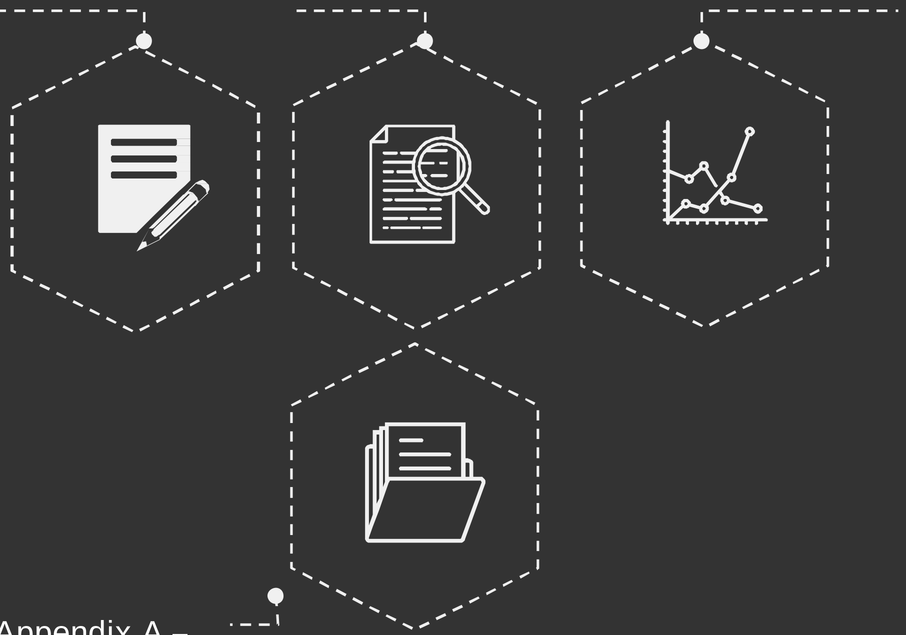
# West Sussex County Council

## Auditor's Annual Report

Year ended 31 March 2022

# Contents







Public Sector Audit Appointments Ltd (PSAA) issued the “Statement of responsibilities of auditors and audited bodies”. It is available from the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/ ).The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.
The “Terms of Appointment and further guidance (updated July 2021)” issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.
This report is made solely to the Regulation, Audit and Accounts Committee and management of West Sussex County Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Regulation, Audit and Accounts Committee and management of West Sussex County Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Regulation, Audit and Accounts Committee and management of West Sussex County Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

# Introduction

## Purpose

The purpose of the auditor's annual report is to bring together all of the auditor's work over the year. A core element of the report is the commentary on value for money (VFM) arrangements, which aims to draw to the attention of the Council, or the wider public, relevant issues, recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor's view as to whether they have been implemented satisfactorily.

## Responsibilities of the appointed auditor

For West Sussex County Council we have undertaken our 2021/22 audit work in accordance with the Full Audit Planning Report that we presented to the July 2022 meeting of the Regulation, Audit and Accounts Committee and the VFM Risk Assessment and Audit Progress Update report presented to the September 2022 meeting of the Regulation, Audit and Accounts Committee. For West Sussex Pension Fund we have undertaken our 2021/22 audit work in accordance with the Audit Planning Report that we presented to the July meeting of the Regulation, Audit and Accounts Committee. We have complied with the National Audit Office's (NAO) 2020 Code of Audit Practice, other guidance issued by the NAO and International Standards on Auditing (UK).

As auditors we are responsible for:

Expressing an opinion on:

- The 2021/22 financial statements;
- Conclusions relating to going concern; and
- The consistency of other information published with the financial statements, including the narrative statement.

Reporting by exception:

- If the governance statement does not comply with relevant guidance or is not consistent with our understanding of the Council;
- If we identify a significant weakness in the Council's arrangements in place to secure economy, efficiency and effectiveness in its use of resources; and
- Any significant matters that are in the public interest.

Responsibilities of the Council:

The Council is responsible for preparing and publishing its financial statements, narrative statement and annual governance statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

# Introduction (continued)

| 2012/22 Conclusions | |
|---|---|
| Financial statements | Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2022 and of its expenditure and income for the year then ended. We issued our auditor's report on 28 February 2023. |
| Going concern | We have concluded that the Director of Finance and Support Services' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. |
| Consistency of the other information published with the financial statement | Financial information in the narrative statement and published with the financial statements was consistent with the audited accounts. |
| Consistency of the Pension Fund annual report and other information published with the financial statements | Financial information in the Pension Fund Annual report and published with the financial statements was consistent with the audited accounts. |
| Value for money (VFM) | We had no matters to report by exception on the Council's VFM arrangements. We have included our VFM commentary in Section 03. |
| Consistency of the annual governance statement | We were satisfied that the annual governance statement was consistent with our understanding of the Council. |
| Public interest report and other auditor powers | We had no reason to use our auditor powers. |
| Whole of government accounts | We have not yet been able to perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission 2021/22 because guidance from HM Treasury and the group audit instructions for 2021/22 on which our work is based have not yet been released. |
| Certificate | We have not yet issued our certificate for 2021/22 as we have not yet been able to perform the procedures required by the National Audit Office on the Whole of Government Accounts submission as explained above. |

# Audit of the financial statements – West Sussex County Council

## Key findings

The Narrative Statement and Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

On 28 February 2023, we issued an unqualified opinion on the financial statements. We reported our detailed findings to the 1 February 2023 Regulation, Audit and Accounts Committee meeting. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan. We reported four internal control recommendations and raised three other recommendation for improvement in the control environment in the Audit Results Report. All of these recommendations were accepted by management.

| Significant risk | Findings and Conclusion |
|---|---|
| Misstatements due to fraud or error<br><br>An ever present risk that management is in a unique position to commit fraud because of its ability to manipulate accounting records directly or indirectly, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. | We did not identify any material evidence of material management override. Specifically:<br><br>• Our review of trends in general ledger data, and detailed consideration of unusual or unexpected journal postings, did not identify any journal entries that suggested the manipulation of accounting records or override or controls by management.<br>• Our review of accounting estimates, including estimates with a higher level of inherent risk, identified no evidence of management bias.<br>• There were no significant unusual transactions. |
| Inappropriate capitalisation of revenue expenditure<br>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We have identified an opportunity and incentive to capitalise expenditure under the accounting framework, to remove it from the general fund | Our testing did not identify any material issues or unusual transactions to indicate any misreporting of the Council's financial position. |

# Audit of the financial statements – West Sussex County Council

## Key findings (continued)

| Significant risk | Findings and Conclusion |
|---|---|
| Non-operational land and buildings classified as Investment Property (IP) and Surplus Assets<br><br>The valuation of land and buildings is complex and is subject to a number of assumptions and judgements. A small movement in these assumptions can have a material impact on the financial statements. We made use of our own professionally qualified valuation specialists to support our work in this area.<br><br>We have raised separate risks for IP and surplus assets, property, plant and equipment (PPE) valued at EUV and PPE valued at DRC because each valuation methodology is reliant on different assumptions and estimation processes. | We made no adjustments to the financial statements but our specialist valuer identified weaknesses in the valuation approach for Westhampnett and Tangmere solar farms that are set out in more detail in our Audit Results Report. As a result we raised one associated recommendation for improvement which was accepted by management. |
| Operational land and buildings classified as Property Plant & Equipment (PPE) – Existing Use Value (EUV)<br><br>The valuation of land and buildings is complex and is subject to a number of assumptions and judgements. A small movement in these assumptions can have a material impact on the financial statements. We made use of our own professionally qualified valuation specialists to support our work in this area.<br><br>We have raised separate risks for IP and surplus assets, property, plant and equipment (PPE) valued at EUV and PPE valued at DRC because each valuation methodology is reliant on different assumptions and estimation processes. | We made no adjustments to the financial statements but detected that prior year data had been used in error in the valuation of externally provided care homes. As a result we raised one associated recommendation for improvement which was accepted by management. |
| Operational land and buildings classified as PPE – Depreciated Replacement Cost (DRC)<br><br>The valuation of land and buildings is complex and is subject to a number of assumptions and judgements. A small movement in these assumptions can have a material impact on the financial statements. We made use of our own professionally qualified valuation specialists to support our work in this area.<br><br>We have raised separate risks for IP and surplus assets, property, plant and equipment (PPE) valued at EUV and PPE valued at DRC because each valuation methodology is reliant on different assumptions and estimation processes. | We made no adjustments to the financial statements and had no issues to raise. |

