key elements of these statutory requirements.

Although it may be expressed differently across the different jurisdictions of the UK, the FM Code is also further supported by statutory requirement, or all local authorities to have sound financial management.

Section 151 of the Local Government Act 1972 requires that every local authority in England and Wales should "... make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs."

Section 95 of the Local Government (Scotland) Act 1973 substantially repeats these words for Scottish authorities.

In Northern Ireland, Section 54 of the Local Government Act (Northern Ireland) 1972 requires that "a council shall make safe and efficient arrangements for the receipt of money paid to it

and the issue of money payable by it and those arrangements shall be carried out under the supervision of such officer of the council as the council designates as its chief finance officer.”

CIPFA’s judgement is that compliance with the FM Code will assist local authorities to demonstrate that they are meeting these important legislative requirements.

In addition to the requirements of primary legislation and associated CIPFA Codes, an authority’s prudent and proper financial management is informed by a framework of professional codes of practice and guidance, including:

- the CIPFA *Statements of Professional Practice (SOPP) (including ethics)*
- the CIPFA *Statement of the Role of the Chief Financial Officer*
- the CIPFA *Statement on the Role of the Chief Financial Officer in Local Government*
- the CIPFA *Statement on the Role of the Chief Finance Officer of the Police and Crime Commissioner and the Chief Finance Officer of the Chief Constable.*

CIPFA considers the application of the FM Code to be a professional responsibility of all its members, regardless of their role in the financial management process. More specifically, the FM Code clarifies CIPFA’s understanding of how CFOs should satisfy their statutory responsibility for good financial administration. The responsibilities of the CFO are both statutory and professional. Notwithstanding these specific expectations of CIPFA members, the primary purpose of the FM Code is to establish how the CFO – regardless of whether or not they are a CIPFA member – should demonstrate that they are meeting their statutory responsibility for sound financial administration.

The code has clear links to a number of value for money characteristics such as sound governance at a strategic, financial and operational level, sound management of resources and use of review and options appraisal. Where an overriding duty of value for money exists, this serves to give indirect statutory support to important elements of this code.

The manner in which compliance with the FM Code is demonstrated will be proportionate to the circumstances of each local authority. Importantly, however, contextualising the FM Code cannot be done according only to the size of the authority but also according to the complexity and risks in its financial arrangements and service delivery arrangements.

CIPFA considers application of the FM Code to be a collective responsibility of each authority’s organisational leadership team.

CIPFA believes that this FM Code merits the type of statutory backing given to some other CIPFA codes and furthermore there is support for this approach within local government and its stakeholders. Equally, however, CIPFA recognises that such backing demands enabling primary legislation that at present has not been identified. CIPFA will continue to work with the jurisdictions of the different parts of the UK to provide statutory backing to the FM Code. At present it is difficult to envisage circumstances in which the absence of statutory backing for the FM Code would provide a reason for non-compliance.

APPLICATION DATE

Local authorities are required to apply the requirements of the FM Code with effect from 1 April 2020. This means that the 2020/21 budget process provides an opportunity for assessment of elements of the FM Code before April 2020 and to provide a platform for good financial management to be demonstrable throughout 2020/21. Local authorities will need to ensure that their governance and financial management style are fit in advance for this purpose. CIPFA has also considered the ambition within this code, the timescale and of course the wider resource challenges facing local authorities. Consequently CIPFA considers that the implementation date of April 2020 should indicate the commencement of a shadow year and that by 31 March 2021, local authorities should be able to demonstrate that they are working towards full implementation of the code. The first full year of compliance with the FM Code will therefore be 2021/22. Earlier adoption is of course encouraged.

It is the duty of each local authority to adhere to the principles of financial management. To enable authorities to test their conformity with the CIPFA Principles of Good Financial Management, the FM Code translates these principles into financial management standards. These financial management standards will have different practical applications according to the different circumstances of each authority.

The structure of the FM Code

The CIPFA financial management standards are presented and explained in Sections 1 to 7 of the FM Code.

Sections 1 and 2 address important contextual factors which need to be addressed in the first instance if sound financial management is to be possible. The first deals with the responsibilities of the CFO and leadership team, the second with the authority's governance and financial management style. From a professional perspective, these factors are the most challenging to codify as they largely concern 'soft skills' and behaviours. Nonetheless, it will be seen that even for these factors, there are recognised standards of best practice that authorities must adopt if their organisational culture is to be favourable for sound financial management. A 'tick box' compliance with these standards alone, however, will not be sufficient if they do not promote the behaviours necessary for good financial management.

The remaining Sections 3 to 7 address the requirements of the financial management cycle, with Section 3 stating the need for a long-term approach to the evaluation of financial sustainability. To make well informed decisions all these elements of the cycle need to be fit for purpose. The development of a high-quality long-term financial strategy will not itself promote financial sustainability if, for example, the authority's annual budget setting process (Section 4), stakeholder engagement and business cases (Section 5) and performance monitoring arrangements (Section 6) are inadequate. The cycle is completed by Section 7, which shows how high-quality financial reporting supports the financial management cycle by ensuring that it rests on sound financial information.

CIPFA's expectation is that authorities will have to comply with all the financial management standards if they are to demonstrate compliance with the FM Code. It is again most important that practitioners recognise that, while compliance with the CIPFA financial management standards is obligatory, the FM Code is not prescriptive about how this is achieved.

In the accompanying guidance notes CIPFA sets out practices that local authorities can adopt to ensure compliance with the FM Code. These practices are not prescribed by the FM Code, but rather offered as a starting point for local authorities needing to raise their approach to financial management to the minimum standard set out in the FM Code. CIPFA may issue support and clarify application of the FM Code. Authorities can develop their own good practice and are encouraged to do so.

As high-level statements, the overarching CIPFA financial management standards apply to the police service. CIPFA recognises, however, that this type of organisation has in some respects different practices from other local authorities. In addition, the creation of bespoke combined authorities means that some flexibility is required in the application of the FM Code for their circumstances. This may be achieved by applying some standards to each of the component bodies and others directly to the combined authority itself. In all cases, when an authority has unique governance arrangements the CIPFA Principles of Financial Management should be used to resolve any doubt about the application of articular financial management standards.

Financial management standards are to be guided by proportionality. It is appropriate for different financial management approaches to apply to high-value/high-risk items that alone may determine the financial sustainability of the organisation as distinct from low-value/low-risk items. In satisfying the demands of the financial management standards it may be appropriate to apply different standard practices according to the scale and risks of each category of income or expenditure. The intention is that authorities demonstrate a rigorous approach to the assessment and mitigation of risk so that financial management expertise is deployed effectively given the circumstances faced by the authority.

Nonetheless, in acknowledging the need for proportionality in applying some aspects of the FM Code, an authority still needs to recognise that when aggregated, a failure to manage individual low-value/low-risk items may still threaten financial sustainability. The FM Code seeks to promote the good financial management of the standard, typical or familiar local authority activities just as much as it promotes the good financial management of the unusual, exceptional and unfamiliar. Essentially, the FM Code recognises that getting the routine business right is crucial for good financial management.

The CIPFA financial management standards

Summary table of CIPFA financial management standards

| FM standard reference | CIPFA financial management standards |
|---|---|
| Section 1: The responsibilities of the chief finance officer and leadership team | |
| A | The leadership team is able to demonstrate that the services provided by the authority provide value for money. |
| B | The authority complies with the CIPFA <i>Statement on the Role of the Chief Finance Officer in Local Government</i> . |
| Section 2: Governance and financial management style | |
| C | The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control. |
| D | The authority applies the CIPFA/SOLACE <i>Delivering Good Governance in Local Government: Framework</i> (2016). |
| E | The financial management style of the authority supports financial sustainability. |
| Section 3: Long to medium-term financial management | |
| F | The authority has carried out a credible and transparent financial resilience assessment. |
| G | The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members. |
| H | The authority complies with the CIPFA <i>Prudential Code for Capital Finance in Local Authorities</i> . |
| I | The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans. |
| Section 4: The annual budget | |
| J | The authority complies with its statutory obligations in respect of the budget setting process. |
| K | The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves. |
| Section 5: Stakeholder engagement and business plans | |
| L | The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget. |
| M | The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions. |
| Section 6: Monitoring financial performance | |
| N | The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability. |
| O | The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability. |
| Section 7: External financial reporting | |
| P | The chief finance officer has personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting requirements of the <i>Code of Practice on Local Authority Accounting in the United Kingdom</i> . |
| Q | The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions. |



The responsibilities of the chief finance officer and leadership team

Local authorities in the UK use different democratic models. While the committee and the cabinet system are the most common there are also a number of direct elected mayors in England. Regardless of the model, responsibility for corporate financial sustainability rests with those responsible for making executive decisions with the support of their professional advisors. Elected members need to work effectively with officers and other stakeholders to make difficult decisions and to identify and deliver savings when required.

While the legislative context differs across the different jurisdictions of the UK, all local authorities must deliver value for money. This is an overarching requirement that informs the application of the other financial management standards in the FM Code.

Financial Management Standard A

The leadership team is able to demonstrate that the services provided by the authority provide value for money.

The role of the leadership team

The delivery of value for money will ultimately be dependent on decisions made by elected members. It is for the leadership team to ensure that the authority's governance arrangements and style of financial management promote financial sustainability. It is the elected members who are held to account by local people when a local authority fails, but an important element of collective decision making is to understand the risks and appreciate the different statutory responsibilities of those involved. Good financial management is the responsibility of the whole leadership including the relevant elected members. It is the responsibility of the senior officers within the management team to enact this.

The FM Code follows the practice of the CIPFA *Statement of the Role of the Chief Financial Officer in Local Government* in referring to this collective group of elected member and officers with this collective financial responsibility as the leadership team. In local authorities, therefore, the concept of the 'leadership team' will include executive committees, elected mayors, portfolio holders with delegated powers and other key committees of the authority and senior officers.

In the police service this leadership is provided by police and crime commissioners and chief constables, which operate jointly according to the policing protocol, which requires the maintenance of an efficient force.

The role of the chief finance officer

The statutory of the role of the chief finance officer (CFO) is a distinctive feature of local government in the UK (except in Northern Ireland). This role cannot be performed in isolation and requires the support of the other members of the leadership team.

The leadership team must recognise that while statutory responsibility for the financial management of the authority rests with the CFO, the CFO is reliant on the actions of the leadership team, both collectively and individually as elected members and senior officers. A situation in which the CFO is forced to act in isolation is characteristic of authorities in which financial management has failed and financial sustainability is threatened.

Equally, the CFO must ensure that they fulfil their personal legal and professional responsibilities in the public interest and in recognition of the other statutory service responsibilities of the authority. In the leadership team the CFO must provide timely, relevant and reliable financial advice, in accordance with the law and professional standards.

