

Auditor's Annual Report on East Sussex County Council

2021/22

Draft v1.4

March 2023



Contents



We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Executive summary



Value for money arrangements and key recommendation(s)

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Auditors are required to report their commentary on the Council's arrangements under specified criteria and 2021/22 is the second year that we have reported our findings in this way. As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Our conclusions are summarised in the table below.

Criteria	Risk assessment	2020/21 Auditor Judgment	2021/22 Auditor Judgment	Direction of travel
Financial sustainability	No risks of significant weakness identified	 No significant weaknesses in arrangements identified, but three improvement recommendations made	 No significant weaknesses in arrangements identified, but two improvement recommendations made	
Governance	No risks of significant weakness identified	 No significant weaknesses in arrangements identified, but three improvement recommendations made	 No significant weaknesses in arrangements identified, but one improvement recommendation made	
Improving economy, efficiency and effectiveness	No risks of significant weakness identified	 No significant weaknesses in arrangements identified, but three improvement recommendations made	 No significant weaknesses in arrangements identified, but two improvement recommendations made	

	No significant weaknesses in arrangements identified or improvement recommendation made.
	No significant weaknesses in arrangements identified, improvement recommendations made and/or deteriorating direction of travel.
	Significant weaknesses in arrangements identified and key recommendations made.

Executive summary



Financial sustainability

We found no evidence of significant weaknesses related to the financial sustainability of the Authority. The Council has a strong understanding of its financial position and awareness of the significant challenges that it will be facing in the coming years.

There are appropriate procedures in place to ensure these challenges are managed in the best way possible, with strong governance, reporting and review processes. The evidence we reviewed for the 2021/22 year demonstrated effective management in this respect.

We have identified two areas relating to the MTFP horizon and the management of Children's Services Overspends where Council should consider improvement. Further details can be found on pages [11-12] of this report.



Governance

We found no evidence of significant weaknesses in the Council's governance arrangements. The governance arrangements in place ensure that risks are managed appropriately and reported in a timely and effective way to Members.

We set out one opportunity for improvement that should be considered by the Council. Further details can be found on pages [15] of this report.



Improving economy, efficiency and effectiveness

With regard to the arrangements in place for improving economy, efficiency and effectiveness we found no significant weaknesses. The Council continues to manage its resources in line with its strategic priorities, including arrangements to address its climate emergency target, and it continues to work well with partner organisations.

We have set out two improvement recommendations. Further details can be found on pages [19-20] of this report.



Our audit of the Council's financial statements is ongoing following some delays in receiving responses to audit requests/queries in the area of land and building valuations. An indicative Audit Findings Report was issued to the November Audit Committee meeting and this set out the areas of delays and outstanding work, some of which remain ongoing at the date of issuing this report. We are in discussion with your finance team to agree arrangements to complete the audit.



Opinion on the financial statements and use of auditor's powers

We bring the following matters to your attention:

Opinion on the financial statements

Auditors are required to express an opinion on the financial statements that states whether they : (i) present a true and fair view of the Council's financial position, and (ii) have been prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22

The audit of the financial statements is in progress. An indicative Audit Findings Report was issued to the November Audit Committee meeting and this set out the areas of delays and outstanding work, some of which remain ongoing at the date of issuing this report.

Statutory recommendations

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly

We have not issued any statutory recommendations.

Public Interest Report

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.

We have not issued any public interest report.

Application to the Court

Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.

No such applications have been made.

Advisory notice

Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority:

- is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure,
- is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or
- is about to enter an item of account, the entry of which is unlawful.

No advisory notice has been made.

Judicial review

Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.

No application has been made.

Securing economy, efficiency and effectiveness in the Council's use of resources

All Councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Council's responsibilities are set out in Appendix A.

Councils report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:



Financial Sustainability

Arrangements for ensuring the Council can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).



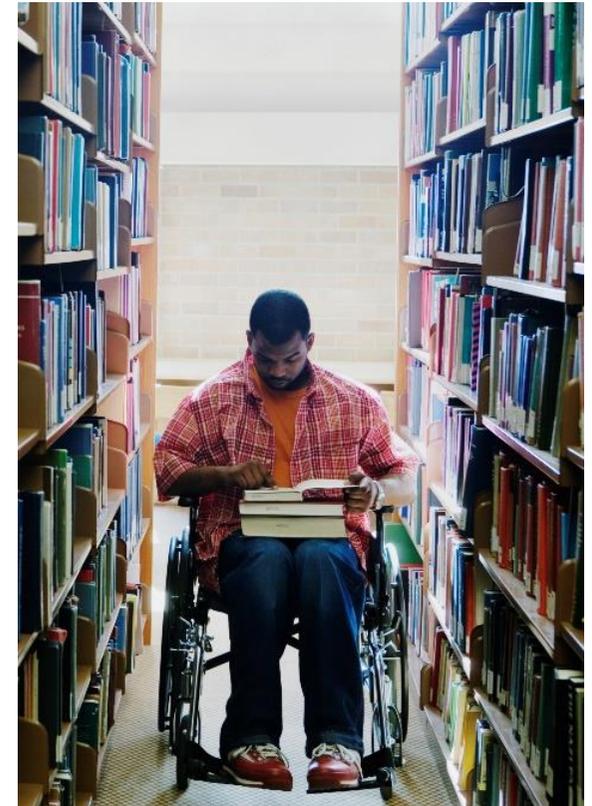
Governance

Arrangements for ensuring that the Council makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the Council makes decisions based on appropriate information.



Improving economy, efficiency and effectiveness

Arrangements for improving the way the Council delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Our commentary on the Council's arrangements in each of these three areas, is set out on pages 7 to 20. Further detail on how we approached our work is included in Appendix B.

Financial sustainability



We considered how the Council:

- identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds them into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning which may include working with other local public bodies as part of a wider system
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

Overview of financial performance in 2021/22

On 9 February 2021, a balanced budget for 2021/22 was approved at Full Council. One of the key challenges for this budget was to meet the challenges presented by Covid-19 and local government funding reviews and reform.

The Council's 2021/22 outturn after managing these pressures was a total revenue underspend of £4.3m. The principal financial pressure on the Council came from Children's Services, which is reflective of the national picture as well as additional demand across the locality. There was an overspend of £2.8m in this department, primarily driven by Looked after Children and Home to School transport.