# Audit of the financial statements – West Sussex County Council

| Key findings (continued) | |
|---|---|
| **Significant risk** | **Findings and Conclusion** |
| Accounting for infrastructure assets<br><br>Where management incur subsequent expenditure to replace part of an asset, the CIPFA Code requires management to write out the value of the old part being replaced.<br><br>Nationally, audit firms have identified an issue with applying this accounting treatment to infrastructure assets. Across the country authorities are not keeping sufficient detailed records of infrastructure spend to allow the value of the part being replaced to be written out. | We provisionally concluded that the accounting of the County Council for Infrastructure Assets is not in line with the current CIPFA Local Authority Accounting Code. Changes were made to the Local Authority Accounting Code by CIPFA and DLUHC has issued a Statutory Instrument to temporarily change accounting rules in this area. We are content with the changes made following further minor amendments to disclosure as a result of our work. We are also satisfied that the approach taken by management to depreciating infrastructure assets is reasonable.<br><br>We raised an associated recommendation around the need to develop accounting records and estimation techniques in this area given the temporary nature of the changes made to accounting arrangements by the Statutory Instrument and Code Update. |
| **Other area of audit focus** | **Findings and Conclusion** |
| Pensions Liability Valuation (inherent risk)<br><br>The Pension Fund liability is a material balance in the Balance Sheet. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates. | As in previous years an adjustment was made to account for the difference between the audited value of the Council's share of pension scheme assets and the estimated value communicated to the Council's actuary earlier in the year to inform its assessment of the Council's pensions liability. This adjustment, which we consider to be the update of an estimate and not the correction of an error, increases the reported pensions liability and debit balance on the negative pensions reserve by £3.4 million. |
| Going Concern (area of focus)<br><br>The Council is required to carry out an assessment of its ability to continue as a going concern for the foreseeable future, being at least 12 months after the date of the approval of the financial statements. There is a risk that the Council's financial statements do not adequately disclose the assessment made, the assumptions used and the relevant risks and challenges that have impacted the going concern period. | Management produced a going concern assessment to the end of the 2023/24 financial year. This was supported by cash flow forecasts and liability benchmark analyses which assessed the underlying need to borrow over the assessment period and consequential impacts on the Council's liquidity. The cash flow forecast and liability benchmark analyses modelled two reasonable scenarios. We reviewed and challenged both the cash flow forecasts and liability benchmark analyses and the assumptions that underpinned them. We also reviewed and further challenged the going concern disclosure made by the Council, which appears at Notes 37 and Note 38 to the accounts. Based on all of this we are satisfied that management's assessment is reasonable and supportable, and that disclosures in the financial statements are an adequate reflection of management's assessment that it remains appropriate to prepare the financial statements on a going concern basis.<br><br>We note, however, that if the current rates of inflationary uplift are sustained, this would have the impact of creating higher cash outflows than currently assumed by the Council in its modelling. We do not consider this creates a material uncertainty as other mitigating action could be taken, for example a reduction in the planned capital programme, but this a key area of risk for West Sussex and local government bodies more generally. |

# Audit of the financial statements – West Sussex County Council

Key findings (continued)

| Other area of audit focus | Findings and Conclusion |
|---|---|
| Accounting for Covid-19 related grant funding (inherent risk)<br><br>The Council has continued to receive a significant level of government funding in relation to Covid-19. Whilst there is no change in the CIPFA Code or accounting standard (IFRS 15) in respect of accounting for grant funding, the emergency nature of some of the grants received and in some cases the lack of clarity on any associated restrictions and conditions, means that the Council will need to apply a greater degree of assessment and judgement to determine the appropriate accounting treatment in 2021/22. | Based on our work we were satisfied that the accounting treatment adopted for Covid-19 related government grants accorded with the Council's assessment of whether it was acting as agent or principal, the underlying conditions of the grant and whether those conditions had been met. |
| Teacher's Pensions<br><br>We became aware in September 2021 that the Council reported a breach of the Teachers' Pension Regulations to the Pensions Regulator in June 2021. This relates to a failure over a number of years dating back to 2007 to auto-enrol some part time and casual teaching staff onto the pension scheme as required following a change to regulations in 2007. The underlying failure to auto-enrol was fully rectified from September 2017, so this is not a continuing issue. Work completed by a professional benefits advisor in September 2021 fully scoped the number of records and individuals impacted historically. The Council was not, however, able at that point in time to quantify the cost of the breach until further work had been completed by the Teachers' Pensions Service and impacted individuals were contacted to confirm whether or not they intend to join the scheme. We raised a related recommendation for improvement as part of our 2020/21 Auditor's Annual Report. | Progress to quantify the number of impacted individuals and then to contact individuals to assess whether they wish to join the scheme has been slower than planned. As a consequence, the Council remains unable to financially quantify and provide for a liability for backdated employer contributions in the 2021/22 financial statements. It is now unlikely that it will be able to contact all impacted individuals until March 2023 although it remains the Council's intention, based on its current plans, to be able to financially quantify the liability in its 2022/23 financial statements.<br><br>Following our review we asked the Council to update the disclosure of the related contingent liability in the draft 2021/22 financial statements to provide a fuller description of the current state of progress on actions still needed to fully rectify the breach and assess the financial impact of the issue. We also asked the Council to include a cross-reference to relevant disclosures in the 2021/22 annual governance statement, which will be published alongside the financial statements. We asked for the annual governance statement to set out both the anticipated milestones in the process necessary to assess the financial impact, and the steps the Council is proposing to take to expedite rectification. We are satisfied that disclosures in the financial statements and annual governance statement have been updated appropriately.<br><br>We also raised a recommendation for improvement as part of our Audit Results Report which was accepted by the Council. |

# Audit of the financial statements – West Sussex Pension Fund

## Key findings

On 28 February 2023, we issued an unqualified opinion on the financial statements. We reported our detailed findings to the 22 September meeting of the Regulation, Audit and Accounts Committee, and confirmed no changes to our assessment at the 1 February 2023 Regulation, Audit and Accounts Committee meeting. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan.