It is important to appreciate that while the section 151 or similar legislative provisions require the authority to appoint a suitably qualified officer responsible for the proper administration of its affairs, responsibility for proper financial administration still rests ultimately with elected members. The local authority itself has a statutory responsibility for maintaining a system of internal control including the management of risk, an effective internal audit and preparing annual accounts.

CIPFA has issued its *Statement on the Role of the Chief Financial Officer in Local Government*. This statement sets out CIPFA's understanding of the role to support both the CFO and local authorities.

Financial Management Standard B

The authority complies with the CIPFA *Statement on the Role of the Chief Financial Officer in Local Government*.

For the purposes of the FM Code, the CIPFA *Statement on the Role of the Chief Finance Officer of the Police and Crime Commissioner* and the *Chief Finance Officer of the Chief Constable* (2012) should be substituted for references to the CIPFA *Statement on the Role of the Chief Financial Officer in Local Government*.

CIPFA's *Statement on the Role of the Chief Financial Officer in Local Government* describes the roles and responsibilities of the CFO. It sets out how the requirements of legislation and professional standards should be fulfilled by the CFO as they carry out their duties. The statement is designed to assist those carrying out the role to meet its specific responsibilities while at the same time reiterating CIPFA's *Statement of Professional Practice* with which all CIPFA members are required to comply. The statement also requires that if different organisational arrangements are adopted the reasons should be explained publicly in the authority's annual governance statement, together with how they deliver the same impact.

Governance and financial management style

Without good governance a local authority cannot make the changes necessary for it to remain financially sustainable. As such, financial sustainability must be underpinned by the robust stewardship and accountability to be expected of public bodies. Good governance gains the trust of taxpayers and other funders by giving them confidence that money is being properly spent. Good governance ensures better informed and longer-term decision making and therefore is essential for good financial management.

Good governance

Responsibility for good governance also rests with the leadership team. The team must ensure that there are proper arrangements in place for governance and financial management, including a proper scheme of delegation that ensures that frontline responsibility for internal and financial control starts with those who have management roles. This delegation ensures that those responsible for the delivery of services are also explicitly held responsible for the financial management of the associated expenditure and income. Nonetheless, it is for the leadership team to demonstrate that the authority always meets exacting standards of probity, accountability and demonstrable efficiency in the use of public resources.

The CFO is not the only officer with specific statutory responsibilities for good governance. The head of paid service (in practice the chief executive) is responsible for the proper recruitment and organisation of a local authority's staff. The monitoring officer has the specific duty to ensure that the council, its officers and its elected members maintain the highest standards of conduct in all they do (the legal basis of the head of paid service's role is found in Section 4 of the Local Government and Housing Act 1989 and that of the monitoring officer in Section 5 of the same act).

All parts of the governance structure of an organisation play an important role, but the audit committee is a key component, providing independent assurance over governance, risk and internal control arrangements. It provides a focus on financial management, financial reporting, audit and assurance that supports the leadership team and those with governance responsibilities.

Good governance is evidenced by actions and behaviours as well as formal documentation and processes. The tone and action at the top are critical in this respect, and rest with the leadership team – both senior officers and elected members, as well as the CFO. A successful leadership team has a culture of constructive challenge that excludes an optimism bias in favour of a realism bias and is built on a rigorous examination of goals, underlying assumptions and implementation plans.

The Committee on Standards in Public Life has set out *Seven Principles of Public Life* which it believes should apply to all in the public services (often referred to as the Nolan Principles). The last of the Nolan Principles – that holders of public office should promote and support these principles by leadership and example – is especially relevant to the leadership team.

Financial Management Standard C

The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.

By international standards, local government in the UK is distinguished by high standards of governance. Citizens expect financial accountability, press and parliamentary scrutiny, integrity and the absence of corruption. These expectations are largely met, but local authorities should guard against complacency.

The CIPFA/IFAC *International Framework: Good Governance in the Public Sector* (Annex A to this FM Code) is intended to encourage sustainable service delivery and improved accountability by establishing a benchmark for aspects of good governance in the sector. The application of this international framework in the context of UK local government is reinforced by specific regulatory requirements and sector specific guidance. The CIPFA/SOLACE *Delivering Good Governance in Local Government: Framework* (2016 edition) supports local authorities in developing and maintaining their own codes of governance and to discharge their accountability for the proper conduct of business.

Financial Management Standard D

The authority applies the CIPFA/SOLACE *Delivering Good Governance in Local Government: Framework* (2016).

This CIPFA/SOLACE framework recommends that the review of the effectiveness of the system of internal control that local authorities in England, Wales, Scotland and Northern Ireland are required to undertake by their respective accounts and audit regulations should be reported in an annual governance statement.

Financial management style

The financial management challenges faced by many local authorities are unprecedented in recent history and show no signs of easing. This is significant because it means that different styles of financial management are necessary. Financial sustainability will not be achieved by continuing with the behaviours of the past since these do not meet the demands of the present – or the future, which may be even more challenging. To remain financially sustainable authorities need to develop their financial management capabilities.

Financial Management Standard E

The financial management style of the authority supports financial sustainability.

CIPFA believes that the strength of financial management within an organisation can be assessed by a hierarchy of three ‘financial management (FM) styles’:

- delivering accountability
- supporting performance
- enabling transformation.

These different styles are used in the CIPFA Financial Management Model to describe the different standards of financial management which may be found in local authorities. They represent a hierarchy in which enabling transformation is only achieved by a financial management style that supports performance and which in turn delivers accountability. Once these basic foundations have been soundly established, authorities need to move up through a hierarchy of financial management styles in response to increasing risk. This is especially important as risks have increased for many local authorities; on the one hand reduced expenditure leaves less margin for error while on the other hand, in seeking to generate new income, local authorities take on unfamiliar risks.

This hierarchy of financial management styles loosely maps onto the now deeply embedded recognition of the necessity for economy, efficiency and effectiveness to achieve value for money. In delivering accountability the finance team ensures that their authorities spend less and so achieve economy. In supporting performance, the finance team works with the authority to spend well by maximising the output from goods or services and so achieves efficiency. Finally, in enabling transformation the finance team supports the effective use of public money.

CIPFA recognises that while the highest standards of financial management should be the expectation, in practice some local authorities are at different stages of development. In these circumstances, compliance with the FM Code may initially be achieved by credible proposals to raise financial standards beyond the basic delivery of accountability.

The first two sections of this code have addressed the pre-conditions that must be satisfied for sound financial management. The following sections turn to the practical operation of the successive stages of the financial management cycle.

Medium to long-term financial management

While the statutory local authority budget setting process continues to be on an annual basis (see Section 4) a longer-term perspective is essential if local authorities are to demonstrate their financial sustainability. Short-termism runs counter to both sound financial management and sound governance.

CIPFA does not believe however that the time horizon of local authority financial planning is determined by the time horizon of the financial support from central government. The greater the uncertainty about future central government policy then the greater the need to demonstrate the long-term financial resilience of the authority given the risks attached to its core funding.

An authority must ensure that while the formal publication of the medium-term financial plan (MTFP) may only reflect government settlements, it is the responsibility of the leadership of the organisation, including elected members, senior management and the section 151, to have a long-term financial view acknowledging financial pressures.

Authorities with a high level of capital investment and associated external borrowing should adopt a correspondingly long-term approach. The Prudential Code requires that a local authority capital strategy sets out the long-term context in which capital expenditure and investment decisions are made. For example all authorities with PFI, service contracts and other similar contractual arrangements will need to demonstrate their ability to finance these arrangements over the whole period of the contracts. Housing Revenue Account (HRA) business plans in England and Wales are already based on a 30-year time horizon.

Financial resilience and long-term financial strategy

If an authority has not tested and demonstrated its long-term financial resilience then its financial sustainability remains an open question. Authorities must critically evaluate their financial resilience. It is possible that the existing strategy is financially sustainable, but this must still have been tested and demonstrated in a financial resilience assessment.

In this financial resilience assessment the authority must test the sensitivity of its financial sustainability given alternative plausible scenarios for the key drivers of costs, service demands and resources. It will require an analysis of future demand for key services and consideration of alternative options for matching demand to resources. Testing will focus on the key longer-term revenues and expenses and the key risks to which the authority will be exposed.

With an awareness that risks will vary, consideration should be given to tools such as the [Financial Resilience Index](#) that may help organisations identify these pressure points. Without such stress testing an authority cannot be regarded as financially sustainable and will be deemed to have failed that test.

Financial Management Standard F

The authority has carried out a credible and transparent financial resilience assessment.

Having carried out the finance resilience assessment, the authority will need to demonstrate how the risks identified have informed a long-term financial strategy. A local authority needs an over-arching strategic vision of how it intends to deliver outputs and achieve outcomes for which it is responsible. This should include a statement that sets out both the vision and the underlying strategy, together with the mix of interventions that the organisation will adopt in delivering services to achieve the intended outcomes. In many cases a basis for this will already exist in a corporate plan.

A key part of the strategy should be a visioning exercise to understand the potential shape of services in the future. It will need to be sufficiently comprehensive to offer a convincing demonstration that the authority has identified a way of achieving financial sustainability. At the same time it needs to provide a relatively fixed point of reference which is subject to periodic review and to revision and fundamental change only when it is no longer fit for purpose.

Financial Management Standard G

The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.

CIPFA is not at present being prescriptive about the time period of this long-term financial strategy. Different authorities will face different levels of political and financial stability which may have become embedded in different management cultures. However, CIPFA would promote ambition and stress the need for a financial strategy that matches the requirement for a strategic approach to service planning. The underlying key demand cost drivers, especially those linked to the age profile of the community, can be foreseen at least in broad terms for a decade and more ahead.

The Prudential Code for Capital Finance in Local Authorities

The statutory requirements of the Prudential Code underpins elements of the long and medium-term financial management considered in this section of the FM Code. While the minimum requirement is for three-year rolling capital and investment plans, *The Prudential Code for Capital Finance in Local Authorities* (2017 edition) stresses that a longer-term approach is necessary to ensure that capital strategy and asset management plans are sustainable.

Financial Management Standard H

The authority complies with the CIPFA *Prudential Code for Capital Finance in Local Authorities*.

One of the requirements of the Prudential Code is a capital strategy. This capital strategy is a fundamental component of good financial management. It should set out how the organisation is currently managing its assets and more importantly its future plans linked to available resources. Balance sheet management in local authorities is about the better management of assets and liabilities to support service delivery and capital strategy. A long-term vision is needed for the configuration of service delivery and investment properties because timely asset disposals and/or investments will be dependent on complex interdependencies.

A long-term vision should also be reflected in any commercial investment activity undertaken by the organisation. Guided by the Prudential Code and relevant guidance on borrowing for acquisitions of commercial properties, a local authority should not put public money and services at risk.