The Council set a capital expenditure budget of £85.6m. Actual capital expenditure for the year totalled £75.6m, with a number of individual project slippages. £4.4m of the total slippage related to Local Enterprise Partnership (LEP) funded projects being delivered by, or in partnership with, other bodies where the timing of expenditure and delivery is largely outside of the Council's control.

The Council was not heavily reliant on savings within the original 2021/22 budget and these had been set at £0.9m. During the 2021/22 year the savings delivered exceeded this target at £1.9m, however £1m of these (from Parking within Communities, Economy & Transport) was carried forward from prior years. Otherwise, savings achieved were largely in line with target.

Performance to date in financial year 2022/23

The Council set a balanced budget for 2022/23 without any reliance on the use of reserves or significant levels of savings.

At the end of Q2 2022/23, the Council was reporting a forecast overspend of £8.4m in the service revenue budget. This was primarily driven by inflationary pressures within Children's Services, the majority of which relates to Early Help and the Looked After Children component of social care provision in addition to ongoing Home to School Transport pressures.

The forecast overspend at Q2 is wholly mitigated in year by net underspends delivered in the Treasury management budget and the use of the budgeted contingency, which was put in place specifically to enable the Council to manage variances without recourse to reserves. This reflects prudent arrangements for the management of financial risk.

We note that inflation pressures in Children's services continue to be a national challenge rather than purely a local issue. However, the Council will need to find pragmatic solutions to funding this key area of service in future. The budget overspends continue to be closely monitored, with quarterly reports going to Cabinet to ensure that sufficient resources are in place to manage any increase in the remaining quarter of the year.

We reviewed the capital outturn reporting within the quarterly monitoring reports, as noted below in the Governance section, and our view is that the quarterly monitoring reports are of a good quality.

The forecast capital programme expenditure of £79.6m for 2022/23 tracks relatively well against a budget of £93.9m (85%). We note that a significant proportion of this slippage (£6.2m) relates to Local Enterprise Partnership (LEP) funded projects and a number of other smaller schemes largely due to issues outside of the Council's control.

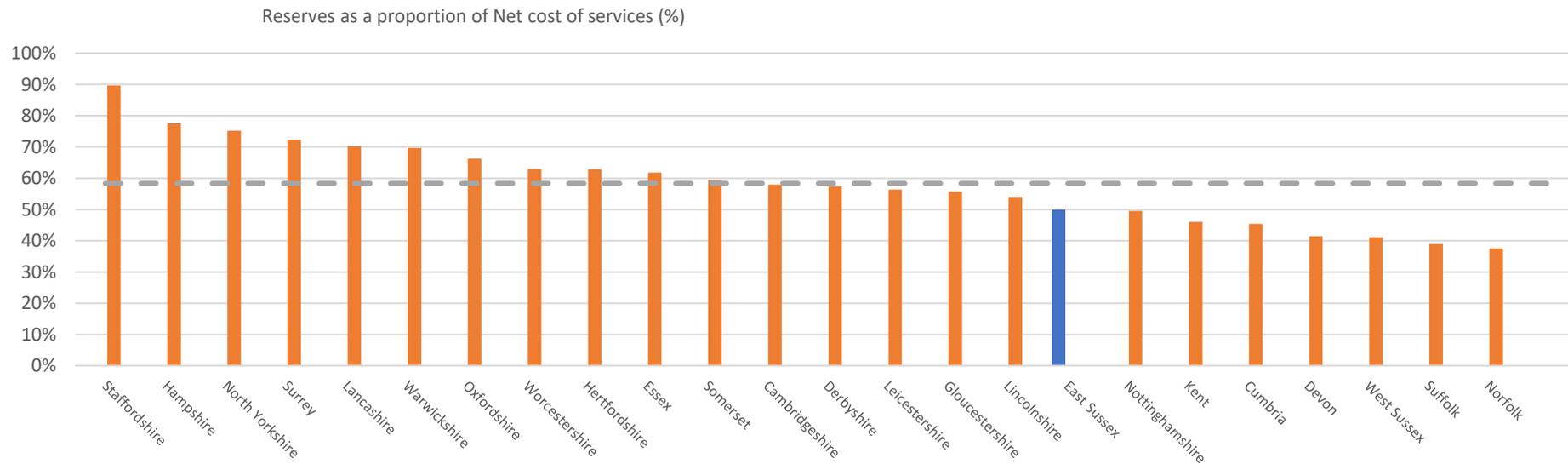
A recommendation was made in our 2020/21 report that the reporting of capital programme slippages in the quarterly monitoring reports could be more detailed, to explain mitigations and responsibilities for these slippages occurring. In the equivalent reports for 2021/22, a description of where slippage has occurred in each project is presented, accompanied by the reason for the slippage and action being taken to mitigate against it. However, as previously mentioned, a large proportion of slippage (c.50% in 2021/22) relates to LEP-led projects and there is limited description of the individual projects in the quarterly monitoring report.

Financial sustainability

Reserves and contingencies to manage financial risk

At the 2021/22 year end the Council's usable reserves as a proportion of the cost of services stood at 50%, as displayed in the chart below (based on available published draft accounts for 2021/22 compared to other English county councils). This is slightly above the bottom quartile, and just below the average for county councils which is 58%. The Council therefore achieves a good balance between maintaining sufficient levels of reserves to manage risk and invest in future priorities, without retaining reserve levels that are disproportionate to its needs.

The revised MTFP 2022/23 to 2024/25 includes an analysis of reserves, including those that would be available to manage future funding pressures, primarily the strategic reserve. The paper estimates that the opening balance on the strategic (earmarked) reserve in 1 April 2023 is £54m in addition to a General (unallocated) Reserve of £10m. In addition to reserves, the Council holds a budgeted contingency of £4.9m to manage any unplanned pressures in year. Taken together, these indicate that the Council has sufficient resources to cover the projected deficits over the MTFP period, should additional funding for social care not be forthcoming or if there were delays to delivering any future savings programme. The Council therefore maintains a robust position in regard to the management of financial risk.



Financial sustainability

Financial Planning for the medium term

The Council has seen a steady decline in income from the local government funding settlement over the last ten years, and the Council's Medium Term Financial Plan (MTFP) assumes a continuation of this. There were hopes within the Council that the plans to provide a two-year funding settlement for local government would come to fruition in summer 2022, but the recent government turbulence has delayed this and a one year settlement was provided for 2023/24.