| Significant risk | Findings and Conclusion |
| --- | --- |
| Risk of manipulation of investment income and valuation<br><br>An ever present risk that management is in a unique position to commit fraud because of its ability to manipulate accounting records directly or indirectly, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. | We have not identified any material evidence of material management override. Specifically:<br>• Our review of trends in general ledger data, and detailed consideration of unusual or unexpected journal postings, did not identify any journal entries that suggested the manipulation of accounting records or override or controls by management.<br>• We were able to reconcile fund manager, custodian and valuer reports to investments valuations disclosed in the financial statements with no material differences.<br>• We were able to agree the detailed investment note using reports directly from the custodian, valuer or fund managers.<br>• We checked the reconciliation of holdings included in the Net Assets Statement back to the source reports.<br>• Our review of accounting estimates, including estimates with a higher level of inherent risk, identified no evidence of management bias. |

| Other area of audit focus | Findings and Conclusion |
| --- | --- |
| Valuation of Level 3 Investments<br><br>Where management incur subsequent expenditure to replace part of an asset, the CIPFA Code requires management to write out the value of the old part being replaced.<br><br>Nationally, audit firms have identified an issue with applying this accounting treatment to infrastructure assets. Across the country authorities are not keeping sufficient detailed records of infrastructure spend to allow the value of the part being replaced to be written out. | We were satisfied that the valuation of the Fund’s level 3 investments is materially correct in the financial statements. There were no significant reporting points or areas of concern arising from the procedures undertaken. |

# Audit of the financial statements – West Sussex Pension Fund

## Key findings

| Other area of audit focus | Findings and Conclusion |
|---|---|
| Valuation of directly held property<br><br>We consider the valuation of property investments to be of a higher degree of inherent risk because of the level of estimation uncertainty. Management is required to make material judgemental inputs and apply estimation techniques, supported by a professional valuer, to arrive at the year value of property investments carried in the Net Assets Statement. | We were satisfied that the valuation of the Fund's directly held property investments is materially correct in the financial statements. There were no significant reporting points or areas of concern arising from the procedures undertaken |
| Going Concern<br><br>There is a presumption that the Fund will continue as a going concern for the foreseeable future. However, the Fund is required to carry out a going concern assessment that is proportionate to the risks it faces. There is a need for the Fund to ensure it's going concern assessment, including its cashflow forecast, is thorough and appropriately comprehensive.<br><br>The Fund is required to ensure that its going concern disclosure within the statement of accounts adequately reflects its going concern assessment and in particular highlights any uncertainties it has identified. | We were satisfied that management's assessment that the financial statements should be prepared on a going concern basis and that this was properly informed by management's assessment. Some amendments were made to relevant disclosure in the draft financial statements as a result of our work. In particular we asked management for a period of more than 12 months from the anticipated date the financial statements are authorised for issue. |
| IAS 26<br><br>We consider the valuation of IAS 26 to be of a higher degree of inherent risk because of the level of estimation uncertainty resulting from the calculation using a number of underlying assumptions. The actuary is required to make assumptions on salary increases, discount rates, pension rates, scheme member longevity and other variables. While IAS 26 does not inform the primary statements, there is stakeholder interest in this disclosure due to it's nature. | We identified no significant issues as a result of our review. |

# Value for Money

We did not identify any risks of significant weaknesses in the Council's VFM arrangements for 2021/22.

Our VFM commentary highlights relevant issues for the Council and the wider public.

We have no matters to report by exception in the audit report.

Scope

We are required to report on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in it use of resources. We have complied with the guidance issued to auditors in respect of their work on value for money arrangements (VFM) in the 2020 Code of Audit Practice (2020 Code) and Auditor Guidance Note 3 (AGN 03). We presented our final VFM risk assessment to the September Regulation, Audit and Accounts Committee meeting which was based on a combination of our cumulative audit knowledge and experience, our review of Council committee reports, meetings with the officers and evaluation of associated documentation through our regular engagement Council management and the finance team.

Reporting

We completed fully completed our risk assessment procedures by September 2022 and did not identify any significant weaknesses in the Council's VFM arrangements. We have also not identified any risks of significant weaknesses in arrangements during the course of our audit. As a result, we had no matters to report by exception in the audit report on the financial statements.

Our full commentary for 2021/22 is set out in Appendix A. The commentary on these pages summarises our conclusions over the arrangements at the Council in relation to our reporting criteria (see below) throughout 2021/22. Appendix A includes the detailed arrangements and processes underpinning the reporting criteria. These were reported in our 2020/21 Annual Auditors Report and have been updated for 2021/22.

In accordance with the NAO's 2020 Code, we are required to report a commentary against three specified reporting criteria:

| Reporting criteria | Risks of significant weaknesses in arrangements identified? | Actual significant weaknesses in arrangements identified? |
|---|---|---|
| Financial sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services | No significant risks identified | No significant weaknesses identified |
| Governance: How the Council ensures that it makes informed decisions and properly manages its risks | No significant risks identified | No significant weaknesses identified |
| Improving economy, efficiency and effectiveness: How the Council uses information about its costs and performance to improve the way it manages and delivers its services | No significant risks identified | No significant weaknesses identified |

# Value for Money (continued)

## Financial Sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services

Net revenue expenditure for 2021/22 on portfolio budgets was £590.4 million, representing a £1.2 million underspend, and overall, the Council underspent against its revenue budget by £5.6 million. Full year outturn capital spending for 2021/22 was £112.0 million. This was £4.6 million greater than the revised budget of £107.4 million. The level of delivery of the capital programme improved significantly from 2020/21, when only 89.5% of the planned capital programme, and 91.7% of the revised capital budget, had been delivered by the end of the year because of the impacts of Covid-19.

Total usable reserves decreased by £19 million from £296 million to £277 million over the course of the year, but this was attributable to the application of capital grants to finance the capital programme and address the level of slippage from the previous year. Usable earmarked revenue reserves increased by £14.9 million in the period, and the general fund balance remained unchanged at £20.3 million. Both the budget management reserve and inflation contingency reserve balances increased. This is important given the financial challenges faced by the Council in future years. The Covid-19 pandemic has continued to impact the Council's operations, services and finances in 2021/22. The Council has maintained its arrangements to both monitor the impact of this on its financial position in the year and ensure that recurrent impacts are considered in its future financial plans.

A balanced budget was set for 2021/22 and 2022/23. However, as part of the Medium-Term Financial Strategy (MTFS) update in February 2022 the Council reported that the forecast cumulative budget gap to 2025/26 had increased to £63.4 million before any planned savings. Rapidly rising pay and price inflation is recognised as a key budget pressure. Although provision for pay and price inflation has been made in the 2022/23 budget the rate of inflation has continued to rise since the budget was set and is now reported as at 9.1% at July 2022, with further increases expected by the end of the calendar year. Further transfers to reserves at the end of 2021/22 provide some mitigation but, in common with other councils, the impact of inflationary pressures on the 2022/23 budget remains a very significant area of financial risk in the future. The new Dedicated Schools Grant (DSG) adjustment account has a year-end deficit balance of £25.5m which represents the Council's cumulative DSG overspend at the end of the year. Although not yet an explicit cost pressure on the Council's general fund it is important a viable deficit recovery plan is produced as costs may again become general fund pressure in 2023/24.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2021/22 to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

# Value for Money (continued)

## Governance: How the Council ensures that it makes informed decisions and properly manages its risks

The Council continues to maintain adequate arrangements to monitor and assess risk and gain assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud and corruption. This is supported by the findings of internal audit work in the year, with the Head of Internal Audit concluding for 2021/22 that the Council's framework of governance, risk management and control is reasonable.

The Council has continued to make good progress in securing improvements to address weaknesses highlighted through service inspections of Children's Services and the Fire & Rescue Service in previous years. Ofsted performed further monitoring visits of Children's Services in the year to consider progress made. The results show that the service has made steady progress, specifically recognising the permanent senior leadership team and the strengthened approach to quality assurance. In March 2022 the Parliamentary Under Secretary of State for Children and Families confirmed that Children's Services will remain in control of the Council due to the improvements made to date and plans for further action. This is a significant positive achievement. Investment made into the Fire and Rescue Service has resulted in improvements. An updated inspection report was released in July 2022 by Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS). HMICFRS reported that the service has made significant progress since the last inspection in 2018 but must now maintain and build on this by addressing some areas where further improvement is required.