Practical medium-term financial planning

CIPFA does not anticipate that a long-term financial strategy would provide sufficient detail to shape the annual budget setting process. Local authorities will need to translate their long-term financial strategies into a medium-term financial plan (MTFP) for budget setting.

The MTFP is the mechanism or framework by which the annual budget process relates directly to the long-term strategy establishing the financial sustainability of the authority. While not prescriptive about time frame, the MTFP should support financially sustainable decision making.

Importantly, performance against the plan will enable recent success and/or failures in delivering financial objectives to be taken into account in the annual budget process. A symptom of financial stress is the emergence of unanticipated overspends in recent years from the MTFP. While the long-term strategy needs to be a stable point of reference, the MTFP needs to be rolled forward annually to ensure that it reflects the latest detailed information. By taking this approach to medium-term financial planning the annual budget is aligned to longer-term goals.

The MTFP should enable the leadership team to have confidence in its long-term strategy for its financial sustainability. Importantly, financial and operational plans must be demonstratively aligned to the strategy at all levels. Without clear service plans it is impossible to place the forecast within the context of currently agreed policies and their implications for future demand and resources.

Financial Management Standard I

The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.

The annual budget

One of the objectives of this FM Code is to end the practice by which the annual budget process has often become the focal point if not the limit of local authority financial planning. However the annual budget preparation process needs to be protected at a time when the need to make difficult decisions may threaten its integrity.

Local authorities need to ensure that they are familiar with the legislative requirements of the budget setting process. In times of routine business compliance this is relatively straightforward, but in times of financial stress there may be pressures for delay or obfuscation in budget setting. These difficulties can be acute when council tax setting is reliant on decisions by independent precepting bodies. In these circumstances it is likely that the CFO will need to work closely with the chief executive, monitoring officer and the leadership team to ensure statutory processes and a timetable necessary to set a legal budget are understood. The monitoring officer is the custodian of the constitution, which acts as a safeguard to prevent councillors and officers from getting into legal difficulties in the exercise of their role and uphold and ensure fairness in decision making.

Financial Management Standard J

The authority complies with its statutory obligations in respect of the budget setting process.

The annual report setting out the proposed budget for the coming year is a key document for the authority. It will also demonstrate compliance with CIPFA's Prudential Code (Financial Management Standard H). The best budget plans are those owned and articulated by the whole leadership team and senior managers, not simply the CFO.

Reserves are acknowledged in statute. Local authorities are directed to have regard to the level of reserves when considering their budget requirement. Consequently, reserves are a recognised and intrinsic part of financial planning and budget setting. The assessment of 'adequate' and 'necessary' levels of reserves is a matter for local authorities to determine. It is the responsibility (with statutory backing in England and Wales) of the CFO to advise the local authority on the appropriate level of reserves and the robustness of the estimates.

Financial Management Standard K

The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves.

The budget report should include details of the earmarked reserves held, and explain the purpose of each reserve, together with the estimated opening balances for the year, details of planned additions/withdrawals and the estimated closing balances.

A well-managed authority, with a prudent approach to budgeting, should be able to operate with a level of general reserves appropriate for the risks (both internal and external) to which it is exposed. Compliance with the FM Code will give important reassurance that the authority's financial management processes and procedures are able to manage those risks. These should be maintained at a level appropriate for the profile of the authority's cash flow and the prospect of having to meet unexpected events from within its own resources. Even where, as part of their wider role, auditors have to report on an authority's financial position, it is not their responsibility to prescribe the optimum or minimum level of reserves for individual authorities or authorities in general.

The successful execution of the annual budget will depend on both the good governance and internal controls already codified in Section 2 as well as financial monitoring addressed in Section 6.

Stakeholder engagement and business cases

Financial sustainability requires citizens to understand that resources are not limitless and that decisions have to be made about both the relative priority of different services and the balance between service provision and taxation levels. The leadership team collectively has an important role in reviewing priorities to enable resources to be redirected from areas of lesser priority; it is not possible to rely principally on pro rata cuts to generate the savings necessary for financial sustainability in an era of austerity.

The leadership team needs to challenge not only how services are delivered, but also what is delivered. These decisions must be made with a clear understanding of the statutory requirements and of wider legal implications of any decisions.

Stakeholder engagement

Stakeholder consultation can help to set priorities and reduce the possibility of legal or political challenge late in the change process. Stakeholder consultation helps to encourage community involvement not just in the design of services but in their ongoing delivery. This is especially the case when a local authority adopts an enabling approach to public service delivery which, along with the active involvement of the third sector, may facilitate future reductions in service costs.

Financial Management Standard L

The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget.

Business cases

Financial sustainability will be dependent upon difficult and often complex decisions being made. The authority's decisions must be informed by clear business cases based on the application of appropriation option appraisal techniques. Professional accountants can be expected to comply with the IFAC/PAIB Project and Investment Appraisal for Sustainable Value Creation reproduced in Annex B to this FM Code.

Financial Management Standard M

The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.

It is the responsibility of the CFO to ensure that all material decisions are supported by an option appraisal which in its rigour and sophistication is appropriate for the decision being made. It is likely that the authority's documented option appraisal methodology will include a relatively simplistic approach for decisions of low value and/or low risk.

Performance monitoring

To remain financially sustainable an authority must have timely information on its financial and operational performance so that policy objectives are delivered within budget. Early information about emerging risks to its financial sustainability will allow it to make a carefully considered and therefore effective response.

Financial Management Standard N

The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.

Significant unplanned overspends and/or carrying forward undelivered savings into the following year might be a sign that an authority is not translating its policy decisions into actions. It also creates the conditions for further financial pressures and possible service reductions in subsequent years. However, the warning signs could also be in other non-financial performance measures, such as backlogs and other indications that current resources are not matching the expectations of service users. These trends should inform the decisions taken on the medium and long-term financial planning addressed by Section 3 of this code.

It is a requirement of this code that authorities should more closely monitor the material elements of their balance sheet that may give indications of a departure from financial plans. This is especially important for local authorities with significant commercial asset portfolios. Legislation requires local authorities to maintain adequate accounting records of their assets and liabilities. Regulations also require that the appropriate (chief finance) officer certifies or confirms that the statements of accounts provide a true and fair view of the financial position (ie the amounts in the balance sheet) of the authority at 31 March in the year of account.

Financial Management Standard O

The leadership team monitors the elements of its balance sheet which pose a significant risk to its financial sustainability.

Contingencies and commitments are monitored to identify any items where a balance sheet provision may have crystallised. Key drivers of provisions (eg asset decommissioning decisions, legal claims, reorganisation activities) should be monitored to identify whether an actual or constructive obligation has arisen. Finally, cash flow is managed through application of *Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes* (CIPFA, 2017).

External financial reporting

Taxpayers and citizens have a legitimate stake in understanding how public money has been used in providing the functions and services of the authority. The audited statements of account, which present the authority's financial position and financial performance, play an integral part in demonstrating this to them. The statutory accounts provide a secure base for financial management. They support accountability and thus good financial management by allowing the users of the financial statements and other stakeholders to do the following:

- Discover how much is spent in a year on services and whether this has increased or decreased from previous years.
- Consider the indebtedness of an organisation and how that might impact on future taxpayers.
- Recognise the value and therefore usefulness of the assets that the organisations hold.
- Assess what the future commitments and liabilities are, for example, for pensions or leases, and again how these are likely to impact on future generations and taxpayers.

CIPFA's *Statement on the Role of the Chief Finance Officer in Local Government* sets out the chief finance officer's statutory responsibilities for producing the accounts and maintaining the financial records for those accounts. The CIPFA Statement requires that the statements of account are published on a timely basis to communicate the authority's activities and achievements, its financial position and performance. It also requires certification of the accounts by the chief finance officer. The confirmation that the accounts present a 'true and fair' view is one of the fundamental roles of the statutory chief finance officer. Across the UK the *Code of Practice on Local Authority Accounting in the United Kingdom* produced by the CIPFA/LASAAC Local Authority Code Board establishes proper (accounting) practices under which that 'true and fair' view will need to be confirmed/certified.

Financial Management Standard P

The chief finance officer has personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting requirements of the *Code of Practice on Local Authority Accounting in the United Kingdom*.

The statutory and professional frameworks for the production and publication of the accounts underpin their importance and demonstrate that they have a key part to play in accountability to taxpayers and other stakeholders in showing how public money is used. Financial reporting therefore should not take place in a vacuum. The financial statements provide the accountability link between planned performance, resources used and the outcomes – financial and more – that are achieved. The authority, its management and the CFO both in its financial statements and the narrative reports that accompany them must

provide the user with the links between the consumption of resources and the value that has been created.

It is key to ensure that the authority and its leadership understand how effectively its resources have been utilised during the year, including a process which explains how material variances from initial and revised budgets to the outturn reported in the financial statements have arisen and been managed. The success of these arrangements will be demonstrated by the ability of the leadership team to make decisions from them. In some circumstances this will lead to a reappraisal of the achievability of the long-term financial strategy and the financial resilience of the authority (see Section 3).

Financial Management Standard Q

The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions.

IFAC/CIPFA GUIDANCE ON IMPLEMENTING THE PRINCIPLES FOR GOOD GOVERNANCE IN THE PUBLIC SECTOR (EXTRACT)

Principles for good governance in the public sector

Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved.

The fundamental function of good governance in the public sector is to ensure that entities achieve their intended outcomes while acting in the public interest at all times.

Acting in the public interest requires:

- A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
- B. Ensuring openness and comprehensive stakeholder engagement.

In addition to the overarching requirements for acting in the public interest in principles A and B, achieving good governance in the public sector also requires effective arrangements for:

- C. Defining outcomes in terms of sustainable economic, social, and environmental benefits.
- D. Determining the interventions necessary to optimise the achievement of the intended outcomes.
- E. Developing the entity's capacity, including the capability of its leadership and the individuals within it.
- F. Managing risks and performance through robust internal control and strong public financial management.
- G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

IFAC/PAIB PROJECT AND INVESTMENT APPRAISAL FOR SUSTAINABLE VALUE CREATION

Extract from [IFAC website](#).

