

AUDIT, BEST VALUE AND COMMUNITY SERVICES SCRUTINY COMMITTEE

MINUTES of a meeting of the Audit, Best Value and Community Services Scrutiny Committee held at Committee Room, County Hall, Lewes on 29 November 2017.

PRESENT	Councillors Colin Swansborough (Chair), John Barnes (Vice Chair), Matthew Beaver, Philip Daniel, Gerard Fox, Peter Pragnell and Andy Smith
LEAD MEMBERS	Councillors David Elkin, Keith Glazier and Bill Bentley
ALSO PRESENT	Becky Shaw, Chief Executive Kevin Foster, Chief Operating Officer Ian Gutsell, Chief Finance Officer Russell Banks, Chief Internal Auditor Nigel Chilcott, Senior Audit Manager Sarah Mainwaring, Head of HR and Organisational Development Ola Owolabi, Head of Pensions Adrian Stockbridge, Orbis Programme Manager Nick Skelton, Assistant Director Communities

28 MINUTES OF THE MEETING HELD ON 27 SEPTEMBER 2017

28.1 Councillor Philip Daniel asked whether minute 25.1, of the previous minutes concerning the former St. Anne's school site, meant a report will come to March 2018 Committee meeting whether there has been change in status of the site or not. It was clarified that there will be report even if there has been no change in status.

28.2 The Committee RESOLVED to approve as correct record the minutes of the meeting held on the 27 September 2017.

29 APOLOGIES FOR ABSENCE

29.1 There were no apologies for absence.

30 DISCLOSURES OF INTERESTS

30.1 There were none.

31 URGENT ITEMS

31.1 None notified.

32 INTERNAL AUDIT 2017/18 PROGRESS REPORT - QUARTER 2

32.1 The Chief Internal Auditor introduced report and explained the background to the items covered by recommendation 3 of the report. In particular, the need to carry out an external assessment of the Internal Audit function under the Public Sector Internal Audit Standards (PSIAS), which it is proposed to be carried out by South West Audit Partnership (SWAP). The Committee is also being asked to approve:

- The updated performance indicators (appendix 3);
- A revised Internal Audit Charter, which is very similar to the existing Charter but has been updated for use across the Orbis partnership (appendix 4); and
- An Orbis Internal Audit reporting and escalation policy which formalises existing processes (appendix 5).

32.2 The Committee asked if the South West Audit Partnership (SWAP) were able to provide an independent approach to the external assessment, as they are a local authority organisation. The Chief Internal Auditor explained that the selection process had carefully considered how best to undertake the external assessment and the preferred approach was to carry out a self-assessment with independent validation by SWAP. SWAP has experience of carrying out such assessments and complies with professional standards.

32.3 The Committee discussed the outcomes of the internal audits undertaken during quarter 2 (appendix 1) and made the following comments.

Procurement Cards (P-Cards)

32.4 The Committee commented that the number of cases of inappropriate use appeared quite low and asked whether the Council get better value from this expenditure. The Chief Internal Auditor explained that it was not possible to review all the transactions due to the large volume, but a representative sample was examined. Overall, the scale of potential inappropriate activity was low given the value of transactions. Some of the transactions were referred back to the departments concerned, to check that the transaction or use of the card was reasonable. Departments can then refer any inappropriate transactions back to the Internal Audit team for investigation.

32.5 The Chief Operating Officer outlined that an analysis of the value for money of expenditure on P-Cards had been undertaken as part of a previous audit, and a procurement analysis of low value 'tail end' expenditure had been carried out. The savings and costs avoided are monitored through a procurement annual report to the Corporate Management Team and performance indicator monitoring.

Bankline

32.6 The Committee asked if the business continuity arrangements and improvements in control had been implemented. The Senior Audit Manager responded that at the time of writing a follow up to the audit had not been undertaken, but there were no high risk recommendations that required action. The Chief Internal Auditor outlined that the Internal Audit Team would not usually immediately follow up audits that achieved a 'substantial' or 'reasonable' assurance opinion (where there are medium or low risk recommendations), but will check to see if the agreed actions arising from the audit have been implemented and report back to Committee.