As part of our 2020/21 audit we considered compensation payments for loss of employment to three former senior officers. As a result of our findings in this area we issued a related recommendation for improvement in our 2020/21 Auditor's Annual Report that the Council should seek to ensure that its defined process for determination and approval of senior officer compensation payments is followed consistently and that sufficient evidence is retained to demonstrate this. In its 2021/22 programme of work Internal Audit has undertaken a review of HR Policy Compliance. This report explicitly references the recommendation we made in the prior year as part of its terms of reference. The scope of this review focused on the processes in place for the authorisation and calculation of one-off payments such as settlement agreements, resettlement/removal expenses, mutual termination agreements, retention payments and loans to employees. The report has been given a 'limited assurance' grading and a number of areas have been highlighted where the framework of governance, risk management and internal control could be improved. As a consequence a number of actions have been agreed by management. We do not consider this to be a significant weakness in the Council's arrangements but conclude that our prior year recommendation, which was issued after the period considered by Internal Audit, is unlikely to have been fully addressed. We have therefore raised a further recommendation for improvement around the need to implement the recommendations in the Internal Audit report action plan.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2021/22 to enable it to make informed decisions and properly manage its risks.

Recommendation 1:
*Formally update the Council's leavers policy to contain a requirement for related party declarations to be obtained for all senior officers as part of standard arrangements. This partially repeats a recommendation raised as part of our 2020/21 Auditor's Annual Report.*

Management response:
*The process to ensure that a declaration is obtained for a departing senior officer during the year has been formally agreed with colleagues within HR&OD. The Council's internal SharePoint site has been updated to reflect the agreed process including appropriate guidance notes.*

# Value for Money (continued)

## Governance: How the Council ensures that it makes informed decisions and properly manages its risks

Recommendation 2:
*Ensure full implementation of the management action plan agreed as part of the 2021/22 Internal Audit HR Policy Compliance review.*

*Management response:*
*There is a defined policy and agreed processes for one-off payments to employees to compensate for loss of employment. The Council acknowledges that there are additional actions, as set out in the Internal Audit report, needed to provide assurance for the application of the policy and processes and plan to complete these by the end of December 2022.*

# Value for Money (continued)

## Improving economy, efficiency and effectiveness: How the Council uses information about its costs and performance to improve the way it manages and delivers its services

The Council has needed to progress a number of significant workstreams and partnership arrangements during the year that will have a significant impact on its core business processes. This will need to continue to be managed effectively and delivered to completion in 2022/23.

Work has continued in the year to progress the SmartCore project to replace the current Council's current SAP finance, HR and procurement system, with a new Oracle Fusion system. A contract was awarded to Entserv UK Limited (trading as DXC) in June 2020 for DXC to be the Council's contractor for the transition from SAP to Oracle Fusion. Since the commencement of the contract a number of business design and delivery requirements for the programme led to changes to the planned timetable and contractual position to ensure a successful implementation of the programme. A key part of the SmartCore Programme is to establish a new solution for procurement and purchasing at the Council. It is intended the solution in relation to procurement will be fulfilled by Atamis through an established strategic partnership.

Further progress has also been made in the year on the Council's joint venture partnership for property development. The procurement process to select a commercial enterprise to work with the Council has now completed: Lovell Partnership, a wholly owned subsidiary of Morgan Sindall Group plc, has been appointed to act as joint venture partner for the Joint Venture Limited Liability Partnership (JV LLP). The JV LLP comprises the new partner and a wholly owned subsidiary company of the Council, Edes Estates Limited. Ten sites across the County have been identified for the potential development of around 600 dwellings, with planning applications for three developments totalling 156 new homes submitted at the end of May 2022. A governance structure and shareholder group have also been established.

Arrangements to exit from the current Capita support service contract have developed further during 2021/22. A number of support service functions provided by Capita under its contract with the Council in 2021/22 are expected to either be brought back in-house, or in limited situations re-procured, during 2022/23. This has involved preparation and planning work for services and staff impacted by the transition, the design of replacement arrangements and transition and exit from the current contractual arrangements. Significant work will continue to be required during 2022/23 to support Capita staff as they transfer to the employment of the Council, design replacement service structures, agree reporting lines and management responsibilities, devise new job roles and skills requirements, transfer knowledge and implement new ways of working.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2021/22 to enable it to use information about its costs and performance to improve the way it manages and delivers services.

# Appendices

# Appendix A – Summary of arrangements

## Financial Sustainability

### Reporting Sub-Criteria

*How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them.*

### Findings

The Council sets a balanced revenue budget annually. The budget supports delivery of the Council's key priorities, which for 2021/22 are set out in the Council Plan 2021-2025. The budget is therefore used to ensure financial resources are aligned to areas where the Council believes it will secure the greatest benefit to residents of West Sussex and the County as a whole. The annual budget is then linked to the medium-term aspirations of the Council through its medium-term financial strategy (MTFS), which considers a three year forward view, and its capital programme which extends forward for 5 years. Council members are fully engaged in this process, including a briefing on the MTFS including options for managing pressures and savings followed by further review by scrutiny committees. The budget considers known and expected demand and cost pressures and known and expected changes in funding. A programme of savings is needed to balance the budget, with decisions on significant savings proposals taken by the Cabinet with appropriate scrutiny.

Net revenue expenditure for 2021/22 on portfolio budgets was £590.4m, representing a £1.2m underspend. This includes underspending within the Environment and Climate Change (£2.7m) and Highways and Transport (£1.2m) portfolios, offset by overspending within the Learning and Skills (£1.6m) and Finance and Property (£2.7m) portfolios. Homeworking also resulted in £1.2m of underspending which is included within the outturn position for each portfolio. In addition to this, there was an underspend on the contingency budget of £5.0m along with an overspend on the non-portfolio capital financing budget of £0.6m. The overall underspending from these three areas is £5.6m. This underspending has been transferred to two reserves. The balance of the unallocated contingency budget (£5.0m) has been transferred to the Inflation Contingency Reserve. This reserve recognises the future challenging economic forecast and the uncertainty regarding inflationary increases in 2022/23. The balance of the homeworking underspend (£0.6m) has been transferred to the Service Transformation reserve to fund future innovative projects

Full year outturn capital spending for 2021/22 was £112.0m. This was £4.6m greater than the revised budget of £107.4m, which included £5.8m of slipped project from 2020/21 where delivery of the capital programme had been impacted by Covid-19. The level of delivery in 2021/22 improved significantly from 2020/21, when only 89.5% of the planned capital programme, and 91.7% of the revised capital budget, had been delivered by the end of the year.

Total usable reserves decreased by £19m from £296m to £277m over the course of the year. This was directly attributable to the increased level of capital spending during the year and a £33.8m call on the capital grants unapplied account to partly finance this. Usable earmarked revenue reserves increased by £14.9m in the period and the general fund balance remained unchanged at £20.3m. As part of earmarked reserves, the budget management reserve has increased by £7.3m compared to the prior year. An inflation contingency reserve has been created and has a year-end balance of £5m. Both balances are available to support the revenue spending of the Council should there be a need to do so in the future.