Principles in project and investment appraisal

The key principles underlying widely accepted good practice are:

- A. When appraising multi-period investments, where expected benefits and costs and related cash inflows and outflows arise over time, the time value of money should be taken into account in the respective period.
- B. The time value of money should be represented by the opportunity cost of capital.
- C. The discount rate used to calculate the NPV [net present value] in a DCF [discounted cash flow] analysis, should properly reflect the systematic risk of cash flows attributable to the project being appraised, and not the systematic risk of the organisation undertaking the project.
- D. A good decision relies on an understanding of the business and should be considered and interpreted in relation to an organisation's strategy and its economic, social, environmental, and competitive position as well as market dynamics.
- E. Project cash flows should be estimated incrementally, so that a DCF analysis should only consider expected cash flows that could change if the proposed investment is implemented. The value of an investment depends on all the additional and relevant changes to potential cash inflows and outflows that follow from accepting an investment.
- F. All assumptions used in undertaking DCF analysis, and in evaluating proposed investment projects, should be supported by reasoned judgment, particularly where factors are difficult to predict and estimate. Using techniques such as sensitivity analysis to identify key variables and risks helps to reflect worst, most likely and best case scenarios, and therefore can support a reasoned judgment.
- G. A post-completion review or audit of an investment decision should include an assessment of the decision making process and the results, benefits, and outcomes of the decision.
- H. Capital and revenue reports need to be closely linked so there is an understanding of how each capital scheme is financed, and in particular which require revenue contributions.

Borrowing costs need to be spelt out. Low interest rates are not in themselves a compelling reason to borrow. Capital budgets should be clear about how individual schemes are financed and which ones add pressure to revenue.

Glossary

| | |
|---|---|
| Accounting standards | Rules set by the International Accounting Standards Boards that set out how transactions are to be shown in an organisation's accounts. |
| Annual statement of accounts | <p>The statement of accounts presents the authority's transactions on an annual basis as of 31 March of the relevant year of account. The complete set of financial statements in the annual accounts for local authorities comprises:</p> <ul style="list-style-type: none"> ■ comprehensive income and expenditure statement for the period ■ movement in reserves statement for the period ■ balance sheet as at the end of the period ■ cash flow statement for the period, and ■ notes, comprising significant accounting policies and other explanatory information. |
| Asset management plan | Asset management plans align the asset portfolio with the needs of the organisation. |
| Audit committee | A special committee of the council that reviews the financial management and accounts of the council. |
| Balance sheet | A financial statement presenting a summary of the authority's financial position as of 31 March each year. In its top half it contains the assets and liabilities held or accrued. As local authorities do not have equity shares, the bottom half is comprised of reserves that show the location of the authority's net worth between its usable and unusable reserves. |
| Capital budget | The money a council plans to spend on investing in new buildings, infrastructure and other equipment. |
| Capital financing charges | The amount a council has to pay to support its borrowing to pay for the purchase of major assets. |
| Capital receipt | The money a council receives for selling assets that can only be used to repay debt or for new capital expenditure. |
| Chief financial officer | The most senior finance person in a council responsible for ensuring the proper financial management of the council. |
| CIPFA FM Model | The CIPFA FM Model is the tool that helps public service organisations apply their financial resources to achieve their goals. |
| Code of Practice on Local Authority Accounting in the United Kingdom | A code produced by the CIPFA/LASAAC Local Authority Code Board. It specifies the principles and practices of accounting required to give a 'true and fair' view of the financial position, financial performance and cash flows of a local authority, including the group accounts where a local authority has material interests in subsidiaries, associates or joint ventures. The Local Authority Accounting Code is established as a proper practice by the four relevant administrations across the UK. |
| Earmarked reserve | Money set aside for future use on a specific area of expenditure. It remains a part of the general reserves of the authority. |

| | |
|--|--|
| Financial management | Financial management encompasses all the activities within an organisation that are concerned with the use of resources and that have a financial impact. CIPFA has defined financial management for public bodies as “the system by which the financial aspects of a public body’s business are directed and controlled to support the delivery of the organisation’s goals”. |
| General fund balance (also council fund or police fund) | The general fund is the statutory fund into which all the receipts of an authority are required to be paid and out of which all liabilities of the authority are to be met, except to the extent that statutory rules might provide otherwise. The general fund balance therefore summarises the resources that the authority is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the council is required to recover) at the end of the financial year. |
| Governance | The framework by which a council can gain assurance that it is setting and achieving its objectives and ensuring value for money in the proper way. |
| Housing Revenue Account (HRA) | An account used to record the income and expenditure related to council housing. |
| IFAC (International Federation of Accountants) | IFAC is the global organisation for the accountancy profession dedicated to serving the public interest by strengthening the profession and contributing to the development of strong international economies. CIPFA is a member. |
| Internal audit | An internal review of the organisation’s systems to give assurance that they are appropriate and being complied with. |
| Leadership team | Executive committees, elected mayors, portfolio holders with delegated powers and other key committees of the authority. In the police service this leadership is provided by police and crime commissioners and chief constables. |
| Non-domestic rates | A tax paid by local businesses to their council. |
| Public Sector Internal Audit Standards | These standards, which are based on the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF), are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector. |
| Provision | A provision is a present liability whose timing or amount of settlement is uncertain. For example, it may be a charge for liabilities that are known to exist, but have to be estimated. |
| Prudential Code | A code produced by CIPFA that councils are required to follow when deciding upon their programme for capital expenditure. |
| Revenue budget | The amount that a council spends on its day-to-day running of services through the financial year. |
| Ringfencing | A term for the earmarking of money (eg a grant or fund) for one particular purpose, so as to restrict its use to that purpose. |
| Society of Local Authority Chief Executives (SOLACE) | SOLACE’s purpose is to develop the highest standards of leadership in local government and the wider public sector. |
| Treasury management | <p>CIPFA has adopted the following as its definition of treasury management activities:</p> <ul style="list-style-type: none"> ■ the management of the organisation’s borrowing, investments and cash flows ■ its banking ■ money market and capital market transactions ■ the effective control of the risks associated with those activities ■ the pursuit of optimum performance consistent with those risks. |

| | |
|-------------------------------------|--|
| Treasury Management Code | A professional and statutory code produced by CIPFA that councils are required to follow in managing their treasury management activity. |
| Treasury management strategy | An annual document approved by full council that sets out how a council will manage its cash and borrowings. |

Bibliography

Accountability, performance and transformation: Learning from the CIPFA FM Model (CIPFA, 2016)

Aligning Public Services (Overview Report) (CIPFA, 2015)

Audit Committees: Practical Guidance for Local Authorities and Police (2018 Edition), (CIPFA, 2018)

Balancing Local Authority Budget (CIPFA, 2016)

Building Financial Resilience: Managing Financial Stress in Local Authorities (CIPFA, 2017)

CIPFA's Position Statement: Audit Committees in Local Authorities and Police (CIPFA, 2018)

CIPFA Statement on the Role of the Chief Financial Officer of the Police and Crime Commissioner and the Chief Finance Officer of the Chief Constable (CIPFA, 2012)

Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (CIPFA, 2018)

Code of Practice on Public Sector Pensions Finance Knowledge and Skills (CIPFA, 2013)

Delivering Good Governance in Local Government: Framework (CIPFA/SOLACE, 2016)

Delivering Good Governance in Local Government: Framework Review of Annual Governance Statements (CIPFA/SOLACE, 2016)

Financial Management Maturity Model (National Audit Office, 2010)

Global Management Accounting Principles

International Framework: Good Governance in the Public Sector (CIPFA/IFAC, 2014)

An Introductory Guide to Financial Reporting in the Public Sector in the United Kingdom (CIPFA, 2018)

Looking Forward: Medium-term Financial Strategies in the UK Public Sector (CIPFA, 2016)

The Prudential Code for Capital Finance in Local Authorities (CIPFA, 2017)

Pensions Finance Knowledge and Skills Framework: Technical Guidance for Pensions Practitioners in the Public Sector (CIPFA, 2010)

Public Financial Management: a Whole System Approach Volumes 1 and 2 (CIPFA, 2012)

The Role of the Chief Financial Officer in Local Government (CIPFA, 2016)

Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (CIPFA, 2017)

UK Public Sector Internal Audit Standards (IASAB, 2017)



Registered office:

77 Mansell Street, London E1 8AN

T: +44 (0)20 7543 5600 F: +44 (0)20 7543 5700

www.cipfa.org

CIPFA registered with the Charity Commissioners of England and Wales No 231060



Report to: **Audit Committee**

Date: **23 September 2022**

By: **Chief Operating Officer**

Title of report: **Strategic Risk Monitoring – Quarter 1 2022/23**

Purpose of report: **To update the Committee on current strategic risks faced by the Council, their status and risk controls / responses and to describe the current Risk Management process.**

RECOMMENDATION: The Committee is recommended to note the current strategic risks and the risk controls / responses being proposed and implemented by Chief Officers.

1. Background

1.1 Sound risk management policy and practice should be firmly embedded within the culture of the Council, providing a proportionate and effective mechanism for the identification, assessment and, where appropriate, management of risk. This is especially important in the current climate where there remains considerable uncertainty about the future.

1.2 Robust risk management helps to improve internal control and support better decision-making, through a good understanding of individual risks and an overall risk profile that exists at a particular time. To be truly effective, risk management arrangements should be simple and should complement, rather than duplicate, other management activities.

2. Supporting Information

2.1 The Council's Strategic Risk Register, which is attached as Appendix 1, is formally reviewed by the Corporate Management Team (CMT) on a quarterly basis. Members should note that this version of the Strategic Risk Register, which relates to Quarter 1 of 2022/23, was reviewed by CMT on 31 August 2022 and will be presented to Cabinet on 29 September 2022 as part of the quarterly council monitoring process. Appendix 1 also includes additional summary information to present historic RAG ratings, as well as current pre and post mitigation RAG ratings.

2.2. The previous update to this Committee was in July 2022 to present the Strategic Risk Register as at Quarter 4 2021/22. There have been various updates to the Strategic Risk Register to reflect the Council's risk profile as follows:

- **Risk 4 (Health), Risk 6 (Local Economic Growth), Risk 8 (Capital Programme), Risk 9 (Workforce), Risk 14 (Post European Union (EU) Transition), Risk 15 (Climate), Risk 17 (Safeguarding of Children and Young People) and Risk 18 (Data Breach)** have updated risk controls.
- **Risk 5 (Reconciling Policy, Performance & Resources)** has updated risk definitions and risk controls

- **Risk 7 (Schools)** has been removed from the Strategic Risk Register, and a new risk (**Schools and ISEND**) has been added.

2.3 Officers will continue to explore opportunities to further strengthen the Council's risk management arrangements and for mitigating our key strategic risks. It is however, important to recognise that in some cases there is an inherent risk exposure over which the Council has only limited opportunity to mitigate or control.

3. Conclusion and Recommendation

3.1 The Committee is recommended to note the Strategic Risk Register including the risk controls / responses being proposed and implemented by Chief Officers.