Scenario planning across the most likely outcome assumptions and less likely outcome assumptions is undertaken in developing the MTFP and communicated as part of budgetary reports to members and report users. Scenarios presented are reasonable in the current environment, including appropriate consideration of demographic pressures expected for a local authority of this size.

As a result of the pressures anticipated by the Council's base scenario, a funding gap of £17.5m for 2023/24 was initially projected, rising to £31.5m (prior to any mitigating action). This was initially presented to members in September 2022 alongside a significant update to the MTFP and some initial options for closing the gap.

We noted that the revised MTFP includes changes to key assumptions about Adult Social Care Reform. In 2022/23, local authorities were to be provided with a Market Sustainability and Fair Cost of Care Grant. This was to be raised from the 1.5% National Insurance Health and Social Care Levy. However, government plans for this levy have been withdrawn, initially leaving a funding gap for the Council relating to Adult Social Care. Even with the Market Sustainability and Fair Cost of Care grant included, the initial MTFP projection displayed a net pressure of £20.6m on the Council in 2023/24 relating to Adult Social Care Reform alone. As a result, the Council presented the Impact of Adult Social Care Reform as an Appendix to the MTFP. This was due to the distorting effect it would have.

Following the announcement of the Government funding settlement, a revised 2023-24 budget and 2 year MTFP was presented to Members in January 2023. This included a reconciliation of how the original £17.5m funding gap and additional inflationary pressures for 2023/24 had been mitigated to a balanced budget position, primarily through additional social care grant received through the settlement and increased revenue from local taxation. This included a small contribution from targeted savings.

We noted that the Council's MTFP has a limited 2 year horizon beyond the budget year 2023/24, where as increasingly, in response to CIPFA guidance, other councils are maintaining a 3-5 year forward projection, which would help to illustrate how medium term pressures are expected to build and will be dealt with over an extended period in order to balance the budget in future years [Recommendation 1.1].

The revised MTFP sets out a small deficit of £2.2m for 2024/25 before the increasing pressures around social care and other factors drive an increased deficit of £40.7m by 2025/26. This deficit is partly driven by the assumption that additional social care funding announced for the next two years, does not continue into 2025/26. The Council acknowledges that a more fundamental review of service priorities will be necessary, if no further funding is obtained and the medium term impact of the delayed social care reforms is not accompanied by additional government funding by 2024/25. However, the Council has sufficient resources at present to avoid major cost cutting or service reductions in the short term.

We note that the implementation of adult social care charging reforms initially planned for October 2023 was confirmed to be delayed until 2025. The associated reform funding for the next two years was reallocated as part of the funding settlement and this has helped the Council to mitigate some of the forecast pressures in the social care system over this period.

In the other key area of financial pressure, the Council's Children's Services directorate has developed a sustainability plan based primarily on the implementation of the nationally trialled Family Safeguarding model. This increases the scope for specialist interventions to enable more children to live safely at home with their families. This is achieved through early intervention in cases that could otherwise lead to increased numbers of children needing to be placed outside of their immediate family, which has cost implications for the Council as well as quality of life implications for the child. Implementation of this plan is at a relatively early stage and it will be important for the Council to closely monitor the financial benefits over the medium term, to ensure that the expected contribution is made towards establishing a financially sustainable service. [Recommendation 1.2]

The Capital Programme has been extended to maintain a 10 year outlook and included budgets for school places, SEND provision and highways infrastructure and to support the Council's commitment to carbon neutrality.

Financial sustainability

Alignment to Council Priorities

The Council's priorities are defined and articulated in the Council Plan 2022/23 which sets out what the Council plans to achieve by 2025. The Council's priorities are driving sustainable economic growth, keeping vulnerable people safe, helping people help themselves and making best use of resources. These are referenced in the MTFP, budget documents and quarterly council monitoring reports and indeed, the Council plan is presented alongside the budget and MTFP papers.

The Capital Programme to 2031/32 is included in the State of County report, which shows an approved programme of £676m to 2031/32. Alongside this, there is a 20 year Capital Strategy 2022/23 to 2042/43. The financing of the Capital Programme is outlined in the MTFP and supported by the Treasury Management Strategy 2022/23.

Managing risks to financial resilience

Risks are considered within the budget and MTFP, with quarterly reporting to Cabinet which highlights these risks. The Reserves and Budget Robustness Statement includes a Financial Assessment of risks, including the monetary magnitude of the potential impact associated with each risk. Of particular concern recorded, is the risk that inflation on energy prices and other materials becomes unmanageable for the Council. This demonstrates the Council's awareness, and ongoing work to ensure members are aware, of the impact that key estimates within the budget and MTFP could have should they be subject to certain changes.

Delivery of Savings Plans

The Council relies on its Reconciling Policy, Performance and Resources (RPPR) process to ensure that it is able to provide services at the required level. The Council is not seeking to achieve further savings since these would bring the Council below its Core Offer of service provision.

Savings (£m)	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Planned	9,125	17,082	5,131	3,541	864	1,257	1,347	0
Delivered	12,480	18,825	11,232	3,531	1,878	N/A	N/A	N/A

Conclusion

We found no evidence of significant weaknesses related to the financial sustainability of the Authority. The Council has a strong understanding of its financial position and awareness of the challenges that it will be facing in the coming years.

There are appropriate procedures in place to ensure these challenges are managed in the best way possible, with strong governance, reporting and review processes. The evidence we reviewed for the 2021/22 financial year demonstrated effective management in this respect.

We have identified two areas relating to the MTFP horizon and the management of Childrens Services Overspends where Council should consider improvement as set out on the following slides.

Improvement recommendations



Financial sustainability

Recommendation 1.1

The Council should consider implementing a longer MTFP horizon (e.g. 5 years) to improve visibility to members and the public on how the impact of the large in year funding deficit currently projected for 2025/26 could be mitigated over multiple years. This could be used to highlight the Council's expectations for the path of funding and cost pressures in key areas such as social care.

Why/impact

There is a risk that members and the public are not informed of the likely impact of key developments such as social care reform and the Council's expectations of how demand and cost pressures are likely to build in the medium to long term, potentially denying them the opportunity to make sure the Council is anticipating and addressing financial issues beyond the relatively short term.