Follow up of audit recommendations

32.7 The Committee asked for clarification on which audit recommendations will be followed up and reported back to the Committee (e.g. actions recommended for the LCS/Controcc and the Social Care audits).

32.8 The Chief Internal Auditor clarified that any audits below 'minimal' assurance will have a follow up audit which is reported back to the Committee. All progress on high risk recommendations is also reported to the Committee. There is some judgement exercised in what other items from audits are reported back to the Committee. This will depend on the risk and profile of the service being audited, as well as how responsive management is to implementing changes.

Internal Audit Performance Indicators

32.9 The Committee noted that Audit Plan performance indicator was rated as amber. The Senior Audit Manager responded that the team had carried out additional audits and investigations which have had an impact on performance against the Internal Audit Plan during the quarter. He was confident that the Internal Audit Team will achieve the target of 90% completion of audits by the end of the year.

32.10 The Committee RESOLVED to:

- 1) Note the report;
- 2) Request follow up information on the actions from the Bankline audit; and
- 3) Approve the:
 - intention to use the South West Audit Partnership (SWAP) to complete an external assessment of Orbis Internal Audit in accordance with the requirements of the Public Sector Internal Audit Standards (PSIAS) – Appendix 2;
 - revised Orbis Internal Audit Key Performance Indicators - Appendix 3;
 - revised Orbis Internal Audit Charter - Appendix 4;
 - Orbis Internal Audit Reporting and Escalation Policy - Appendix 5.

33 ANNUAL AUDIT LETTER 2016/17 AND FEE UPDATE

33.1 The Head of Accounts and Pensions introduced report. He explained that the Council's External Auditors, KPMG had not been able to issue final certificate due to an objection by an elector. This is still under investigation and will be reported back to committee when resolved. There has been no increase in the External Auditor's fee from the financial year 2016/17 to 2017/18.

33.2 The Committee asked for more information on the nature of the objection. The Head of Accounts and Pensions explained that the objection relates to a LOBO (lender option, borrower option) loan and the objector is challenging the rate at which the loan was taken out several years ago, which was higher than present interest rates.

33.3 The Chief Operating Officer outlined that this is a national issue as other local authorities took out LOBO loans at around the same time. KPMG say this is part of a national campaign, and they are collating all the data in order to complete their investigation. This is taking a little longer to complete due to the amount of data needed.

33.4 The Committee asked if the objection is about the original decision to take out the loan. The Chief Finance Officer confirmed that it is, and is about an alleged breach of fiduciary duty to take out loans at a competitive rate. The Committee will be advised when objection has been resolved.

33.5 The Committee RESOLVED to note the Annual Audit Letter and the fee update for 2016/17.

34 TREASURY MANAGEMENT ANNUAL REPORT 2016/17 AND MID YEAR REPORT 2017/18

34.1 The Head of Accounts and Pensions introduced report which reviews the Treasury Management performance for the last financial year and the first six months of the current financial year. During that period investments achieved a 0.62% rate of interest against a Bank of England base rate of 0.25%. The Head of Accounts and Pensions outlined the interest rates that are being paid on the Council's borrowing, and explained that an option had been exercised on a LOBO (lender option, borrower option) loan to fix the interest rate at 4.25%.

Long Term Borrowing

34.2 The Committee noted that the fixing of the interest rate on the LOBO loan will increase the average interest on the Council's long term borrowing, and that the loan maturity profile shows a pinch point in payback periods in around ten to twenty years time. It asked whether there was an opportunity to refinance some of the debt and what the limit was on further borrowing.

34.3 The Head of Accounts and Pensions responded that long term borrowing was kept under regular review and the Council will seek to re-finance and repay loans when opportunities arise. However, there was no opportunity to re-finance at moment and early repayment penalties can be high. The Council's new borrowing is at lower interest rates and some Banks are reviewing their balance sheets, so there may be opportunities in the future to re-finance or repay debt.

34.4 The authorised borrowing limit is £422 million (2016/17) and the Council's borrowing is currently well under this limit at £275 million. It was clarified that borrowing to invest in property would be classed as prudential borrowing, and therefore would not be included as part of the borrowing limit calculation.