ROS PARKER
Chief Operating Officer

Contact Officers:
Rachel Jarvis: Head of Finance (Planning and Reporting)
Tel: 01273 482332

Steven Bedford: Finance Manager (Capital and Planning),
Tel: 07701 394847

Local Member: All

Background documents:
None

Strategic Risk Register Summary - Q1 2022/23

| Strategic Risks - Historic Post Mitigation RAG Ratings | | | | | | | | | | | | | |
|--|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Ref | Strategic Risks | 2019/20 Q2 | 2019/20 Q3 | 2019/20 Q4 | 2020/21 Q1 | 2020/21 Q2 | 2020/21 Q3 | 2020/21 Q4 | 2021/22 Q1 | 2021/22 Q2 | 2021/22 Q3 | 2021/22 Q4 | 2022/23 Q1 |
| 1 | Roads | A | A | A | A | A | A | A | A | A | A | A | A |
| 4 | Health | R | R | R | R | R | R | R | R | R | R | R | R |
| 5 | Reconciling Policy, Performance & Resources | R | R | R | R | R | R | R | R | R | R | R | R |
| 6 | Local Economic Growth | G | G | G | G | G | G | G | G | G | G | G | G |
| 7 | Schools | A | A | A | A | A | A | A | A | A | A | A | ** |
| 8 | Capital Programme | A | A | A | A | A | A | A | A | A | A | A | A |
| 9 | Workforce | A | A | A | A | A | A | A | A | A | A | R | R |
| 10 | Recruitment | A | A | A | A | A | * | | | | | | |
| 12 | Cyber Attack | R | R | R | R | R | R | R | R | R | R | R | R |
| 14 | Post European Union (EU) Transition | R | | | R | R | R | G | G | G | G | G | G |
| 15 | Climate | R | R | R | R | R | R | R | R | R | R | R | R |
| 16 | Covid-19 | | | R | R | R | R | R | R | R | R | | |
| 17 | Safeguarding of Children and Young People | | | | | | | | | A | A | R | R |
| 18 | Data Breach | | | | | | | | | A | A | A | A |
| NEW | Schools and ISEND | | | | | | | | | | | | R |

* Risk 10 (Recruitment) was removed from the Strategic Risk Register as a stand-alone risk and incorporated into Risk 9 (Workforce)

** Risk 7 (Schools) was removed from the Strategic Risk Register as a stand-alone risk

Strategic Risks - Pre (■) and Post Mitigation (◆) RAG Ratings (Q1 2022/23)

| Ref | Strategic Risks | High Risk ← High Risk → Low Risk | | | | | | | | | | | |
|-----|--|----------------------------------|-----|--|---|--|---|---|--|---|--|--|--|
| 1 | Roads | | ■ | | | | | ◆ | | | | | |
| 4 | Health | ■ | ◆ | | | | | | | | | | |
| 5 | Reconciling Policy, Performance & Resource | ■ | ◆ | | | | | | | | | | |
| 6 | Local Economic Growth | | | | ■ | | | | | ◆ | | | |
| 8 | Capital Programme | | ■ | | | | ◆ | | | | | | |
| 9 | Workforce | ■ | ◆ | | | | | | | | | | |
| 12 | Cyber Attack | ■ | ◆ | | | | | | | | | | |
| 14 | Post European Union (EU) Transition | | ■ | | | | | | | ◆ | | | |
| 15 | Climate | ■ | ◆ | | | | | | | | | | |
| 17 | Safeguarding of Children and Young People | | ■ ◆ | | | | | | | | | | |
| 18 | Data Breach | | ■ | | ◆ | | | | | | | | |
| NEW | Schools and ISEND | ■ | ◆ | | | | | | | | | | |

| Strategic Risk Register - Q1 2022/23 | | | | | | |
|--------------------------------------|---|---------------------------|---|---|----------------------------|---|
| Ref | Strategic Risks | Pre-mitigation RAG Rating | | Risk Control / Response and Post Mitigation RAG score | Post-mitigation RAG Rating | |
| Strat-12 | <p>CYBER ATTACK</p> <p>The National Cyber Security Centre (NCSC) has highlighted the substantial risk to British web infrastructure, with elevated levels of Cyber Crime being reported against all areas of government, particularly in light of the current Ukrainian situation.</p> <p>Cyber attacks are growing more frequent, sophisticated, and damaging when they succeed. The COVID-19 pandemic has increased the need to carry out many additional functions virtually and remotely. Changes in working practice give rise to more requests to relax security controls, with services more likely to take risks on the technology they procure and how they use it. Controls have been enhanced to manage these requests.</p> | R | ↕ | <p>Most attacks leverage software flaws and gaps in boundary defences. IT&D use modern security tools to assure our security posture: Monitoring network activity and identifying security threats; Keeping software up to date with regular patching regimes; Continually monitoring evolving threats and re-evaluating the ability of our toolset to provide adequate defence against them; Ongoing communication with the Security industry to find the most suitable tools and systems to secure our infrastructure. IT&D continues to invest in new tools, which use pre-emptive technology to identify threats and patterns of abnormal behaviour.</p> <p>Enhancing user awareness: Expanding E-Learning and policy delivery mechanisms to cover Cyber threat; educating staff around the techniques and methods used by active threats; and providing General Data Protection Regulation (GDPR) training and workshops to cascade vital skills and increase awareness of responsibilities under GDPR legislation. Business Continuity Scenario testing is currently being cascaded through Departmental Management Teams.</p> <p>Services hosted in ISO 27001 accredited Orbis Data Centres.</p> | R | ↕ |

| | | | | | | |
|---------|--|---|---|--|---|---|
| Strat-5 | <p>RECONCILING POLICY, PERFORMANCE & RESOURCES</p> <p>There is ongoing uncertainty in relation to future funding levels, the longer-term local government funding regime and the impact of national reforms, particularly to Adult Social Care. Rising inflation and cost of living are likely to lead to higher demand for Council services and increase the direct cost of providing services. Together these create a risk of insufficient resources being available to sustain service delivery at the agreed Core Offer level to meet the changing needs of the local community.</p> | R | ↔ | <p>We employ a robust Reconciling Policy, Performance and Resources (RPPR) process for business planning, which ensures a strategic corporate response to resource reductions, demographic change and regional and national economic challenges; and directs resources to priority areas. We take a commissioning approach to evaluating need and we consider all methods of service delivery. We work with partner organisations to deliver services and manage demand, making best use of our collective resources. We take a 'One Council' approach to delivering our priorities and set out our targets and objectives in the Council Plan. We monitor our progress and report it quarterly.</p> <p>Our plans take account of known risks and pressures, including social, economic, policy and demographic changes and financial risks. The Coronavirus pandemic has had, and will continue to have for a long time, profound impacts on our communities and services. However, we continue to operate in changing and uncertain contexts. Current and forecast economic conditions continue to shape a very challenging financial outlook both for the Council itself and many of the county's residents and businesses. Alongside this we continue to face fresh challenges as a result of the conflict in Ukraine, and national service reforms. We will continue to use the latest information available on these challenges to inform our business planning. We will also continually review our performance targets, priorities, service offers and financial plans, and will update these as required.</p> <p>We lobby, individually and in conjunction with our networks and partners, for a sustainable funding regime for local government in general and adult social care specifically to meet the needs of the residents of East Sussex.</p> | R | ↔ |
|---------|--|---|---|--|---|---|

| | | | | | | |
|---------|---|---|---|---|---|---|
| Strat-4 | <p>HEALTH</p> <p>Failure to secure maximum value from partnership working with the National Health Service (NHS). If not achieved, there will be impact on social care, public health and health outcomes and increased social care operational and cost pressures. This would add pressures on the Council's budget and/or risks to other Council objectives, as well as shared system objectives in the context of our Integrated Care System across workforce and patients who are medically ready for discharge (MRD) from hospital or community beds.</p> | R | ↔ | <p>Planning has taken place for future arrangements to support discharge from hospital, after government hospital discharge programme funding ends. Quarter 1 and 2 are funded at a significantly reduced level. This impacts the flow of patients through hospital and onto onward pathways such as Discharge to Assess (D2A) beds, where patients no longer needing acute hospital care are moved to a temporary placement for further care and assessment of their long-term needs; and the Home First pathways, which better enables patients into appropriate onward care after an episode in hospital. The NHS proposes to maintain the reduced level of funding for Quarter 3 and Quarter 4 but has not confirmed this, meaning the risk of reduced flow remains. If the funding is not confirmed, this would significantly increase the impact on ASC resources and our ability to facilitate strategic decision-making and commissioning for D2A to support local people.</p> <p>More broadly, the inaugural meeting of the NHS Sussex Integrated Care Board took place on 6th July. The Health and Wellbeing Board (HWB) terms of reference have been updated to ensure appropriate NHS representation under the new statutory arrangements. A draft refreshed HWB Strategy 'Healthy Lives, Healthy People' has been prepared to provide a strong overarching and up to date narrative about the shared priorities to improve health, reduce inequalities and offer joined up care in East Sussex, and the contribution of all HWB members at place level within the Integrated Care System (ICS). This incorporates the developments that have been accelerated by the pandemic, and areas where it is felt we can have the most impact in supporting restoration and recovery of our system in a sustainable way. It will feed into the work to develop the statutory Sussex-wide Integrated Care Strategy.</p> | R | ↔ |
|---------|---|---|---|---|---|---|

| | | | | | | |
|---------|---|---|---|---|---|---|
| Strat-9 | <p>WORKFORCE</p> <p>An inability to attract and retain the high calibre staff needed in the most competitive job market for 50 years could lead to a reduction in the expertise and capacity required to deliver services to our residents at the required level and standards</p> | R | ↔ | <p>The Council has put in place a number of strategies to respond to the current recruitment and retention pressures:</p> <ul style="list-style-type: none"> -work is underway to update our recruitment branding, promoting the Council as an excellent place to work and 'employer of choice'. In support of this we are attending events like careers fairs and shows to maximise our presence with job seekers -use of apprenticeships, traineeships, intern arrangements and more flexible work arrangements etc as a way of bringing in new talent to the Council -linking in with organisations that support people back into employment such as People Matters etc -the recent launch of a refreshed 'financial wellbeing' resource to support our staff, particularly given the rising cost of living pressures -ensuring our workforce policies and approaches support individuals to remain in work, e.g. Wellbeing offer, occupational health and absence management services -implementation of mental health first aiders in the workplace – we now have a network of over 100 trained individuals -development of a corporate equality action plan which includes a number of workforce specific actions to support having a diverse workforce with equality confidence, knowledge and skills -continued delivery of our two new leadership development programmes to support our talent management strategies: the 'Ladder to Leadership' programme and 'Head of Service Masterclasses' -joint work with departmental recruitment and retention groups to support specific, departmental focussed activities | R | ↔ |
|---------|---|---|---|---|---|---|