Auditor judgement

We have recommended improvement here to ensure that the MTFP is reflective of the true financial position of the Council over the medium term, based on the best available information, particularly where financial challenges increase over time and may require service transformation which may take a number of years to realise.

Summary findings

We noted that the Council's MTFP has a limited 2 year horizon, where as increasingly in response to CIPFA guidance, other councils are maintaining a 3-5 year projection, which would help to illustrate how medium term pressures are expected to build and will be dealt with over an extended period in order to balance the budget in future years. We reviewed the MTFP and found evidence that the Council has appropriately extracted the impact of Adult Social Care reform due to the distorting effect it would have to the overall Council deficit in the medium term. However, it is likely that funding reform will need to take place in future years and it may be beneficial to include an assumptions based projection over a longer time horizon.

Management Comments

In setting the 2023/24 balanced budget, the MTFP projected a further 2 years to 2025/26. The Local Government Financial Settlement was detailed for 2023/24, with only national allocations of some funding streams for 2024/25. No funding has been confirmed for 2025/26. National policy agendas, particularly for Adult Social Care and Children's Services provide significant uncertainty. Whilst wishing to be able to present a longer term MTFP, this is only really appropriate with confirmation of longer term funding and service clarity.

The range of recommendations that external auditors can make is explained in Appendix C

Improvement recommendations



Financial sustainability

Recommendation 1.2

The Council should continue to focus on solutions to manage the ongoing financial pressures in Children's Services, including monitoring the delivery of financial benefits expected to accrue from the new Family Safeguarding initiative. The budget overspend should be closely monitored, by Cabinet to ensure that any short term measures form part of a longer term strategy to provide a sustainable service.

Why/impact

Children's Services was the principal area of overspend in the financial year 2021/22, driven by costs related to Looked after children and Home to school transport. This department is facing pressures that are not unique to the area, with these cost pressures and staff shortages seen across the country. Ensuring that Cabinet are kept informed of these pressures is the most effective way of maintaining strong governance as the department continues to face these challenges.

Auditor judgement

Without this communication and oversight, there is a risk that members have limited understanding of the plan to address pressures related to Children's Services.

Summary findings

We reviewed the Council Monitoring update for the year end 2021/22 which sets out the pressures faced by Children's Services, as well as the Quarter Four Performance Report 2021/22 from Children's Services to SMT. The strains on Children's Services should be monitored closely, as they have been to date, to ensure the pressures are managed effectively.

Management Comments

The MTFP and budget for 23/24 has added almost £15m of net revenue spend to Children's Services for 23/24, recognising both the ongoing pressures that have continued (alongside many other Local Authorities) into 22/23 and the Family Safeguarding initiative. Monitoring and reporting through the Council's RPPR process, including to Cabinet, will continue to be key through 23/24 and into 24/25 as the benefits of the Family Safeguarding approach should start being delivered.

The range of recommendations that external auditors can make is explained in Appendix C

Governance



We considered how the Council:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effective processes and systems are in place to ensure budgetary control; communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting; and ensures corrective action is taken where needed, including in relation to significant partnerships
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and board member behaviour (such as gifts and hospitality or declaration/conflicts of interests) and where it procures and commissions services.

Monitoring and assessing risk

The Council has an established risk management framework. The arrangements are documented in the Risk Management Framework 2021/22. The Council maintains a Strategic Risk Register (SRR) which details risks with the potential to adversely impact the Council's objectives.

The SRR risks are assessed and given a risk score which is translated into a RAG rating. This allows risk prioritisation of actions and resources. The SRR is reported to CMT and Cabinet on a quarterly basis as well as to the Audit Committee.

In our 2020/21 report, we noted that the SRR as reported to Cabinet does not detail the scoring of risks or present the risk movement to demonstrate how work on risk mitigation is progressing. Having reviewed the SRR for 2022/23 Q1, there is now a clear presentation of the RAG rating both pre- and post-risk alongside one another. Furthermore, at the top of the SRR a matrix is presented which uses icons to display the pre- and post-mitigation rating for each strategic risk. This snapshot view is easy to digest and enables an 'at a glance' view of where resources should be prioritised.

In our 2020/21 report we also noted that it would be a minor improvement for the strategic risks to be mapped against the Council's strategic priorities. This does not appear to have been implemented to date since the Council feels the risks apply to multiple priorities, therefore doing so would be unnecessarily complex.

Budget setting process

The overall process for budget setting at the Council is encompassed within the Reconciling Policy, Performance and Resources (RPPR) processes. These are well embedded into the regular financial processes.

The starting point for budget setting is at departmental level, before being consolidated into the budget setting process prior to input to the overall budget. The budget and MTFP are aligned by use of a single, rolling document. The budget is reviewed by the Heads of Finance, CMT and Chief Finance Officer to sign off the figures before they go to Cabinet for approval.

One example of a structure that has been implemented to ensure informed decision making is the placement of the Finance Lead for Adult Social Care on the management team of this directorate. This is good practice and ensures a tangible link between the financials and performance of this directorate is consistently present, leading to better quality reporting through to central budgets and Cabinet.

Assurance over the effective operation of internal controls

The Council develops an Annual Corporate Governance statement which is aligned to its Local Code of Corporate Governance.

Internal audit services are provided to the Council as part of the Orbis shared services arrangement, a partnership with Surrey County Council and Brighton & Hove Council.

The Internal Audit annual report for 2021/22 contains the opinion of the Chief Internal Auditor and provides 'substantial assurance' that there is 'an adequate and effective framework of governance, risk management and internal control'. This is an improvement on the opinion of 'reasonable assurance' in 2020/21. In total, 30 out of the 35 Internal Audit reports concluded in substantial or reasonable assurance. No reports concluded in minimal assurance.

Governance

Budgetary control

Monthly budget monitoring takes place through Directorate Leadership Teams, and quarterly budget monitoring takes place through CMT and Cabinet. Budget monitoring is reported to Cabinet in the aforementioned Council Monitoring reports. This links in with reporting on the main Council priorities, performance indicators and risk metrics.

In 2021/22 finance, HR and business operations moved from the Orbis shared services arrangement to in-house provision within the Council. From our review, it appears that this transition has been smooth, with successful re-integration.

The governance around the Capital Programme is led by the Capital Strategic Asset Board and the Programme is refreshed as part of the annual RPPR process.

Leadership and committee effectiveness/decision making

Appropriate leadership is in place through a Leader and Cabinet form of executive management arrangement.

