

Audits where assurance is assessed as 'No' or 'Limited'**LIMITED ASSURANCE****Adult Services – Financial Management****Introduction and Scope**

Through a transformation programme a number of projects are underway within Adult Services that could potentially change service delivery, and at the same time produce efficiencies. The Transformation Programme team are currently undertaking an exercise to validate the value of efficiencies achievable from each project.

In order for the transformation programme to be successful, one of the key controls is to ensure effective management of financial resources. We therefore agreed that the objective of this audit would be to provide assurance that this control is in place and is working as intended.

Adult Services are currently facing financial difficulties, and is projecting a year end overspend of £3.9m as at October 2010.

During the audit we considered:

- Clarity of budgetary roles and responsibilities
- Accuracy and timeliness of reporting
- Accuracy of forecasting
- Effectiveness of monthly budget meetings
- Progress made towards introducing the developing controls within the Adult Services risk register

To obtain a balanced view it was important that during the audit we obtained the opinions of both staff within the Adult Services finance team as well as operational staff that have budgetary responsibilities.

We acknowledge that the rate of change within Adult Services is moving at a fast pace and that activity is taking place in order for the issue of the deficit budget to be addressed. Roles and responsibilities are changing as part of the structural review. This report is therefore a snapshot of our findings from the time that our review and discussions took place.

Management Summary

Assurance Opinion

Limited Assurance

We found that Adult Services are currently projecting a £3.9m overspend by the end of the 2010/11 financial year. They are unable to deliver in full all initially proposed savings but are developing alternative projects and validating savings. Management feel that these new projects will deliver the necessary savings required.

A number of changes have recently taken place and our assurance reflects that these changes have not yet had time to be fully developed or embedded:

- Full accountability for the adult budget recently allocated to the new post of Assistant Director Adults and Children's Social Care Commissioning. Total budget will transfer to commissioning from 2011/12.
- Transformation project team started detailed scrutiny of savings in September 2010. This work is still ongoing.
- Structural review of operations and commissioning still ongoing
- A project has recently started to develop a new financial management system
- 4 year core offer agreed. A draft financial framework with named responsibilities drawn up.

Our work highlighted that the finance team and operational staff put a lot of effort into monitoring and managing budgets. However, key decisions and corrective action were not fast enough to prevent the current financial situation. We acknowledge that activity within Adult Services is occurring to ensure that processes are streamlined and the financial issues addressed.

To ensure that Adult Services achieve current projections, it is important that:

- Once savings have been validated for each of the value for money projects, the revised position is fed into the Adult Services projections;
- These projections are reported to the Adult Services Directorate Management Team (DMT) to allow them to make key decisions regarding service delivery;
- Sufficient evidence is maintained and gathered to confirm that all grant monies have been spent on transformation;
- All staff responsible for managing budgets within Adult Services are fully involved in the budget setting process, including the identification and allocation of efficiencies;
- Relevant officers within Commissioning teams receive training to ensure that they can manage the Adult Services budgets effectively and with confidence.

Actions and Priorities

- Road shows to explain the budget setting and efficiency process to managers
- Training for staff with financial responsibilities
- Clear accountability for finances through a new financial management framework
- Project to implement an integrated financial management system with independent assurance mechanisms in place

Management Response

The audit and the resulting action plan are most welcome and the service is committed to improving financial management and implementing the proposed recommendations. The requirement of changing a service that is overspending against a budget of £140m to spending within a budget of £130.6m in 2011/12 is particularly challenging.

It is recognised that it is crucial budget holders:-

1. understand the overall council and departmental budget processes and their role within it
2. are clear on their own budget and their responsibilities to exercise strong financial management and deliver Value for Money
3. contribute effectively to the savings and efficiencies targets for the overall service and particularly those they are personally responsible for

To assist in achieving these requirements we are committed to:-

1. holding road shows with staff on the budget
2. continuing to improve the financial training of staff

(Note the above two events are scheduled to take place following completion of the current staff restructure exercises. This will ensure training is focused on staff with future ongoing budget responsibilities and is targeted in part on the specific responsibilities of the individual.)

We are currently finalising the financial accounting issues resulting from the separation of functions and responsibilities between commissioning and operations. This is recognised as a key task in seeking to ensure effective Commissioning activity and value for money Operations services.

The need to develop integrated financial management systems is strongly recognised. This project is extensively about improving business systems and procedures rather than simply acquiring the appropriate hardware and related software. The project is at an early stage and we need to ensure delivery of the project through the development of appropriate plans and governance and

ensuring that adequate resources are made available to ensure delivery within the required timeframes.