| | | | | | | |
|----------|--|---|---|---|---|---|
| Strat-15 | <p>CLIMATE Failure to limit global warming to below 1.5°C above pre-industrialisation levels, which requires global net human-caused emissions of carbon dioxide (CO₂) to be reduced by about 45 percent from 2010 levels by 2030, reaching 'net zero' by 2050 at the latest. The predicted impacts of climate change in East Sussex include more frequent and intense flooding, drought and episodes of extreme heat, as well as impacts from the effects of climate change overseas, such as on food supply. This will lead to an increase in heat-related deaths, particularly amongst the elderly, damage to essential infrastructure, increased cost of food, disruption to supply chains and service provision, and greater coastal erosion.</p> | R | ↔ | <p>Climate change adaptation: we are following national adaptation advice, including working with partners on flood risk management plans, a heatwave plan and drought plans. Climate change mitigation: we must reduce our own operation carbon footprint by an average of 13% per year to stay within our carbon budget; and to achieve net zero carbon emissions from the County Council's own activities as soon as possible, and by 2050 at the latest. Our Climate Emergency Officer continues to work with teams across the Council to deliver the corporate climate emergency plan covering 2020-22. The focus is on buildings, which made up 79% of carbon emissions in 2020/21. Internal oversight of progress is via the corporate Climate Emergency Board. In Quarter 1:1. Carbon Reduction Target: Data validation has started and is expected to confirm that we missed the annual carbon reduction target of 13% for Scope 1 & 2 emissions in 2021/22. Actual outturn figures are due in July. This was due to increased energy use, as buildings began to resume normal operations with increased COVID-19 ventilation requirements and colder than usual weather in Spring 2021. Provisional data indicates that building electricity and heating kWh consumption for quarters 1-4 2021/22 were up 3.2% on the same period last year, although down 5% on the baseline year 2019/20. Streetlighting kWh consumption is down 16% on last year, reflecting the LED lighting programme rollout. 2. All six solar PV grant funded projects, which started in 2021-22, have now completed installation and are generating low carbon electricity. 3. Performance against project targets for 2022-23: •Delivery of two Decarbonisation of Heat Projects: Ninfield Primary School is 75% complete. The Herstmonceux Primary contract was awarded in May and project delivery has commenced. Both projects are part funded by Government grants. •Delivery of ten LED lighting projects: a pipeline of twelve projects is being considered for delivery during 2022-23. •Delivery of ten Solar PV projects: five solar PV sites have gained approval to proceed by the Asset Carbon Reduction Group and further sites for feasibility are being identified. We note that projects continue to be impacted by significant supply chain and cost challenges. 4. Modelling of decarbonisation pathways work has almost completed, with findings presented to the Climate Emergency Board for feedback and final amendments. This grant funded work will inform the updated climate emergency plan, which will go</p> | R | ↔ |
|----------|--|---|---|---|---|---|

| | | | | | | |
|--|--|--|--|---|--|--|
| | | | | <p>to full Council in December, and enable the Council to continue to develop a pipeline of carbon reduction projects. 5. Climate Awareness Training has been rolled out to 79 staff, with 45 staff booked to attend workshops in June and further dates available for the rest of 2022-23. Climate Awareness workshops were delivered in April & May to 50% of Members. Work is well underway on the production of a Climate Awareness e-learning module.6. Electric vehicle (EV) charge points: £100k was approved by the Capital Board for the installation of up to 8 EV charge points at County Hall during 2022-23 and a bid will be made for Government funding to pay for part of the cost.</p> | | |
|--|--|--|--|---|--|--|

| | | | | | | |
|----------|---|---|---|---|---|---|
| Strat-17 | <p>SAFEGUARDING OF CHILDREN AND YOUNG PEOPLE</p> <p>Failure to recruit and retain an effective children's social care workforce. This leads to poor quality safeguarding practice, failing to prevent harm to children and young people, impacting on the Council's strategic objective of keeping vulnerable people safe.</p> | R | ↔ | <p>Recruitment and Retention Strategy in place Market Supplement implemented 2020, and will be reviewed annually Recruitment Manager and Comms officer posts agreed (start date Sept 2022) High quality and regular managerial support and supervision of practitioners Delivery of high quality workforce development programme Senior management oversight of caseloads, mitigating actions undertaken to address high caseloads Wellbeing strategy Updated advertising and recruitment materials Development of career pathways / recruitment pipeline</p> | R | ↔ |
| NEW | <p>SCHOOLS AND ISEND</p> <p>NEW RISK For Children with Special Educational Needs. Inability to secure statutory provision.</p> | R | | <p>Effective use of forecasting data to pre-empt issues Work with statutory partners to develop contingency plans Work with the market to increase provision where needed Expanding internal interim offer for children</p> | R | |

| | | | | | | |
|-----------------|---|----------|---|--|----------|---|
| Strat-18 | <p>DATA BREACH</p> <p>A breach of security/confidentiality leading to destruction, loss, alteration, unauthorised disclosure of, or access to, personal data. This includes breaches that are the result of both accidental and deliberate causes. A personal data breach is a security incident that has affected the confidentiality, integrity or availability of personal data regardless of whether information has been accessed, altered or disclosed via electronic or manual means.</p> <p>Risks to individuals, reputational damage, fines from the Information Commissioner's Officer (ICO), compensation claims.</p> | R | ↔ | <p>Policy and guidance procedures in place to support practice.</p> <p>Data Protection Officer (DPO), Caldicott Guardians and Information Governance Officers monitor breach reporting and put in place mechanisms to minimise recurrence.</p> <p>Staff training to develop awareness.</p> <p>Technical security measures operated by Information Technology and Digital (IT&D), including access control.</p> | A | ↔ |
|-----------------|---|----------|---|--|----------|---|

| | | | | | | |
|---------|---|---|---|--|---|---|
| Strat-8 | <p>CAPITAL PROGRAMMEAgainst a background of diminishing resources, the capital programme has been produced to support basic need only and because of this there is no resource for other investment that may benefit the County e.g., that may generate economic growth. Additionally, there is a risk, due to the complexity of formulas and factors that impact upon them, or changes in these, that the estimated Government Grants, which fund part of the programme, are significantly reduced. There are a number of risks and uncertainties regarding the capital programme over the current Medium Term Financial Plan period and beyond. The impact of Covid-19 and currently increased uncertainties that exist within the construction industry in terms supply chain issues and volatile cost inflation could impact on project deliverability and affordability. This has been exacerbated by the invasion of Ukraine by Russia and the resultant global sanctions imposed on Russia, which may have long-term impact on prices as well as availability and security of supply on materials. There is also a risk that increased burdens of planning reform and the move from S106 contributions to Community Infrastructure Levy will mean that the Council has reduced funding from this source as bids have to be made to Districts and Boroughs. The Council's set target of achieving carbon neutrality from</p> | R | ↔ | <p>The Council maintains a 20-year Capital Strategy and 10-year capital programme to provide rigour and support strategic direction. The development and delivery of the capital programme is overseen by a Capital Strategic Asset Board (CSAB), a cross departmental group consisting of officers from each service department, finance, property and procurement. Governance arrangements continue to be reviewed and developed in support of robust programme delivery of the basic need programme. The Schools and Assets Sub Board, which in part focuses on future need for schools' places, continues to inform the CSAB of key risks and issues within the Basic Need Programme. Regular scrutiny by the CSAB of programme and project profiles (both in year and across the life of the programme) occurs on a quarterly basis. The capital programme includes an element of 'normal' level of inflation for ongoing target-based core programmes (as opposed to programmes that have cash limited envelopes). Additionally, as part of the Reconciling Policy, Performance and Resources (RPPR) process in February 2022, an ongoing capital risk provision of £7.5m was approved, providing the flexibility to react to emerging risks such as the impact of supply chain issues and inflationary pressures. It represents the ability to borrow for these risks and is managed through ensuring there is Treasury Management capacity, rather than representing funds that are within the Council's accounts. Its utilisation, subject to CSAB approval and adherence to financial regulations, would therefore require additional borrowing and be reported through the RPPR and quarterly monitoring process. Reviews are undertaken on the extent of risk exposure on contracts and actions taken to mitigate the risks on material supply and security. The CSAB also proactively supports the seeking and management of all sources of capital funding, including grants; capital receipts; S106; Community Infrastructure Levy (CIL); and Local Growth Fund monies. A cross department sub board oversees the process for bidding for CIL and the use of S106 funds, and work continues with Districts and Boroughs to maximise the Council's receipt of these limited resources. Additionally, following review, CIL and S106 targets have been reduced and will continue to be reviewed regularly and opportunities sought to reduce the target further if considered appropriate. Officers will proactively monitor funding announcements, including central government capital grants following the Spending Review</p> | A | ↔ |
|---------|---|---|---|--|---|---|

| | | | | | | |
|--|---|--|--|---|--|--|
| | <p>its activities as soon as possible and in any event by 2050 will partly depend on availability of capital resources to support identified actions. Diminishing resources and availability of external funding may impact on the deliverability and timing of actions and targets. Slippage continues to occur within the programme, which has an impact on the effective use of limited resources.</p> | | | <p>2021, and seek to minimise the impact on delivery of the capital programme, ensuring that there is sufficient liquidity to meet funding requirements. The Capital Strategy was updated in February 2021 to reflect the Council's climate targets and set out how this can be supported through the capital programme and the RPPR process. It was agreed at State of the County 2021 that Climate Change would be included as basic need and this has been reflected through the RPPR process. Investment of £3.0m per annum over the life of the Medium Term Financial Plan has then been included in the capital programme approved in February 2022 to support the Council's climate targets. CSAB continue to look to manage down the historical levels of programme slippage. Following a review of the programme's annual ambition (against historical deliverability and project risk) by services and CSAB, a risk factor has been applied in 2022/23 to help mitigate slippage.</p> | | |
|--|---|--|--|---|--|--|

| | | | | | | |
|---------|---|---|---|--|---|---|
| Strat-1 | <p>ROADS Wet winter weather, over recent years has caused significant damage to many of the county's roads, adding to the backlog of maintenance in the County Council's Asset Plan, and increasing the risk to the Council's ability to stem the rate of deterioration and maintain road condition.</p> <p>COVID-19 could lead to an increase in the level of staff sickness, as well as the need for staff to self-isolate/distance. It will lead to a change in our working approach and arrangements, even beyond the length of any Government imposed lockdown.</p> | R | ↔ | <p>While additional funding over the last few years has helped maintain road condition the latest condition and funding modelling shows renewed deterioration over the next 10 years if further investment is not introduced into road maintenance. This reflects the changing climate with wetter, cool but prolonged winters and the increasing frequency of heavy downpour events during the summer months, which deteriorate roads faster. Further investment was approved by Cabinet in November 2021 and through the Reconciling Policy, Performance & Resources (RPPR) process on 8/2/2022 to maintain condition at current levels and to help mitigate these factors over the next 10 years. An additional one-off investment of £5.8million to be spent in 2022/23 was also agreed.</p> <p>Our contractor has adapted the service to ensure the workforce can work in a safe environment and has continued to successfully deliver the service on the ground or from home, with a full reactive service and capital programme delivered this year. Contract staff have implemented hybrid working arrangements successfully. Staff absence due to COVID related illness or self-isolation has remained very low and has had no significant impact on the service but with cases still high currently, the risk remains.</p> <p>East Sussex County Council staff managing the Highways contract have successfully worked from home with no impact and will start to implement hybrid working in line with the corporate approach and timescales.</p> | A | ↔ |
|---------|---|---|---|--|---|---|