There are three scrutiny committees in place with the remits of Health, People and Place respectively.

As well as this, an Audit Committee is in place to challenge key issues. We reviewed the attendance of Audit Committee members and we were satisfied that nearly all of the seven members had attended at least five out of six sessions in the past year.

The Audit Committee members cover a range of political parties and vary in their professional backgrounds and experience.

In our 2020/21 report, we recommended that a self-assessment of the effectiveness of the Audit Committee should be undertaken in line with NAO guidance. This has not been completed to date, and therefore we suggest this is undertaken during 2022/23 [Recommendation 2.1].

The Council has a broad range of policies in place covering anti-fraud and corruption which helps to ensure a culture is embedded that focuses on thorough, independent decision making. The Council has policies in place on declaration of interests, gifts and hospitality which are published in the Code of Conduct and Conflicts of Interest policy.

Modernising Back Office Systems (MBOS) programme

The MBOS programme is currently at a critical point, recently entering the phase of user acceptance testing. At the inception of the programme, the Authority appointed a programme lead and programme manager. There are also project sponsors for each workstream, with weekly meetings between the project sponsors to ensure the programme remains on track and to mitigate slippage in the timetable. We note that regular progress updates are being provided to CMT and Cabinet and that these indicate that the project had fallen behind the original implementation timetable at the end of 2021/22 and into the current financial year.

The Council has a contingency plan should the programme fall further behind, and the impact of the programme overrunning by three months has been calculated with nil budget impact. Alternatively, a six month delay would have a £1.5m impact. We reviewed the MBOS report to the Audit Committee sub-group, targeted at the programme specifically, from May 2022 which demonstrates that the management of the project has an appropriate level of Member oversight and mitigating action is being taken.

Monitoring and ensuring appropriate standards

The Annual Governance Statement is compliant with the CIPFA code. An appropriate level of care is taken to ensure the Council's policies and procedures comply with all relevant codes and legislative frameworks.

Conclusion

We found no evidence of significant weaknesses in the Council's governance arrangements. The structures in place and that are adhered to by the Council ensures that risks are managed appropriately and reported in a timely and effective way to Members.

On the following slides, we set out one opportunity for improvement that should be considered by the Council.

Improvement recommendations



Governance

Recommendation 2.1

Consider whether the Audit Committee would benefit by carrying out a self-assessment of the effectiveness of the Committee as per guidance issued by the National Audit Office (NAO).

Why/impact

In our last report, it was noted that with a number of new members in the Audit Committee it may be appropriate to undertake a self-effectiveness review as per guidance issued by the NAO.

Auditor judgement

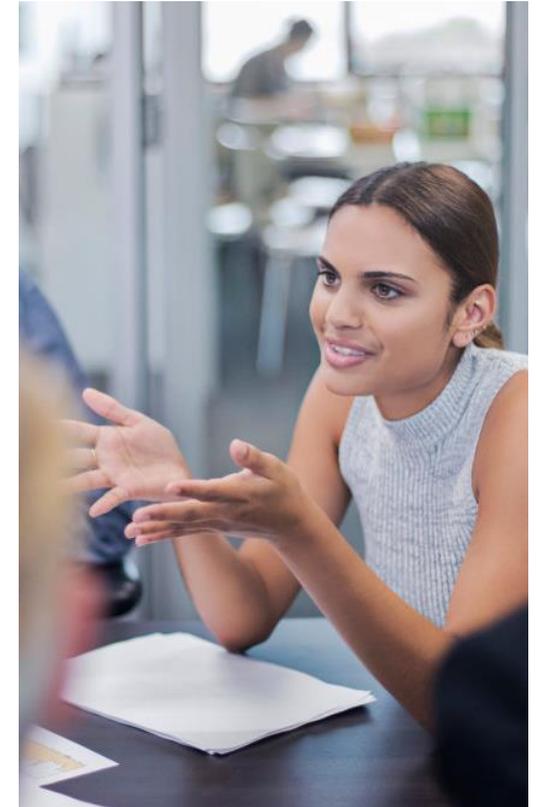
The NAO has issued guidance on how Audit Committees can carry out a self-assessment of the effectiveness of the Committee. This can be very useful in allowing Audit Committees to assess the effectiveness of previous training, and how robust discussion/challenge is at the Committee.

Summary findings

We reviewed the operation of the Audit Committee, including the attendance of members. We noted strong attendance from the Audit Committee members and also the attendance of independent members during a number of Committee meetings which is representative of strong governance. A self-assessment, in line with NAO guidance, would be a strong means of reinforcing this.

Management Comments

This recommendation will be considered as part of the work to review and implement the revised CIPFA position statement: **Audit Committees in local government.**



The range of recommendations that external auditors can make is explained in Appendix C.

Improving economy, efficiency and effectiveness



We considered how the Council:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives
- where it commissions or procures services assesses whether it is realising the expected benefits.

Performance review, monitoring and assessment

In its Council Plan 2022/23, the Council sets out its four overarching priority outcomes. These are:

1. Driving sustainable economic growth
2. Keeping vulnerable people safe
3. Helping people help themselves
4. Making best use of resources now and for the future

These are referred to throughout the strategic and reporting documents, including the annual budget and MTFP. This ensures that the priority outcomes are consistently monitored and ensures the Council maintains a clear direction in its work.

The Council Plan, annual RPPR process and quarterly monitoring reports are used effectively to demonstrate progress that has been made against the four Council priority outcomes, from a qualitative sense and also through a RAG rating system. Overall, these various documents present a comprehensive picture that the Council has clear priorities, updates them regularly and ensures Cabinet are aware of their performance level against targets.

Benchmarking and evaluation

The Council produces a State of the County report on an annual basis which presents socio-economic and demographic information and helps to provide context to financial decisions that are being made. Through our review, it was clear that the senior officers within the Council are acutely aware of the Council's level of performance and how this compares to both neighbouring authorities and their respective departments on a national level.

For Children's Services, alongside the qualitative interviews and inspections that take place there is a quantitative monitoring framework and regional dataset that tracks performance for benchmarking purposes. Furthermore, some indicators within this regional dataset have recently been expanded to report on a national scale.