Investment Strategy

34.5 The Committee observed that with investments totalling around £300 million, compared with £275 million of debt, residents may on the face of it question why the Council does not repay the loans and save the cost of the interest paid on the debt. The Head of Accounts and Pensions explained that there is an ongoing review of investment and debt, but early repayment of debt incurs penalties, so it is not in the Council's interest to do this at present.

34.6 The Committee discussed whether to review the Treasury Management Strategy to see whether returns on investments for longer term reserves could be improved to generate more income. It also observed that there could be links to property investment as discussed in the Treasury Management briefing session. The Committee asked for a breakdown of investments and longer term reserves to identify where it might be possible to use longer term investments. The Committee also asked for further information on the structure ("laddering") of short term deposits (under 12 months) and whether there was a policy in place for this.

34.7 The Chief Operating Officer outlined that the Treasury Management performance is in line with the current Strategy. However, it is possible to review the Treasury Management risks and liquidity to see whether a change in the Strategy could produce further income and the possible links property investment.

34.8 The Head of Accounts and Pensions explained that most of £300 million is invested in deposits of up to six months maturity and around 10% is invested in six to twelve month deposits. How the money is invested is governed by the Treasury Management Strategy that the Council has in place and more detail can be provided to the Committee at the Committee's Reconciling Policy, Performance and Resources (RPPR) Board.

34.9 The Committee agreed that the RPPR Board should examine the Treasury Management Strategy, with a view to seeing whether it would be possible to improve the income from the Council's investments and the potential links to property investment.

Sovereign Ratings

34.10 The Committee asked why the Strategy has so much detail on sovereign ratings (appendix A) and whether this was due to risk in money market or in case the Council wants to make non-sterling transactions for borrowing or investment. The Head of Accounts and Pensions responded that the Treasury Management Strategy assesses the risk of placing deposits with particular organisations, and it has agreed sovereign ratings as a guide to where the Council could invest. It also provides a guide if there is an opportunity to go outside UK to borrow money if needs be. The Council is not intending to use non-sterling deposits.

Capital Financing Requirement (CFR)

34.11 The Committee noted the changes to accounting rules (Appendix D, paragraph 1.2) relating to finance leases and Private Finance Initiative (PFI) contracts and asked whether these changes had been made due to increased risk. The Head of Accounts and Pensions responded that this was a change of accounting rules, and not a reflection of a risk. Previously PFI contracts were treated as expenditure in the revenue statement. Now they have been recognised as an asset and brought onto the balance sheet with a fixed reserve to cover liability. This has affected the calculation of the CFR and Minimum Revenue Payment (MRP).

34.12 The Committee RESOLVED to:

- 1) Note the Treasury Management performance in 2016/17 incorporating the mid-year review for the first half of 2017/18; and
- 2) Request further information on the Council's investments (paragraph 34.6 above), for the Committee's RPPR Board in December.

35 ORBIS BUSINESS PLAN - UPDATE REPORT

35.1 The Orbis Programme Manager introduced report which gives an update on the development of a revised Business Plan for the Orbis partnership, which now includes Brighton and Hove City Council (BHCC) as well as East Sussex County Council (ESCC) and Surrey County Council (SCC). The Orbis partnership provides a shared service for back office functions (Finance, IT & Digital, Property, Procurement, Human Resources and Business Operations) for the three partners. The draft Orbis Business Plan was presented to the Orbis Joint Committee in October and a final version will be presented to the Orbis Joint Committee in January 2018. The savings for the 2018/19 financial year remain the same as in the original business plan and represent a 17% reduction in baseline budgets.

35.2 The contribution and investment ratios in the original business plan are ESCC 30% and SCC 70%. With BHCC joining Orbis, the contribution ratios are predicted to be in the region of ESCC 24%, SCC 56% and BHCC 20%. The revised business plan provides a ten year vision for Orbis, and includes the financial years 2019/20 and 2020/21 which have been identified as requiring additional savings.

35.3 The Committee asked what input it would be able to have into the final version of the business plan. The Chief Operating Officer outlined that there is a current adopted business plan covering 2018/19 and the Committee could ask through the RPPR process for further savings in 2018/19. If further savings are required then this will have an impact on services. The Committee can also discuss what additional savings the partnership can deliver in 2019/20 to 2020/21 and the impact this would have on particular service areas.