The Covid-19 pandemic continued to have a significant impact on Council operations, services and finances in 2021/22, however the scale of impact has reduced from previous years. Discrete arrangements have been developed to manage both the additional costs and grant funding relating to the pandemic. The MTFS planning framework also reflects the potential impact of Covid-19, both from the potential funding and budget pressure perspectives. A total £94.4m of Covid-19 revenue funding was available in 2021/22. Of this funding, £71.3m was utilised in year in response to the pandemic, £3.3m of unspent ringfenced grant will be repaid to the Government and £19.8m has been carried forward into 2022/23 to continue to cover the costs of the on-going pandemic in the new financial year, of which £16.0m is held within an earmarked reserve.

# Appendix A – Summary of arrangements

## Financial Sustainability

### Reporting Sub-Criteria

*How the body plans to bridge its funding gaps and identifies achievable savings.*

### Findings

As part of the update of the MTFS at the time the 2021/22 budget was set in February 2021 the Council was able to report a balanced budget for 2021/22 but with a remaining cumulative budget gap of £53.9m to the 2024/25 financial year, with £35.8m of that funding shortfall forecast to occur in 2022/23. As part of setting the budget the Council sets out the savings plans for 2021/22 and 2022/23. 2021/22 contained target savings of £18.5m to deliver a balanced budget. While not all planned savings were achieved in the year, the Council has continuously monitored and flagged delivery risks. The MTFS update in February 2022 reported a balanced budget for 2022/23, however the cumulative budget gap to 2025/26 had increased to £63.4m before any planned savings.

Both a bottom-up and top-down approach is taken to budget setting. In late spring/early summer the published MTFS, as approved by the Council in February, is revised to reflect:

- The latest guidance from government on core funding.
- An update of the tax base for council tax and business rates, with realignment to the latest information from the district and boroughs.
- The latest Office of Budget Responsibility inflation forecasts.

Known and emerging service pressures and savings proposals are considered and quantified as part of this and are required to be supported by directorate templates, including impact assessments. Other savings are driven by strategic decisions that are taken at Cabinet level. Following this initial appraisal, funding sources, service pressures and savings are kept under continual review. In late November/early December, control totals are generated from the MTFS to enable services to build their budgets up for the following year. The totals include service provisions for inflation, budget pressures and adjustments for savings. Final control totals are issued following the outcome of the local government finance settlement in mid-December.

Rapidly rising pay and price inflation is recognised as a key budget pressure. Allowances for inflation are recognised in both the 2021/22 and 2022/23 budgets with 2.5% (21/22) and 3% (22/23) being included for pay inflation, 3.7% for price inflation, and with a further £2.9m inflation contingency included in the 2022/23 budget. Inflation in the UK has continued to rise since the budget was set and is now reported as at 9.1% at July 2022, with further increases expected by the end of the calendar year. The £5m set aside by the Council in the inflation contingency reserve, £2.9m inflation contingency included in the 2022/23 budget and general contingency of £6.3m in the 2022/23 budget provide some mitigation but, in common with other councils, the impact of inflationary pressures on the 2022/23 budget remains a very significant area of financial risk in the future.

The emphasis in budget planning continues to be on delivering efficiencies, cost reductions and income generation with a view to protecting core services along with delivering the Council's strategic priorities as set out in its Council Plan for 2021-2025. The Council's stated aim has been to avoid arbitrary or across the board budget reductions, as it considers these would not reflect the Council's priorities and would be more difficult to assess in terms of impact on its broad range of responsibilities. Instead, the Council seeks to focus on specific measures to both understand impacts and address any adverse effects on services or support. The Council's Capital Strategy and Capital Programme are aligned to this and set out how the Council proposes to invest in capital projects to deliver its priorities and alleviate current or forecast future pressures on the revenue budget.

The Council routinely reports the delivery of savings in its Performance and Resources Report (PRR)), as part of its wider monitoring of financial and business performance. Historically the Council has a good track record of delivery and reports that around £287m of savings had been delivered at the end of 2021/22 since 2010, typically delivering over 90% of planned savings each year. The budget for 2021/22 assumed savings of £18.5m. Only £10.2m or 55% of this was achieved as originally envisaged or delivered by other means. The largest area of missed savings was in the adult services portfolio. This is because the cost of care packages rose by almost 4% in real terms, which prevented delivery of the savings target for absorbing demand growth through demand management because care could not be purchased at the price on which that plan had been based. This shortfall was mitigated in the 2022/23 budget.

# Appendix A – Summary of arrangements

## Financial Sustainability

### Reporting Sub-Criteria

*How the body plans to bridge its funding gaps and identifies achievable savings.*

### Findings (continued)

The Dedicated Schools Grant (DSG) remains an important source of funding for the Council. The new DSG adjustment account has a year-end deficit balance of £25.5m which represents the Council's closing cumulative DSG overspend at the end of the year. The cumulative deficit has increased by £15.1m reflecting continued overspending by the Council against its DSG allocation during 2021/22. Although the deficit continues to be classified as an unusable reserve in accordance with regulatory changes which took effect during 2020/21, the temporary legislation that enables this was set to expire at the end of March 2023, although this has now been extended by three years to March 2026. It is therefore important that plans are formulated to address this and that it is properly considered as a cost pressure in future year budgets. To address this an updated mitigation plan has been established by the Council for 2022/23 which was agreed in November 2021. A further update to the DSG recovery plan was also scheduled for later in 2022/23. Although not yet an explicit cost pressure on the Council's general fund, it is important a viable deficit recovery plan is produced as costs may again become general fund pressure in 2023/24 following expiry of the current temporary legislation.

### Reporting Sub-Criteria

*How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities*

### Findings

The annual budget and MTFS sit alongside and facilitate the Council's Plan for 2021-25. The Council Plan has been developed collaboratively with elected members, staff, partners and residents to prioritise the most important areas the Council needs to focus on in the future. This is done to allow the Council's limited resources to be spent on the areas where it is needed most. It has been developed in parallel with the budget for 2022/23 and is fully funded. As it is aligned to the budget and MTFS, it is intended to act as the framework in which investment decisions can be made based on agreed priorities and the outcomes the Council wants to achieve.

The process of defining the Council Plan has been designed with the intention of bringing together business planning, financial planning and risk management processes. It is intended to provide the framework for the Council's decision making and planning to ensure that it is making the best use of the resources available, properly understanding the value for money delivered and at the same time remaining focused on the delivery of priority outcomes.

The Council undertook a review against comparable authorities based on CIPFA's financial resilience index. It was reported that the latest published index of March 2020 showed the County Council had good resilience in terms of a strong council tax base and a reasonable level of overall reserves. The level of reserves held is continually reviewed and reported as part of the PRR. As at 31 March 2022, the balance on the Budget Management Reserve was £61.7 million, an increase of approximately £7 million from the prior year, and the Service Transformation Reserve remaining broadly unchanged at £13.3 million.

# Appendix A – Summary of arrangements

## Financial Sustainability

### Reporting Sub-Criteria

*How the body ensures that 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.*

### Findings

The integration between the Council's business and financial planning has been described above, including the link to its capital strategy and capital programme. The development of the annual budget and MTFS, and detailed assumptions on the operations of the Council that underpin them, is now being driven by its vision of the future as set out in the Council Plan, which is also then linked to the key governance and control arrangements of the Council, for example its performance and risk management arrangements.

Over the past two years the Council has also needed to respond to the challenges of Covid-19, which has required working together with other partners including district and borough councils, whether in terms of social care, support to vulnerable individuals and families, safely re-opening schools, supporting suppliers and partners including the NHS and school transport. This has shown that the Council is able to react and work effectively as part of wider system of public services.