Adult Social Care similarly use clear benchmarking data to help inform decision making and ensure that performance levels are appropriate for services provided. Through the Association of Directors of Adult Social Services (ADASS), a dashboard with 30 indicators is completed and distributed on a quarterly basis across 18 local authorities. This includes information on spend, income rates, proportion of people in receipt of direct payments, and various other measures.

Partnership working and engaging with stakeholders

During our review there was evidence of the Council successfully working with others on numerous occasions. This includes other local authorities, the NHS, regional and national bodies, and voluntary and community organisations. Key partnerships include the Health and Care Partnership, South East LEP, Strategic Property Asset Collaboration in East Sussex (SPACES), and aforementioned Orbis partnership.

In regular monitoring to Cabinet and other Committees, detailed reporting and updates are provided on the progress that these partnerships are making and what value they bring to the Council as a whole. These partnerships are also consistently reviewed to ensure they are adding value. An example of a major adjustment to a partnership is with the Orbis agreement, and this is explained below.

Improving economy, efficiency and effectiveness

Procurement

Procurement is one of the key services delivered by the Orbis joint-working agreement that is outlined above. The ongoing Procurement Modernisation Programme aims to be transformative for the platforms and information management protocols currently used by the procurement function. A uniform platform will be applied across all three authorities, and since this recently passed the user acceptance testing stage it is likely to be at 'go live' within the next three months. Since a similar transition recently occurred at Surrey County Council under the Orbis agreement, there is a proven pathway for delivery that will help to mitigate implementation risks.

While the Procurement Modernisation Programme is ongoing, the Council is aware that systems and processes are in a state of transition and this may cause deficiencies in the service procurement is able to provide. We note that an Internal audit opinion of 'partial assurance' for Procurement Data Analytics relating to the Council's Contracts Register

The key issues reported included:

- Three instances where POs had been raised in excess of £189,330 against individual creditors during the twelve-month period reviewed, with no contract or waiver in place (£189,330 is the threshold above which contracts should be publicly advertised via full tender, in consultation with the Procurement Team). The Procurement Team are now taking action to address this with the service areas involved.
- 59 Creditors where at least one PO with a spend between £25,000 and £189,300 had been raised during the twelve-month period reviewed, but there was no corresponding contract or waiver in place. It should be noted, however, that work in relation to these instances was limited to a high-level analysis and no further in-depth review was completed at the time of the audit. Consequently, there may be some instances where a contract was not required, due to exemptions.

Although these issues do not reflect a significant weakness from a VfM perspective at this stage, we would expect prompt and effective action to be taken to address them. The Council should prioritise the implementation of Internal audit recommendations arising from this review, and reported to the Audit Committee in November 2023 to ensure that the lapses in control do not lead to financial or reputational damage to the Council.

In addition, we recommend that the Council undertake further testing to ensure that that when the Procurement Modernisation Programme is implemented the Council's Contract Register is working appropriately with sufficient controls to avoid loss of data. [Recommendation 3.1].

We also noted through our discussions with officers on procurement that there were some opportunities to improve the training available to officers on contract management. However, in our document review we acknowledge that the Council has met its target of 10% of contract value achieved in Social Value. We have made a recommendation to provide additional contract management training and review the handover process between procuring a contract and its delivery and management once it is ongoing, to help maintain the achievement of this target. [Recommendation 3.2]

Through our review of the documentation on procurement, we noted that a whistleblowing allegation was raised related to the re-procurement of a framework agreement. This allegation related to a lack of clear information and governance over the procurement process, leading to an inappropriate outcome.

In response, the procurement function conducted an independent review and re-run of the procurement process. It was found that the same outcome as the original process would have occurred.

Improving economy, efficiency and effectiveness

Orbis

In 2018/19, the Council entered into an operational agreement with Brighton and Hove City Council and Surrey County Council, known as 'Orbis'. The original services for the agreement were Finance, Internal Audit, Human Resources, IT, Procurement and Business Support. However, as of April 2022, a restructuring took place and the remaining services within the Orbis arrangement are internal audit, procurement and IT. All staff at Orbis are employed by one of the three Councils, since this is a joint working arrangement rather than formal entity.

Climate Emergency Targets

In October 2019, the Council declared a Climate Emergency in East Sussex and set the commitment to be carbon neutral as soon as possible, and by 2050 at the latest. This target will be achieved if the Council reduces its use of carbon by 13% per year, a target set through the Tyndall Local Carbon Budget Tool, used by over 250 local authorities.

The Council has taken practical steps to meet this target, such as applying LED bulbs to all street lighting, placing solar panels on County Hall, conducting feasibility studies on EV charging point roll out and looking at school building energy efficiency.

Steps toward net zero have also been taken within procurement. For example, two thirds of suppliers are local to the County. In the recent highways procurement, 7% of the score was based on actions to reduce emissions during delivery.

The Authority is currently reviewing its Local Transport Plan, which will be the fourth iteration and run from 2023-2050. This will align the plan with the latest Department for Transport guidance.

Conclusion

With regard to the arrangements in place for improving economy, efficiency and effectiveness we found no significant weaknesses. From work toward the authority's climate emergency target to the range of work with partner organisations, this is a clear strength for the authority. We have set out two improvement recommendations on the following slides.

Improvement recommendations



Improving economy, efficiency and effectiveness

Recommendation 3.1

Undertake testing to ensure that that when the Procurement Modernisation Programme is implemented the Council's Contract Register is working appropriately with sufficient controls to avoid loss of data.

Why/impact

An internal opinion of 'partial assurance' was provided against Procurement Data Analytics. This means that there are 'weaknesses in the system of control'. This may cause discrepancies since there is no control within the current financial system linking purchase orders to a contract.

Auditor judgement

Internal audit concluded that there were deficiencies in place related to Procurement Data Analytics. Testing the improvements to this system is a means of ensuring improved assurance is achieved.

Summary findings

Through our document review, it was recognised that internal audit commented on omissions in the data held on the Council's Contracts Register, and offered an opinion of 'partial assurance' as a result.

Management Comments

The implementation of the DB&I programme software (Oracle) with new controls around the requisition of services and the production of Purchase Orders will enhance the ability of the Council to have a better control environment around its contract register. Contracts not maintained centrally and are held within Controcc and Tech forge will be monitored through a new reporting structure. Once the Oracle system has gone through a data cleansing exercise and Service/Directorate contract managers have been suitably trained, Procurement will monitor the adherence to the controls.