35.4 The Committee noted the requirement for ESCC to make further savings of £36 million over the 2019/20 to 2020/21 financial years and asked if the other partners faced similar financial pressures. The Orbis Programme Manager responded that all three partners have similar financial pressures. SCC is already in the same position as ESCC and BHCC not far from requiring additional savings.

35.5 The Chief Operating Officer commented that the RPPR process next year will tackle this through the areas of search for further savings, but there will be service implications if back office support is reduced further. Orbis is currently developing Service Catalogues which look at where there are areas of choice in service levels and where there are professional standards or statutory guidelines where it is not possible to reduce services further. It will be for the Orbis Joint Committee to oversee how Orbis responds to requirements of the three authorities. The RPPR Board can scrutinise and consider the opportunities for further savings.

35.6 The Lead Member for Resources added that it is important to look at how the Council can make savings without jeopardising day to day services and the ability to make bigger savings. Reductions in the back office services will not bridge the savings gap on their own, and it will be important to consider the risks and ramifications of a weaker service if they are reduced further.

35.7 The Committee RESOLVED to note the progress to date in developing a revised business plan for Orbis and that it is due for completion early in the New Year.

36 EXPENDITURE ON AGENCY WORKERS IN EAST SUSSEX COUNTY COUNCIL 2017

36.1 The Head of Human Resources and Organisational Development introduced the report which reviews the use of and expenditure on agency workers. Agency workers are an important part of the Council's staffing arrangements and ensure ongoing delivery of key services. The report contains details of expenditure and forecasted spend on agency workers across all departments. It also includes details of sickness absence levels, which are linked to the use of agency workers, and provides details of strategies in place to reduce absence levels.

36.2 One significant change since the last report has been the introduction of IR35 regulations regarding the tax treatment of off-payroll workers, who are registered as a limited company. This has resulted in a large amount of work to review existing arrangements and put in place processes to ensure the correct treatment of tax for these workers. An internal audit of the contract management arrangements for the Adecco contract was undertaken in May 2017 and an opinion of 'partial assurance' given. The Head of Human Resources and Organisational Development confirmed that the two high level recommendations have been resolved and significant progress has been made on all the other recommended actions.

36.3 The Committee commented that it was pleased to see sickness absence rates coming down, and noted the work being done on mental health issues. The Committee asked the Head of Human Resources and Organisational Development if she is happy with the amount of work that is being done on mental health and stress issues. The Head of Human Resources and Organisational Development acknowledged that mental health is one of key issues and there may be more work to be done on this issue. However, a number of actions are being undertaken to support staff with mental health issues, including consideration of introducing mental health first aiders. In addition, there are a number of training opportunities and workshops for managers, the intention being to enable managers to spot issues early and therefore provide the right levels of support to staff experiencing mental health and stress issues.

36.4 The Committee asked to what extent flexible working practices are in place across the organisation and how this impacts on the demand for agency workers. The Head of Human

Resources and Organisational Development replied that the Agile programme has introduced a significant amount of flexible working, but there is no evidence of a link to an increased use of agency workers. Most agency workers are used where there is a need to maintain staffing levels, such as for residential services. It is not expected that flexible working will create gaps in staffing provision.

36.5 The Committee requested further information on the size of the contract payments to Adecco and asked whether the contract has a fixed fee. The Head of Human Resources and Organisational Development explained that the contract was awarded after a procurement exercise with Surrey County Council to maximise economies of scale and purchasing power. The Council does not pay a fixed amount, rather, Adecco is a managed service provider for temporary agency workers who provides workers from their own branch and from their network of specialist agencies. They support hiring managers in sourcing candidates from other agencies by managing the relationship on East Sussex County Council's (ESCC) behalf. The Chief Operating Officer added that the contract is a volume based mutual vendor contract, which does not have a fixed fee.

36.6 The Committee asked what proportion of ICT staff are permanent and how many agency staff are employed. The Chief Operating Officer responded that there are around 160 ICT staff and the number of agency staff employed is below 10% of the workforce.

36.7 The Committee RESOLVED to:

- 1) Note the findings and conclusions presented in this report; and
- 2) Continue to receive an annual update report on the use of agency workers.