| | | | | | | |
|----------|---|---|---|--|---|---|
| Strat-14 | <p>Post European Union (EU) Transition The United Kingdom has left the EU with a negotiated outcome. However, there are likely to be areas of disruption when paperwork checks on imports begin on 1st January 2022 and physical checks on imported goods begin on 1st July 2022.</p> <p>Key areas at risk of disruption are:</p> <ul style="list-style-type: none"> •At Newhaven Port and on the surrounding road network due to new port checks. •In business and economic activity, due to import/export administrative complexities for Small and Medium-sized Enterprises, supply chain disruption, impact of trade tariffs on consumer purchasing power, and workforce supply. •The COVID-19 pandemic response and local outbreak management. E.G., through disrupting international supply chains for Personal Protective Equipment, and •Delivery of Council Services. | R | ↔ | <p>Government has further delayed implementation dates for specific import checks from July 2022 until the end of 2023. This particularly relates to inspections by Port Health Authorities (Lewes & Eastbourne Councils at Newhaven) of food products, which are not required. The new Border Control Post facilities will now not be need until 2023. However, the Office for Product Safety & Standards are still anticipating the starting of intelligence-based inspections by Trading Standards for product safety and metrology. HGV traffic remains stable at Newhaven and East Sussex County Council continues to monitor the situation at Newhaven and is ready to react, should disruption look likely.</p> <p>Many of the key areas at risk of disruption are already on the Strategic risk register or departmental risk registers and are subject to business-as-usual risk and business continuity management.</p> <p>The Trading Standards team has worked with Environmental Health colleagues and UK Border Force (UKBF) to smooth the impact of Government border policy on the capacity required to support new border enforcement arrangements at Newhaven Port. Provision of facilities at the port has been secured and joint working with UKBF has begun. Pilot work in relation to pet importation and feed importation was conducted in Quarter 4 2021/22, although inspections are not yet required in line with the Government's delay to import controls on food. An updated Border Delivery Model is expected from Government in respect of this area of work. Final planning will also be informed by the Government Protocol and Border Group, of which the Director of Communities, Economy and Transport is a member.</p> <p>Close working continues with the Sussex Chamber of Commerce to ensure clear advice is provided to Small and Medium Size enterprises engaged in import/export activity. Impacts on the local economy are monitored through Business East Sussex.</p> <p>The Sussex Resilience Forum has run exercises to support multi-agency emergency planning for the implications of additional border controls.</p> | G | ↔ |
|----------|---|---|---|--|---|---|

| | | | | | | |
|--|--|--|--|--|--|--|
| | | | | <p>The Chief Executive is a representative for the South East on the Department for Levelling Up, Housing and Communities group of nine regional chief executives, which provides a direct channel of communication into the Ministry on local and regional issues emerging from the end of the transition period.</p> | | |
|--|--|--|--|--|--|--|

| | | | | | | |
|---------|---|---|---|---|---|---|
| Strat-6 | <p>LOCAL ECONOMIC GROWTH Failure to deliver local economic growth, and failure to maximise opportunities afforded by Government proposal to allocate Local Growth Funding to South East Local Enterprise Partnership, creating adverse reputational and financial impacts.</p> | A | ↔ | <p>The Council and its partners have been successful in securing significant amounts of growth funding totalling £129m, via both the South East and Coast 2 Capital Local Enterprise Partnerships, to deliver a wide range of infrastructure projects in East Sussex. We have also secured outgoing European Funding (EU) for complementary economic development programmes supporting businesses to grow, including: South East Business Boost (SEBB); Low Carbon across the South East (LoCASE); TRANSFORM Apprenticeships; South East Creative, Cultural & Digital Support Programme (SECCADS); and inward investment services for the county. We have continued to bid for further EU funding on the above projects and have secured over £4m of investments to be delivered from April 2020 for a further three years. Government issued a funding call in mid-June 2020 through the Getting Building Fund programme for pipeline projects to create jobs and deliver over the next 18 months, with East Sussex securing £11.2m on eight projects in late July. All eight projects were approved by SELEP in October/November, and we are now confirming their grant agreements, with several commencing delivery. Unfortunately, the Fast Track business solutions, Hastings and the Riding Sunbeams powering the railways with solar energy have had to return the monies allocated to SELEP. However, we have been able to have two further projects allocated to the pipeline amounting to £300k, with East Sussex now delivering on circa £6m on eight projects. We have been actively working with partners in developing projects and submitting proposals to a number of recent funds, including: the Green Homes Fund (secured a further £1m); Future High Streets (secured £5m); Stronger Towns Fund (Hastings awarded £24.3m and Lewes awarded £19.3m); Levelling Up Fund bids (awarded £40m see below); the SELEP COVID-19 Skills and Business Support Fund (secured £500k), the UK Community Renewal Fund pilot programme (secured £2.5m), the Local Skills Improvement Plan (LSIP) for Sussex and the Bus Service Improvement Plan (BSIP – indicatively awarded £41.4m). The COVID-19 outbreak in early March 2020 is seemingly changing the funding landscape, and alongside the impacts of leaving the European Union, is having an impact on major funding decisions from Government. We officially launched in September 2020 the East Sussex Economy Recovery Plan, called 'East Sussex Reset'. The plan identifies</p> | G | ↔ |
|---------|---|---|---|---|---|---|

| | | | | | | |
|--|--|--|--|--|--|--|
| | | | | <p>deliverable actions in the short term, alongside more aspirational asks, and has already aligned and secured new monies totalling £220m investment into East Sussex. It has and will continue to be an important bidding document to Government and into the SELEP, with the new SELEP Recovery and Renewal Strategy approved in March 2021. Both documents will look at ways to address the Government's policy and Budget announcements that have a clear focus on the green revolution (net zero carbon reduction); the allocation of the new £4bn Levelling Up Fund (LUF); and the delivery of the new £1.5bn UK Shared Prosperity Fund (UKSPF) programme. On the LUF, the County Council submitted a transport package for Exceat Bridge of £8m, while four of the local Borough and District Councils (except Hastings) submitted in June 2021 major capital funding bids under this first round for town centre/regeneration and cultural investment. Outcomes were announced on 27 October 2021, with the following awarded monies: Exceat Bridge (£8m), Eastbourne (£19.8m) and Lewes (£12.6m) all to be delivered by March 2024. The other Borough and Districts were unsuccessful and will apply under Round 2 by July 2022. Business cases now need to be worked on for the implementation of projects.</p> | | |
| | | | | <p>On the UKSPF this had the pre-launch guidance officially released in February 2022 following the same day launch of the long awaited Levelling Up White Paper. The UKSPF main prospectus was released mid-April 2022 with the award of allocations known to each Borough and District Authority, who are now the responsible accountable bodies for the delivery of the programme – with investment plans to be submitted to Government by 1 August 2022. The Council is making the case with regards to pan East</p> | | |

| | | | | | | |
|--|--|--|--|---|--|--|
| | | | | <p>Sussex projects, which can continue to deliver against the main themes of the programmes and the Council's priorities. In addition, as part of the UKSPF, the Multiply programme was announced in late March to help adults to improve their numeracy skills up to Level 2. The responsibility for managing this programme from 2022-2025 has been awarded directly to the County Council with up to £2.5m available. We are currently preparing an investment plan proposal working with partners and will be submitting this by the deadline of 30 June 2022 to the Dept. for Education. We expect to hear the outcome by October.</p> | | |
|--|--|--|--|---|--|--|

This page is intentionally left blank

Report to: Audit Committee

Date of meeting: 23 September 2022

By: Chief Operating Officer

Title: Audit Committee MBOS Sub Group

Purpose: To provide an update to the Audit Committee of the MBOS Sub Group's most recent meeting

RECOMMENDATIONS

- 1) The Committee is asked to note that the Committee's MBOS Sub-Group has regularly reviewed the Council's Modernising Back Office Systems (MBOS) programme.
-

1 Background

- 1.1 The Committee at its meeting in September 2021 approved the establishment of a Sub-Group to provide oversight of progress with the Modernising Back Office Systems (MBOS) programme, seeking assurance that the programme is performing to time, quality and budget.
- 1.2 The MBOS Programme was established by the County Council in 2019. Prompted by the expected expiry of support for the Council's existing Enterprise Resource Planning (ERP) software, SAP, the vision for MBOS is 'to implement a suite of back-office systems that best meet the current and future needs of the Council and which provides optimal return on investment'.

2 Supporting information

Work of the Sub-Group

- 2.1 The Sub-Group met again in August 2022 and a note of the meeting is attached at Appendix 1. The focus of the meeting was on the progress since the Sub-Group meeting in May.
- 2.2 The progress and key risks report from the MBOS Programme was discussed. The programme was noted to be on track to plan and budget.
- 2.3 The Sub-Group will continue to meet regularly with representatives from the Programme, and the next meeting is scheduled in for November 2022.

3. Conclusion and reasons for recommendations

- 3.1 The Committee is asked to note that the Committee's MBOS Sub-Group has reviewed the Council's Modernising Back Office Systems (MBOS) programme in May to its satisfaction.

ROS PARKER

Chief Operating Officer

Contact Officers: Graham Forsdyke, MBOS Programme Manager, Tel: 07342 242448
Email: graham.forsdyke@eastsussex.gov.uk

BACKGROUND DOCUMENTS:

None

AUDIT COMMITTEE
MBOS (MANAGING BACK-OFFICE SUPPORT) SUB-GROUP
26 August 2022

ATTENDEES:

Councillor Gerard Fox
Councillor Matthew Beaver

OFFICERS IN ATTENDANCE

Ros Parker, Chief Operating Officer
Graham Forsdyke, MBOS Programme Manager
Mark Winton, Audit Manager
Sophie Webb, Governance and Democracy Officer

APOLOGIES

Councillor Colin Swansborough
Ian Gutsell, Chief Finance Officer

1. VERBAL UPDATE from MBOS Programme Manager

- 1.1 Graham Forsdyke (GF) advised that the MBOS programme has made steady progress against the high-level plan, remaining on track regarding time and budget.
- 1.2 GF explained the MBOS Board has moved the programme status to amber since the last meeting of the MBOS Sub-Group. This is due to ongoing risks and vulnerabilities around resourcing and local knowledge. GF noted that the risks are being managed to mitigate on a day-to-day basis however as the volume of the work builds, the risks around workload and resource become greater.
- 1.3 GF noted that the most recent completed phase was System Integration Testing which hit quality target. The programme moved through Data Migration 2 (DM2) successfully and has now moved into DM3 which will coincide with User Acceptance Testing (UAT) due to commence at the end of September.
- 1.4 GF advised that the programme continues to speak to all Department Management to ensure engagement and noted that comms and engagement will start to increase.
- 1.5 GF explained that Subject Matter Expert resources remains an area of concern and the programme is working to ensure that their wellbeing is being looked after.
- 1.6 GF noted that within the Programme Lifecycle the programme is currently part way through Testing. The next test is UAT where it will look at real processes and real data. The last part of Testing is Payroll Parallel Run (PPR) which will commence before go-live.
- 1.7 GF noted that approximately 50 to 60 training sessions for individuals involved with UAT will be delivered to ensure a degree of confidence and understanding when doing the testing.