The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations



Improving economy, efficiency and effectiveness

Recommendation 3.2

Consider introducing further contract management training for Council employees, particularly given the constraints on resourcing that leads to contract management being added to primary officer responsibilities. As noted previously in our report, the effectiveness of the contract management training currently delivered should be reviewed.

Why/impact

We noted in our review that the passing of contracts between procurement and the Council, when contracts are being managed, could be more effective to ensure that value is not lost.

Auditor judgement

Our enquiries with the procurement team indicates that there are opportunities to improve contract management through enhanced training for relevant officers.

Summary findings

A review of the effectiveness of contract management training was previously a recommendation of internal audit. As Council budgets are stretched further, the need to arm officers with appropriate knowledge and expertise becomes greater so that multiple responsibilities can be managed effectively.

We reviewed the targets for social value and the Council achieved the equivalent of 11% of contract value. This is above the target of 10%, however further training may provide opportunities for efficiencies to be gained. This is particularly important since we understand that many contract management responsibilities have to be carried out as an addition to primary job roles, which is naturally detrimental to the management of contracts.

Management Comments

A new process and document has been developed for the effective handover of the contract from Procurement to the Service. The implementation of Oracle will see a new emphasis placed on Contract managers within the service, regarding maintaining contractual data integrity, training will be provided by the DB&I team on the system and Procurement will signed post contract managers to internal e-learning packages and external contract manager training through the Contract Management Capability Programme Civil Service: helping you with managing contracts and suppliers - GOV.UK (www.gov.uk).

The range of recommendations that external auditors can make is explained in Appendix C.

Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
1	Consider expanding the detail of reporting on the capital programme within the regular quarterly outturn budget reporting.	Improvement	March 2022	In the equivalent Capital Programme reporting for 2021/22, a description of where slippage has occurred in each project is presented, accompanied by the reason for the slippage and action being taken to mitigate against it.	Yes	No
2	Consider either redefining what the Core Offer is with respect to the RPPR process, or if it is no longer relevant ensuring this is consistent, to clarify how discretionary spend is prioritised within the funding envelope.	Improvement	March 2022	The Council achieved the core offer and is currently not in the position to seek any further savings. Council documents are clear to state that discretionary spend is prioritised based on the priority Council outcomes.	Yes	No
3	Consider improving how the Capital Programme is linked back to the Council's Corporate Priorities and Priority and Delivery outcomes so that readers understand more clearly how the Programme aligns to the overarching strategy.	Improvement	March 2022	The Capital Programme from June 2022 states that its delivery focuses on targeted basic need. This is described clearly as to how it will benefit the County and its residents.	Yes	No
4	Consider whether the Strategic Risk Register reporting at Cabinet could be presented more concisely for ease of oversight by members	Improvement	March 2022	Having reviewed the SRR for 2022/23 Q1, there is clear presentation of the RAG rating both pre and post-mitigation. A matrix is also presented at the top of the SRR to show these movements in an 'at a glance' view.	Yes	No
5	Consider whether mapping of strategic risks against the Council's strategic priorities would be useful for management in monitoring and reporting on risks	Improvement	March 2022	In response, the Council stated that the strategic risks are reported in a way that covers the spectrum of the Council's strategic priorities. Since many risks span more than one priority, mapping is unlikely to show clear links between risk and priorities.	Yes	No

Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
6	Consider whether the Audit Committee would benefit by carrying out a self-assessment of the effectiveness of the Committee as per guidance issued by the National Audit Office (NAO).	Improvement	March 2022	This has not yet been undertaken. Therefore, we have made this recommendation in our 2021/22 report.	No	Yes – we maintain the recommendation that this should be carried out
7	The Council should consider agreeing an entity-level Procurement Strategy.	Improvement	March 2022	The Council articulated that due to the ongoing Procurement Modernisation Programme, the current implementation of an entity-level procurement strategy would not be appropriate. Furthermore, there is a procurement strategy in place within the Orbis agreement which includes ESCC.	Yes	No
8	We would recommend that given the complexity of contract management, the Council reviews the effectiveness of the training given and continues to keep under review the need to deliver further training in contract management and procurement as necessary.	Improvement	March 2022	This has been undertaken but the Council recognise that there is still room for improvement with contract management. Therefore, we have made this recommendation in our 2021/22 report.	No	Yes – we maintain the recommendation that this should be carried out
9	The Council should consider additional reporting of the progress/risks/milestones in the MBOS project to Cabinet.	Improvement	March 2022	In our review, we noted appropriate governance arrangements for the MBOS programme that includes reporting to Audit Committee and Cabinet. There is an Audit Committee sub-group specifically for the MBOS programme, and within the programme there are appointed workstream leads alongside a full time Programme Manager and Programme Lead. These represent appropriate governance mechanisms.	Yes	No

Opinion on the financial statements



Audit opinion on the financial statements

Our audit of the Council's financial statements is ongoing following some delays in receiving responses to audit requests/queries in the area of land and building valuations. An indicative Audit Findings Report was issued to the November Audit Committee meeting and this set out the areas of delays and outstanding work, some of which remain ongoing at the date of issuing this report. We are in discussion with your finance team to agree arrangements to complete the audit.

Audit Findings Report

More detailed findings can be found in our AFR, which was published and reported to the Council's Audit Committee in November 2022.

Whole of Government Accounts

To support the audit of the Whole of Government Accounts (WGA), we are required to review and report on the WGA return prepared by the Council. This work includes performing specified procedures under group audit instructions issued by the National Audit Office.

This work will be completed after the main audit of the financial statements is completed.