### Reporting Sub-Criteria

*How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.*

### Findings

The Council's arrangements for identifying its significant financial pressures as part of its annual budgeting and medium-term financial planning have already been considered as part of this commentary. Performance against those plans is monitored in the PRR which provides an integrated assessment of the Council's business and financial performance. This integrated monitoring enables the Council to detect unplanned changes to its service activities and operations with potential to impact its financial resilience on an ongoing basis so they can be considered in its continuous budget planning. Its risk and performance management arrangements, which are considered further below as part of this commentary, also feed into this. The corporate planning process has been designed with the intention of further integrating business planning, financial planning, and risk management processes.

The Council seeks to maintain an adequate level of usable reserves. Although usable reserves decreased by £19m over the course of the year this was directly attributable to the increased level of capital spending during the year and calls on the capital grants unapplied account to partly finance this. Usable earmarked revenue reserves increased by £14.9m in the year and the general fund balance remained unchanged at £20.3m. The total of earmarked general fund reserves and the general fund balance of £251.4m provide contingency for unexpected changes and sustains financial resilience. Reasonable general and pay-specific contingencies are built into the annual revenue budget and the budget management reserve is used to provide a stable platform for service planning as the MTFS is developed. It is intended to be the first call on the Council resources to deal with any unforeseen in year expenditure if the revenue contingency budget were to be exhausted. As for all public bodies, inflationary cost pressures going into 2022/23 represent a significant financial risk.

# Appendix A – Summary of arrangements

## Governance

### Reporting Sub-Criteria

*How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud.*

### Findings

The Council's arrangements for the allocation of responsibility for risk management are set out in the Risk Management Procedures in Part 4 of the Council's Constitution. The Chief Executive is responsible for approving the Council's Corporate Risk Management Strategy and for reviewing the effectiveness of risk management. The Executive Leadership Team is responsible for implementing the Corporate Risk Management Strategy throughout the Council. The Director of Finance and Support Services is responsible for the monitoring and reporting all significant risks. Directors, Assistant Directors and Heads of Service throughout the Council are responsible for managing specific areas of risk that apply in their specific businesses and are to be aligned with business planning. The Regulation, Audit and Accounts Committee is responsible for monitoring the effective operation of risk management in the Council and for ensuring that Internal Audit's programme of work considers the Council's risks. Members, including through Cabinet and the non-executive and scrutiny committees, are responsible for ensuring that there are appropriate processes in place for effective risk management. The Council's Risk Management Strategy is refreshed annually and shows the alignment of strategic risks and priorities, with the last update taking place in July 2021. There are linked corporate and directorate risk registers, with risks scored according to their likelihood of occurrence and severity of impact. Quarterly review and update of the corporate risk register is reported as part of the Council's PRR and reviewed by the Regulation, Audit and Accounts Committee, which considers the effectiveness of risk management arrangements more generally. Management has a range of monitoring arrangements to ensure controls are operating effectively, including Internal Audit. The annual Internal Audit Plan incorporates an appropriate level of coverage in respect of the County Council's system of internal control.

In 2021/22 the Head of Internal Audit has concluded that the Council's framework of governance, risk management and control is reasonable. Where deficiencies in governance arrangements are identified they are reported in the Council's Annual Governance Statement (AGS) with related actions for improvement included in the AGS action plan. This includes any concerns raised by external inspectorates, external audit, and any limited assurance audit reports, which are issued by Internal Audit. The AGS process itself was reviewed by internal audit in November 2021 and a reasonable assurance report was given. Following completion of our VFM planning procedures we asked the Council to refer to the issues highlighted in the limited assurance Internal Audit review of GDPR compliance arrangements in the year end AGS and this was done.

Minimising any losses to fraud and corruption is an essential part of ensuring that all the Council's resources are used for the purposes for which they are intended. To facilitate this the Council has an Anti-Fraud and Corruption Strategy that sets out its overall policy in respect to fraud and corruption. The Strategy is based on inter-related procedures designed to frustrate any attempted fraudulent or corrupt act. These cover culture, prevention, detection, investigation and training. The Council's anti-fraud and corruption strategy is currently being reviewed and this review will also include a decision on how often this policy should be updated. The anti-fraud strategy is further supplemented by separate policies on whistleblowing and anti-bribery.

The Monitoring Officer and Director of Finance and Support Services work with the Head of Internal Audit to devise and prioritise a counter-fraud work plan. The Monitoring Officer is notified of all specific instances of suspected fraud and the outcome of all related investigations in addition to regular meetings with the Director of Finance and Support Services and the oversight of the AGS and actions arising from it. This is supplemented by the lead role of the Monitoring Officer in overseeing the use of the Whistleblowing Policy and tracking complaints about the Council's systems and procedures made through individuals using the policy or more direct referrals. The Whistleblowing Policy is designed to offer a route for challenges to processes or actions within the Council where Council staff need confidentiality.

# Appendix A – Summary of arrangements

## Governance

### Reporting Sub-Criteria

*How the body approaches and carries out its annual budget setting process.*

### Findings

The Council sets a balanced revenue budget annually. The budget is intended to support delivery of the Council's key priorities, which for 2021/22 were set out in the Council Plan 2021-2025. We have considered the linkage between the annual budget and the MTFS in the section of this VFM commentary which considers how the Council identifies all significant financial pressures that are relevant to its short term and medium-term plans.

Responsibilities and procedures for the annual budget process are set out in the Council's Constitution. The Cabinet is responsible for issuing guidance on the general content of the budget reflecting political priorities. It is the responsibility of the Executive Leadership Team to ensure that budget and capital programme estimates reflecting the Council Plan are submitted to the Cabinet and that these estimates are prepared in line with guidance issued by the Cabinet.

The Director of Finance and Support Services is responsible for ensuring that an overall revenue budget and capital programme summarising service budget estimates is prepared on an annual basis for consideration by the Cabinet, before submission to the County Council, along with a forward financial forecast in line with Government funding notifications. The Performance and Finance Scrutiny Committee considers strategic issues relating to the budget including comment on individual portfolio budgets. We are satisfied that this process was followed in both 2021/22 and to date in 2022/23.

### Reporting Sub-Criteria

*How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed.*

### Findings

The Council's constitution sets out the Director of Finance and Support Services' responsibility for providing appropriate financial information to enable both the revenue budgets and the capital programme to be monitored effectively. There is a requirement to monitor expenditure against budget allocations and report to the Cabinet on the overall position on a regular basis, as part of an overall performance management reporting process. It is the responsibility of Directors and Assistant Directors to control income and expenditure within their area and to monitor performance, taking account of financial information provided by the Director of Finance and Support Services. They should report on variances within their own areas. They should also take any action necessary to avoid exceeding their budget allocation and alert the Director of Finance and Support Services to any problems. Any new proposal containing significant financial implications must take note of the Director of Finance and Support Service's advice as well as that of the relevant Director or Assistant Director. The Council received a reasonable assurance internal audit report in November 2021 for Budgetary control and a reasonable assurance internal audit report for risk management in March 2021. This suggests that there are adequate budgetary control systems in place and that the Council have processes in place to monitor this through their internal audit plan.

The Council's financial performance (revenue and capital), savings delivery and business performance are monitored monthly through the Monthly Monitor report, with a more detailed PRR produced each quarter for consideration by the Performance and Finance Scrutiny Committee and Cabinet with a tailored service-relevant version also scrutinised by the other four Scrutiny Committees. The Council therefore takes an integrated approach to its financial and business performance reporting. The PRR reports actual financial results to date together with a forecast position at the end of the year. It identifies areas where performance is not meeting targets together with the corrective action that needs to be taken to address this.