- 1.8 GF advised that Change Impact Assessments are ongoing and work to identify what areas of training to focus on. GF noted that the Programme is working with the Procurement Team to secure a training provider who will be able to deliver a successful and high quality training programme to a large number of people in a short space of time.
- 1.9 Councillor Fox asked how many Data Migration phases were to be completed. GF advised that there are currently 3 full DMs and 3 DMs for PPR however is currently looking at including a 4th DM cycle as there appears to be capacity to do that before go-live.
- 1.10 GF explained that there are 74 data sets to migrate, each with 1.5 to 2 million data points. DM2 was targeted at 75% data quality level and exceeded target at 78% against total records and data quality from extracted data was 88%. The target data quality level for DM3 is 99% and is currently hitting about 99.4% on average.
- 1.11 GF noted that test quality shows 100% executed with 17 deferred to UAT. There are some questions following tests for Oracle to provide responses. Of a total of 602 test cases, 98.9% passed and UAT will encompass approximately 4,500 tests cases.
- 1.12 GF noted that Programme costs are on track, and it is projected to complete close to target budget. GF advised that there has been a shift from 22/23 to 23/24 from the original approved budget at the start of the delivery phase which corresponds with the phasing of some of the cost. The programme is not expecting to go outside of budget or level of contingency.
- 1.13 GF advised that resourcing is an ongoing risk within the Programme and there are critical individuals within the programme who are valuable to the smooth completion of the Programme. GF recognised that there is a challenging market for resourcing, and finding replacements for certain roles would be a challenge. There has been some work bringing more internal people in as additional resource to support the programme which has had some success when covering annual leave and sickness.
- 1.14 GF noted that successful engagement in implementation is a risk, and the organisation needs to be ready to receive, since it will impact most services. A robust plan of communication will be required to set out expectations and ensure that the organisation is ready for day 1. It is also important to ensure that there is an adequate support model post-implementation. There is consideration for reskilling / deployment to ensure go-live transition and business-as-usual.
- 1.15 GF summarised that there is nothing significant to report in terms of big risks that would have a major impact on the Programme. The risk profile is steady, and the Programme is mitigating risks where possible.

2 DISCUSSION – MBOS Sub-Group

- 2.1 Councillor Fox noted that during the final quarter, it would be useful to see a breakdown for each department in terms of engagement, readiness and training and suggested this information to be presented to the Sub-Group as RAG rates for each department. This information could provide assurance to the Sub-Group of the confidence within each department as it gets closer to Go-Live.

- 2.2 GF advised that as the Programme will complete a cutover checklist to ensure technical hurdles and business / organisational hurdles are overcome and to show the Programme confidence for go-live. The cutover checklist will contain checks for sufficient training, sufficient engagement and that there are backup plans in place. GF explained that closer to go-live, weekly updates will be provided to the Programme Board.
- 2.3 Cllr Fox noted that the support team will be under huge pressure around the go-live date and will need to be robustly resourced. GF confirmed that for the first three months, there will be a support team in place working alongside the programme team and the Infosys team on standby. Following the first three months, the support team will be shadowing the technical team for the technical fixes and there will be a checkpoint to determine if the support team will be able to take lead without technical team.
- 2.4 Mark Winton (MW) noted that there is a dashboard for each department showing readiness for go-live which can be shared with the Sub-Group.
- 2.5 Councillor Beaver noted that the risk of complete system failure at the go-live stage where one system is turned off and the other turned on is not documented as a risk within the Programme. GF noted that this risk can be acknowledged within the Programme and provided reassurance that part of the cutover process is to have a 'Plan B' which incorporates many 'what if' scenarios. The current 'Plan B' if there is a catastrophic system failure at go-live is to turn SAP from read-only to an active system again. MW noted that Internal Audit will give assurance on business continuity around some of the potential catastrophic scenarios.
- 2.6 MW explained that in terms of Internal Audit support, the biggest piece of work is to give assurance to the Board and the Chief Finance Officer of the control environment in the new system. Since Internal Audit are aware of the control environment within SAP, there should be similarities between the two systems to be able to compare and identify possible gaps. Internal Audit have already identified a few gaps between key systems which have been reported to GF and the Board. There is a plan to address those gaps and Internal Audit will revisit in October / November to give assurance that the gaps have been resolved.
- 2.7 MW advised that Internal Audit have issued a position statement on the reporting arrangements from the new system, data cleansing and other key controls of the new system. Internal Audit found no major issues on reporting arrangements or data cleansing. All Internal Audit findings will be detailed in a report to the Audit Committee.
- 2.8 MW noted that next steps for Internal Audit are to continue to support the MBOS Programme Board, look at system security, user access, disaster recovery, business continuity and training.
- 2.9 MW noted that the engagement and support between GF and Internal Audit has been successful in providing independent scrutiny and assurance.

This page is intentionally left blank

Audit Committee – Work Programme

| List of Suggested Potential Future Work Topics | | |
|--|---------------------------------|---------------|
| Issue | Detail | Meeting Date |
| | | |
| Audit Committee Working Groups | | |
| Working Group Title | Subject area | Meeting Dates |
| Modernising Back Office Systems (MBOS) Sub Group | Oversight of the MBOS programme | 22 Nov 2022 |
| Training and Development | | |
| Title of Training/Briefing | Detail | Date |
| | | |

| Future Committee Agenda Items | | Author |
|--|--|--|
| 18 November 2022 | | |
| Review of Annual Governance Report & 2021/22 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 |

| | | |
|---|---|---|
| Review of Annual Pension Fund Governance Report & 2021/22 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 |
| Treasury Management | To consider a report on the review of Treasury Management performance for 2021/22 and for outturn for the first six months of 2022/3, including the economic factors affecting performance, the Prudential Indicators and compliance with the limits set within the Treasury Management Strategy before it is presented to Cabinet. | Ian Gutsell, Chief Finance Officer |
| Internal Audit Progress Report | Internal Audit Progress report – Quarter 2, 2022/3 (01/07/22 – 30/09/22) | Nigel Chilcott, Audit Manager/Russell Banks, Chief Internal Auditor |
| Property Asset Disposal and Investment Strategy | Consideration of an annual report on the implementation of the Property Asset Disposal and Investment Strategy. | Nigel Brown, AD Property |
| Committee Work Programme | Discussion of the future reports, agenda items and other work to be undertaken by the Committee. | Governance and Democracy Officer |
| 31 March 2023 | | |
| External Audit Plan 2022/23 | This report sets out in detail the work to be carried out by the Council's External Auditors on the Council's accounts for the financial year 2022/23. | Ian Gutsell, Chief Finance Officer & External Auditors |
| External Audit Plan for East Sussex Pension Fund 2022/23 | To consider and comment upon the External Audit Plan for the East Sussex Pension Fund for the financial year 2022/23. | Ian Gutsell, Chief Finance Officer & External Auditors |
| Independent external assessment of Internal Audit | Report presenting the results of an external assessment of the Internal Audit team | Nigel Chilcott, Audit Manager/Russell Banks, Chief Internal Auditor |

| | | |
|--|---|---|
| Internal Audit Strategy and Plan | Consideration of the Internal Audit Strategy and Plan for 2023/24 | Russell Banks, Chief Internal Auditor/ Nigel Chilcott, Audit Manager |
| Internal Audit Progress Report | Internal Audit Progress report – Quarter 3, 2022/23 (01/10/22 – 31/12/22) | Nigel Chilcott, Audit Manager/Russell Banks, Chief Internal Auditor |
| Strategic Risk Monitoring | Strategic risk monitoring report – Quarter 3, 2022/23 (01/10/22 – 31/12/22) | Chief Operating Officer / Ian Gutsell, Chief Finance Officer |
| Managing Back Office Systems (MBOS) Update | Update from the MBOS Sub-Group. | Graham Forsdyke, Programme Lead, Ros Parker, Chief Operating Officer |
| Committee Work Programme | Discussion of the future reports, agenda items and other work to be undertaken by the Committee. | Governance and Democracy Officer |
| 7 July 2023 | | |
| Assessment of the Corporate Governance Framework and Annual Governance Statement for 2022/23 | Sets out an assessment of the effectiveness of the Council's governance arrangements and includes an improvement plan for the coming year, and the annual governance statement (AGS) which will form part of the statement of accounts. | Philip Baker, Assistant Chief Executive |
| Internal Audit Services Annual Report and Opinion 2022/23 | 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 reports – Quarter 4, 2022/23, (01/01/23 – 31/03/23). | Nigel Chilcott, Audit 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 |
| Counter Fraud Annual Report | Annual report on Counter Fraud work | Simon White, Audit Manager – Counter Fraud / Russell Banks, Chief Internal Auditor |
| Strategic Risk Monitoring | Strategic risk monitoring report – Quarter 4, 2021/22 (01/01/23 – 31/03/23) | Ros Parker, Chief Operating Officer / Ian Gutsell, Chief Finance Officer |
| Committee Work Programme | Discussion of the future reports, agenda items and other work to be undertaken by the Committee. | Governance and Democracy Officer |
| 29 September 2023 | | |
| Review of Annual Governance Report & 2022/23 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 |
| Review of Annual Pension Fund Governance Report & 2022/23 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 |
| Internal Audit Progress Report | Internal Audit Progress report – Quarter 1, 2023/24 (01/04/23 – 30/06/23) | Nigel Chilcott, Audit Manager/Russell Banks, Chief Internal Auditor |

| | | |
|---------------------------|--|---|
| Strategic Risk Management | Strategic risk monitoring report – Quarter 1, 2023/24 (01/04/23 – 30/06/23) | Ros Parker, Chief Operating Officer / Ian Gutsell, Chief Finance Officer |
| Committee Work Programme | Discussion of the future reports, agenda items and other work to be undertaken by the Committee. | Governance and Democracy Officer |

This page is intentionally left blank