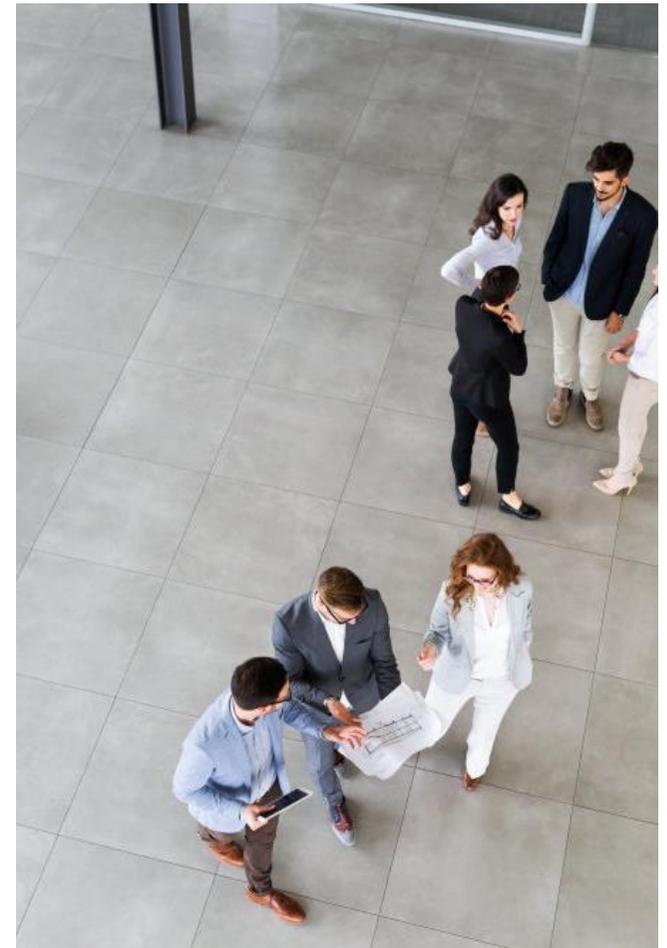
Preparation of the accounts

The Council provided draft accounts in line with the national deadline and provided a good set of working papers to support it.

There were some delays in receiving responses to our audit queries during the audit which have delayed this work. This particularly related to the area of land and buildings valuation where the Council's expert valuer has taken a long time to respond to queries, but also there were delays in responses by Council officers in this area. Our work in Land and buildings valuation is ongoing, and as a result the overall senior management review of the audit file has also been delayed until a completed audit file is ready for review. This means that in this senior management review there could be further queries raised.

Grant Thornton provides an independent opinion on whether the accounts are:

- True and fair
- Prepared in accordance with relevant accounting standards
- Prepared in accordance with relevant UK legislation



Appendices

Appendix A – Responsibilities of the Council

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

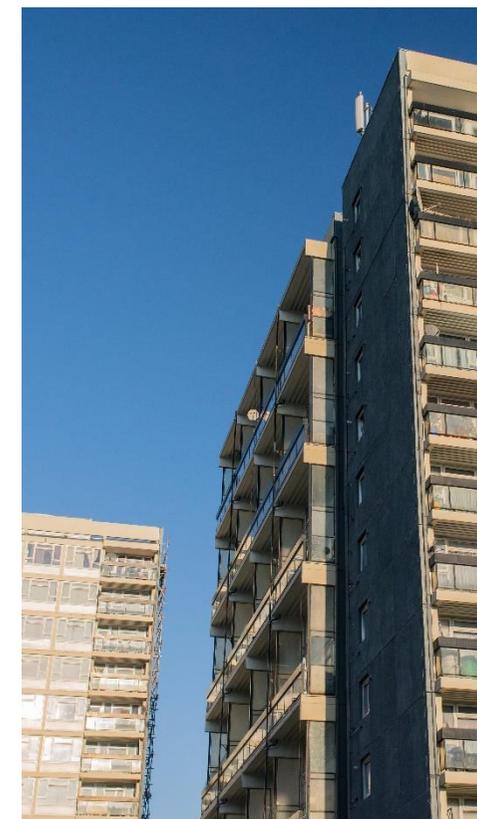
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) or equivalent is required to prepare the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.



Appendix B – An explanatory note on recommendations

A range of different recommendations can be raised by the Council’s auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.	No	N/A
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as ‘key recommendations’.	No	N/A
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council’s arrangements.	Yes	Financial Sustainability – page 10 and 11 Governance – page 14 Improving economy, efficiency and effectiveness – page 17 and 18

Appendix C – Sources of evidence



Staff involved

- Ian Gutsell, Chief Finance Officer
- Ros Parker, Chief Operating Officer
- Darron Cox, Head of Procurement, Orbis
- Rupert Clubb, Director of Communities, Economy and Transport
- Alison Jeffery, Director of Children's Services
- Mark Stainton, Director of Adult Social Care
- Philip Baker, Assistant Chief Executive
- Russell Banks, Chief Internal Auditor



Documents Reviewed

Financial Sustainability

- Medium Term Financial Plan
- Capital Programme
- Council Monitoring Quarterly Reports
- Statement of Accounts
- Council Plan 2022-23
- Budget Summary 2022-23
- Savings Schedules 2023-2025
- Reconciling Policy, Performance and Resources - State of the County report 2022
- Reserves and Budget Robustness Statement
- Treasury Management Strategy 2022-23

Governance

- Pension Fund Risk Register
- ESCC Audit Plan 2021-22
- Annual Governance Statement 2021-22
- MBOS sub group audit committee update may 2022
- Strategic Risk Monitoring Q3 2021-22

- Strategic Risk Register Q1 2022-23

Economy, Efficiency and Effectiveness

- Annual Progress Report of the Looked After Children's Service 2020-21
- Annual Progress Report on East Sussex County Councils Climate Emergency Plan – 30 September 2021
- Auditors Annual VFM Report on East Sussex County Council 2020-21
- Health and Social Care Integration – update for Cabinet 29 June 2021
- Highway Services Re-procurement Project – update for Cabinet 13 July 2021
- Home Care and Extra Care Contract Re-tender – update for Cabinet 30 September 2021
- Capital Programme update to Cabinet – 13 July 2021
- Capital Programme update to Cabinet 27 June 2022
- Local Cycling and Walking Infrastructure Plan – report to Cabinet 30 September 2021
- Orbis Internal Audit report – Procurement Data Analytics September 2022

Appendix D - Key acronyms and abbreviations

The following acronyms and abbreviations have been used within this report

ADASS – Association of Directors of Adult Social Services

AGN – Auditor Guidance Note

AGS – annual governance statement

CIPFA – Chartered Institute of Public Finance and Accountancy

CMT – Corporate Management Team

DLT – Director Leadership Team

ESCC – East Sussex County Council

IT – Information Technology

LED – Light-emitting diode

LEP – Local Enterprise Partnership

MBOS – Modernising Back Office Systems

MTFP – Medium Term Financial Plan

NAO – National Audit Office

RAG – Red Amber Green rating

RPPR – Reconciling Policy, Performance and Resources

SPACES – Strategic Property Asset Collaboration in East Sussex