# Appendix A – Summary of arrangements

## Governance

### Reporting Sub-Criteria

*How the body 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.*

### Findings

Ofsted undertook an inspection of the Council's Children's Services during 2018/19 which concluded the overall effectiveness of the service was inadequate. Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HIMICFRS) published the results of an inspection it undertook in late June 2019. The service was rated as requiring improvement in two of the three areas reviewed, and inadequate in the third area.

Since then, the Council has made further progress in implementing and embedding recommendations from the good governance review undertaken in January 2020. Ofsted performed further monitoring visits of Children's Services in May and September 2021 and March 2022 to report on the continuation of improvements. The results show that the Council has made steady progress, specifically recognising the permanent senior leadership team and the strengthened approach to quality assurance. In March 2022 the MP for Parliamentary Under Secretary of State for Children and Families contacted the Council to confirm that Children's Services will remain in the control of the Council due to the improvements made to date and plans for further action. This is a significant positive achievement.

Similarly, investment made into the Fire and Rescue Service has resulted in some improvements. The updated HIMICFRS inspection report was released in July 2022. HMICFRS reported that the service has made significant progress since the last inspection in 2018 and must now maintain and build on this improvement. The report noted a number of areas of improvements, but also noted there remain areas where the service needs to improve further. The following findings are considered to be the most important from the assessment of the service over the last year:

- The service is improving how it responds to incidents.
- The service is getting better at having the right people with the right skills.
- The service is becoming more efficient.

The inspection report concludes, however, that the service continues to require improvements in two of the three areas assessed on how effective the service is at keeping people safe and secure, and how well the service looks after its people.

# Appendix A – Summary of arrangements

## Governance

### Reporting Sub-Criteria

*How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests).*

### Findings

The responsibilities and statutory requirements for all officers and members are embedded in the Council's Code of Corporate Governance (the Code) and Constitution. The underlying principles of the Code are derived from a series of important reports on governance including the Nolan Committee Report on Standards in Public Life and cover openness, inclusivity, integrity and accountability. All significant actions by the Council which may have legal implications either require authorisation by the Director of Law and Assurance or individuals specifically delegated to act on behalf of the Director as set out in the Council's decision-making rules. Decision makers are also required to act within the Council's Standing Orders and scheme of delegation which makes provision for legal and constitutional advice to inform such decisions. The Council's Constitution contains a number of check points at which officers are able to identify whether decisions are being taken in compliance with the prescribed rules which ensure legal compliance. All executive decisions and policy proposals are considered and advised on by legal officers with access to all current legal provisions and guidance and who use a knowledge and research resource which updates all legislation and sources of advice automatically and provides alerts for significant changes in the law.

An updated County Council Code of Governance was approved in February 2022. The Code of Governance explains the framework of governance for Council business and decision-making, and the rules and procedures it has to ensure it acts as a public democratic body should. The Code is underpinned by the Nolan Principles of Standards in Public Life. These provide a guide to the Council to ensure it has robust systems and processes that support effective leadership and high standards of behaviour. There is an established Code of Conduct contained in the Council's Constitution with which all members are expected to comply. A parallel code for officers sits in the suite of Human Resources policies. The Council has also adopted policies relating to responsibilities for ethical behaviour including equality and sustainability. Decision-making is supported by advice from officers and internal guidance that should ensure compliance with these policies. The codes of conduct define the standards of behaviour for members and officers. All members undertake training from the Monitoring Officer on the member code of conduct. Member conduct is monitored by the Standards Committee, which has a remit to deal with complaints of breaches of the member Code of Conduct. All members complete the register of interests and receive quarterly reminders about personal interest declarations, and the need to disclose interests is a standing item on all formal meeting agendas for both officers and members. Officer interests, including gifts and hospitality, should be published on the County Council's website annually. The Council's 2021/22 AGS recognises, however, that this has not happened for some time. Our testing of the Council's financial statements has confirmed that processes have been maintained to identify member and officer interests to inform the disclosure of related party transactions the Council is required to make in its accounts. As part of our work in prior years we observed related party declarations were not routinely requested from senior officers leaving the Council and raised a related recommendation for improvement. Although we are satisfied that a related party declaration was obtained for the senior officer that left the Council during 2021/22 the Council's leavers policy has not yet been fully updated to ensure this requirement is met in all cases.

# Appendix A – Summary of arrangements

## Governance

### Reporting Sub-Criteria

*How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests).*

### Findings (continued)

In September 2021 we were made aware that the Council reported a breach of the Teachers' Pension Regulations to the Pensions Regulator in June 2021. This resulted in a contingent liability being disclosed in the 2020/21 financial statements, as the Council was not yet in a position to be able to estimate the potential cost to the Council of the breach.  We updated our understanding of progress made in addressing the Teachers' Pensions Regulation breach during 2021/22 where we treated this as an area of audit focus in our financial statements audit. We asked the Council to include further disclosure in both the financial statements and Annual Governance Statement on the matter. This has now been done and we have raised a further recommendation for improvement as part of our Audit Results Report that arrangements to facilitate financial quantification of the Council's liability need to be progressed in line with the action plan set out in the Annual Governance Statement. We do not consider this matter to be a significant weakness in the Council's arrangements.

# Appendix A – Summary of arrangements

## Improving economy, efficiency and effectiveness

### Reporting Sub-Criteria

*How financial and performance information has been used to assess performance to identify areas for improvement.*

### Findings

The Council Plan includes KPIs that will be used to monitor the performance of the Council in its identified key priority areas from 2021/22. For 2021/22 the KPIs were based on the Council Plan 2021-2025. The KPI dashboard is discussed as part of the PRR which is provided to Cabinet and Scrutiny Committees. The dashboard is used to flag areas of required improvement, devise actions to address the weakness identified and monitor progress.

Executive Leadership Team, Cabinet and Scrutiny Committees are responsible for considering reported performance against the KPIs and ensuring effective and efficient mitigating actions are taken to ensure targets set are being met. This performance dashboard is publicly available on the Council's website and based around the agreed strategic priorities of the Council. As set out previously in this commentary routine reporting of performance is combined with financial monitoring in the PRR.

### Reporting Sub-Criteria

*How the body evaluates the services it provides to assess performance and identify areas for improvement*

### Findings

As set out previously in this commentary, service performance against Council priorities is considered regularly throughout the year through both the performance dashboard, which is made publicly available on the Council website, and as part of the quarterly PRR which shows a complete picture of both business and financial performance. This enables the Council to identify services that are not performing as expected by reference to KPI outcomes against targets which from 2021/22 will be based on the Council's refreshed strategic priorities as per the Council Plan. The PRR includes an exception report to highlight areas where performance is deteriorating or not expected to achieve annual target to clearly flag where remedial action needs to be taken.

At year end performance indicators measured in relation to the West Sussex Plan 2017-22 priorities, reflected that 80% were at Green (70%) or Amber (10%) levels. There are 13 (out of 53 total) measures with no data to update in July 2022, however 4 of these are likely to be green and the remaining 9 are likely to be yellow. This shows an improvement on data collection since the prior year, where a lot of data was not available due to Covid. Green measures have increased year on year, however total green and yellow measures have dropped by 3%. This suggests a shift towards focusing on fully completing achievable measures.