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

37.1 The Chief Executive introduced the report. The report highlights the savings proposals for 2018/19 for the services that are within the remit of the Committee (pages 112 – 115) and provides the Committee with the opportunity to consider whether there is any further information it would like presented to the RPPR Board in December. This is to ensure the Committee is sighted on the proposals and is aware of the opportunities to engage with the budget setting process. The Committee's RPPR Board is invited to make comments on the budget proposals, which will be included in the budget Cabinet meeting papers in January 2018.

37.2 At the September Audit, Best Value and Community Services (ABVCS) meeting, the Committee requested further information on income generation work (commercialisation) and an update on the Property Investments Strategy. This information will be presented to the RPPR Board, together with the revised draft Portfolio Plans and Savings Plans, at the meeting which is being held on the 12 December 2017 after Cabinet.

37.3 The Committee discussed whether it should be setting criteria for savings. The Senior Democratic Services Advisor clarified that the purpose of the RPPR Board was to focus on the savings proposals for the services within the remit of the Committee; examine the impacts of the savings and; propose any areas for further investigation where savings could be made. The ABVCS Scrutiny Committee has two functions; one as an audit committee which examines the governance arrangements for the Council and; the other as a scrutiny committee which scrutinises a range of services centred around back office functions, corporate and community services.

37.4 The Committee asked whether the impact assessment in the savings plans related to the impact on services or the impact on residents. The Chief Executive clarified that the impact assessment is based on impact of the savings proposals on residents of East Sussex. As part of the RPPR process the Committee will form views and make comments on the savings proposals to feed into the budget setting process.

37.5 The Committee noted the information in the Treasury Management report and identified that it may wish to examine the possibility of longer term investment for some of the money the Council holds for longer term reserves. The Committee added that if it is considering a review of the approach to investment in the Treasury Management Strategy, it should also consider this alongside property investment and the Property Investment Strategy.

37.6 The Committee confirmed that it was happy with information provided for the RPPR process and acknowledged the role it has in looking at back office savings to support front line services.

37.7 The Committee RESOLVED to note the report and investigate further whether there are opportunities to change the approach to investments under the Treasury Management Strategy.

38 SCRUTINY COMMITTEE FUTURE WORK PROGRAMME

Workload and working practices

38.1 The Committee commented on the large size of the meeting agendas which cover a range of very important subjects. This presents a problem for Committee members who have a large amount of material to cover before each meeting. The Committee discussed whether the existing working practice is efficient and whether it might be worth considering holding more meetings or using sub groups to consider specific items of work. It was suggested that holding an 'Away Day' to examine the work programme and working practices could be one way of taking these issues forward.

38.2 The Chief Internal Auditor explained that for the Internal Audit reports, there are a number of items that Internal Audit is required to report to the Committee, but there is some flexibility on the level of detail and volume. The Chief Internal Auditor outlined the intervention levels used for audits and high risk recommendations and offered to discuss the level of detail required for future reports with the Committee.

Future items for the work programme

Treasury Management

38.3 The Committee agreed that, if after discussion at the RPPR Board there is more work to be done on Treasury Management, the topic will be added to the Committee's work programme. This will be reflected in an updated version work programme under the "Potential future scrutiny work" heading.

Community Asset Transfer (CAT) policy

38.4 The Council has discretion on the use of community asset transfers for land and other property that it owns. The Committee discussed whether it should examine the existing policy with a view to producing guidance for Cabinet. The Senior Democratic Services Advisor outlined the previous work the Committee had undertaken on CAT and Meanwhile Use policies. It was agreed that the Senior Democratic Services Advisor will circulate the current policy to the Committee, and the Committee will discuss whether any further work is necessary under the Work Programme agenda item at the next meeting in March 2018.

38.5 The Committee RESOLVED to amend the work programme in line with paragraphs 38.3 and 38.4 above.

39 FORWARD PLAN

39.1 The Committee RESOLVED to note the Forward Plan.

40 ANY OTHER ITEMS PREVIOUSLY NOTIFIED UNDER AGENDA ITEM 4

40.1 None notified.

The meeting ended at 12.05 pm.

Councillor Colin Swansborough
Chair