The Council's response to previous adverse service inspections in Children's Services and the Fire and Rescue Service also show that the Council can take effective action to address service weaknesses and secure improvements. The Children's Services will remain in the Council's control and Fire and Rescue Services have been confirmed as improved on re-inspection, although the Council recognises that further improvements continue to be required in both areas.

# Appendix A – Summary of arrangements

## Improving economy, efficiency and effectiveness

### Reporting Sub-Criteria

*How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve.*

### Findings

The County Council works with a variety of stakeholders. This includes a range of public bodies, local authorities, the NHS and Sussex Police. Other tiers of local government are important partners in many areas of service delivery, strategic planning and community development. There are both formal and informal forums in place for regular liaison with elected members and senior officers in the district and borough councils, including regular meetings of all the leaders of the councils (West Sussex Leaders' Board), to discuss issues of common interest and regular meetings of all chief executives (West Sussex Chief Executives' Board).

Regular meetings with other partners, most notably the NHS Clinical Commissioning Group (CCG), are held at various levels and between members and officers on operational, commissioning and service planning. For a number of years, the Council has operated a joint service commissioning and pooled budget agreement with the NHS to cover a range of social care and NHS services. The West Sussex Better Care Fund (WSBCF) was established in 2015. This is a joint operation between the Council and NHS West Sussex CCG to provide integrated health and social care support within the area. The Council acts as host in the arrangement. The WSBCF is monitored by the West Sussex Health and Wellbeing Board with related reporting presented to the Performance and Finance Scrutiny Committee. Due to planned changes in NHS commissioning arrangements brought about by the creation of Integrated Care Systems, and all existing contracts were novated to the new Sussex Integrated Care Board at the start of 2022/23.

Partnership pledges, referred to as 'growth deals' have been made between the Council, and all district and borough councils in the county. Each five-year, tailor-made growth deal identifies specific priority projects to bring local improvements for West Sussex residents, businesses and visitors.

The Council established an arrangement with East Sussex County Council effective from January 2020 intended to bolster leadership capacity and bring more stability to the Council's senior leadership which, as highlighted by the results of external service inspections, had been lacking over recent years. This led to the appointment of the shared Chief Executive. It also considered:

- ongoing work on further joint procurements including West Sussex and East Sussex accessing each other's Frameworks, although this has not yet resulted in joint procurement activity.
- Ongoing discussions about waste and highways management.
- Support for Children's Services recruitment in West Sussex.

There have continued to be ad hoc arrangements for informal mutual support between the two council leadership teams.

# Appendix A – Summary of arrangements

## Improving economy, efficiency and effectiveness

### Reporting Sub-Criteria

*Where the body commissions or procures services, how the body ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.*

### Findings

The Council's Standing Orders on Procurement and Contracts; and the Financial Regulations and Procedures provide rules for lawful and sound processes for contract and spending decisions. These are managed by the Director of Law and Assurance and Director of Finance and Support Services in consultation with the Regulation Audit and Accounts Committee and supported by a group of officer subject matter experts sitting as the Procurement Board. The intention is for this to provide a single process for scrutiny of procurement planning, to ensure the most effective and optimal commercial arrangements, ensuring best value from the council's procurement activity, compliance with due process and consistency of best practice. The Council plans to consider some elements of its arrangements further as part of the 'streamlined decision-making' workstream from the good governance review, with the aim being to make aspects of procurement activity simpler and more accessible to officers engaged in commissioning – particularly focussed on ensuring the most effective decision path/routing and documentation required, through the various governance boards in the Council.

Work has continued in the year to progress the SmartCore project to replace the current Council's current SAP finance, HR and procurement system, with a new Oracle Fusion system. A decision was originally taken in November 2019 to approve the commencement of a procurement process for services to deliver a replacement business management system for the Council. This established the SmartCore Programme. The programme is intended to provide the opportunity to take advantage of the business benefits that it is anticipated the new Oracle Fusion will bring. A contract was awarded to Entserv UK Limited (trading as DXC) in June 2020 for DXC to be the Council's contractor for the transition from SAP to Oracle Fusion. Since the commencement of the contract a number of business design and delivery requirements for the programme led to changes to the planned timetable and contractual position to ensure a successful implementation of the programme. A key part of the SmartCore Programme is to establish a new solution for procurement and purchasing at the Council. The Council plans for the purchasing of goods or services (purchase to pay activities including the creation of requisitions and purchase orders using purchasing catalogues and making commitments against Council Contracts) to be fulfilled by Oracle Fusion when it goes live in April 2023. It is intended the solution in relation to procurement (source to contract activities including the sourcing of quotes, competitive tenders and supplier / contract management) will be fulfilled by use of the eProcurement system provided by Atamis, an established strategic partnership. The latest Atamis implementation will move the Council's current tendering process from its current provider Intend to Atamis. The current timetable is for this to happen prior to the Oracle Fusion Go live in April 2023.

The Council developed a Procurement Strategy for 2019-2021 which sets the framework in which it works to ensure that procurement delivers value for money across all services and directly contributes to the achievement of the Council's strategic goals. The published strategy has been rolled forward rather than re-created for 2022 onwards but will be reviewed as part of the planned change to procurement arrangements, as the Council transitions to Oracle/Atamis in 2022/23, to ensure it reflects the changes in the Council's procurement approach coming out of the new ways of working, which are intended to enable much better visibility, contract compliance and service improvements. The Performance and Finance Scrutiny Committee is responsible for the overview of procurement and contract management. The Committee reviews the performance of the Council and seeks to identify areas where procured goods and services are not delivering expected benefits through the performance dashboard, KPI's and financial monitoring in the PRR identifying significant overspending on projects and budgets. Covid-19 again required the Council to adapt its arrangements in 2021/22.

# Appendix A – Summary of arrangements

## Improving economy, efficiency and effectiveness

### Reporting Sub-Criteria

*Where the body commissions or procures services, how the body ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.*

### Findings (continued)

Further progress has also been made in the year on the Council's joint venture partnership for property development. A decision was originally taken in July 2019 to approve a procurement process to select a commercial enterprise to act as a joint venture partner with the Council for the commercial development of surplus Council land for shared financial returns. The procurement process has now completed with Lovell Partnership, which is a wholly owned subsidiary of Morgan Sindall Group plc, appointed to act as joint venture partner for the Joint Venture Limited Liability Partnership (JV LLP). The JV LLP comprises the new partner and a wholly owned subsidiary company of the Council, Edes Estates Limited. Ten sites across the County have been identified for the potential development of around 600 dwellings, with planning applications for three developments totalling 156 new homes submitted at the end of May 2022. A governance structure has been established for the JV LLP with the JV LLP Board comprising three representative officer directors from the Council and three further directors from the Lovell Partnership. Council officers have also been appointed as directors and company secretary for Edes Estates Limited. A separate shareholder group has also been established, formed of the Council Leader, Cabinet Member for Finance and Property and senior officers of the Council including the Chief Executive. The Shareholder Group acts in an advisory capacity to the Cabinet Member, who seeks to ensure alignment between the activity of Edes Estates and the JV LPP to the vision and direction of the Council.

Arrangements to exit from the current Capita support service contract have also developed further during 2021/22. A number of support service functions provided by Capita under its contract with the Council in 2021/22 have been brought back in-house, or in limited situations re-procured, during 2022/23. This has involved preparation and planning work for services and staff impacted by the transition, the design of replacement arrangements and transition and exit from the current contractual arrangements. Significant work will continue to be required during 2022/23 to support ex-Capita staff as they embed within the employment of the Council, design replacement service structures, agree reporting lines and management responsibilities, devise new job roles and skills requirements, transfer knowledge and implement new ways of working.

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