Tourism Development – Historic Lincoln Programme

Introduction and Scope

The Historic Lincoln Programme is a group of projects being delivered by Lincolnshire County Council (The Council). The Programme involves many stakeholders including representatives from different areas of the Council, the Cathedral, English Heritage, Lincoln City Council and an external design team.

The Programme vision is to “become the first choice cathedral city for visitors by establishing Lincoln as a world class tourism destination”. The Council intends to open up the Castle to the public with free access to the grounds and ensure that the site realises its potential by making a significant contribution to the tourism of uphill Lincoln and the overall quality of life for the local community of Lincoln and Lincolnshire.

Historic Lincoln Programme consists of three key strands:

- Bailgate Restored (completed June 2010)
- Lincoln Castle Revealed (completion 2015)
- Heritage Skills Centre (completion 2012)

The total budget for Lincoln Castle Revealed is £18.96m (an increase of 25% against the initial budget). The majority of funding is unsecured with funding from the following sources:

- Heritage Lottery Fund (HLF) Grant bid £12m (originally £6m) - unsecured.
- Professional fund raising £2m (unsecured)
- ERDF Grant bid to cover budget shortfall £1.5m (unsecured)
- LCC Contribution £3.5m (secured).

Our audit looked at the “Lincoln Castle Revealed” strand and the risks around:

- Funding arrangements
- Financial management
- Programme and project management

The audit was completed during the development phase of the project with audit work completing in October 2010. The findings are based on the audit work performed at that time.

Management Summary

Assurance Opinion

Limited Assurance

Historic Lincoln Programme is a large, complex strategic programme requiring specialist knowledge and skills. The Programme represents considerable risk to the Council in terms of possible financial exposure and reputational risk associated with unsuccessful delivery.

The audit highlights the following:

Funding arrangements:

- The programme exposes the Council to significant financial uncertainties both now and in the future. In order for the programme to be successful, it is fundamentally important that bids for funding are realised.
- Funding from HLF is conditional upon relocation of the Crown Court by March 2013. Notwithstanding lengthy ongoing negotiations, agreement concerning relocation has yet to be agreed.
- At the time of our audit, only the Council's contribution is secure. In the event of failure to fully secure identified funding streams, there are no contingency plans in place to secure alternative funding.
- The Council may need to provide continued financial support for the Castle operations for 2015 and beyond.

Financial management:

- Processes are not fully established to manage finances effectively. Base budget information, budget monitoring and reporting requirements require development.

Project management:

- The programme is not being managed following the Council's project management approach. The way the programme is being funded is driving the programme management arrangements. Whilst this may secure the funding, the Council needs to be certain it can support the programme's vision in terms of achieving its long term project outcomes and benefits.
- Management of the programme could be more effective by improving decision making and more focussed reporting.
- The intention is for the Programme Manager to also be responsible for the delivery of the Heritage Skills Centre. The combined resource requirement of the two projects may exceed the capacity of the Programme Manager. This could compromise the successful delivery of both projects.

During our review, we found the following positive areas:

- ✓ A significant amount of effort is being put into achieving the November 2010 deadline for submission to the Heritage Lottery Funding for required funding. At the time of audit, the bid submission was on track.
- ✓ Positive comments were received about the Historic Newsletter that communicates with residents and interested parties about progress with the Programme.

- ✓ Discussions with various Project Team members confirm enthusiasm for and commitment to the success of the Programme.

In order to maximise the probability that Lincoln Castle Revealed is successfully delivered it is important that the following key points are addressed:

- Priority is given to securing a positive outcome in respect of relocation of the Crown Court building. A contingency plan is developed in the event that agreement is not reached.
- The budget implications of the programme for the Council both in the short and longer term need to be identified, understood and reported. Disclosure should be made of key assumptions and in particular details of how the £1.5m shortfall in funding will be financed should the ERDF bid prove unsuccessful.
- The Council's approach for managing projects should be followed to establish clear governance arrangements covering decision making, reporting and benefit identification and realisation.
- Tight controls over spend is established to ensure the programme is effectively managed within budget. Effective financial monitoring and reporting arrangements is needed to prompt proactive decision making during the next stage of the Programme.
- Resourcing needs to be appropriate to manage and deliver the future stages of the programme.
- The programme continues to receive the support of the Project Champion and of elected members.

Actions and Priorities

Management agreed the following key actions at the closure meeting (performed December 2010):

- Richard Wills has been charged with securing a positive outcome in respect of the relocation of the Crown Court building. Contingency options are being developed in the event that agreement is not reached. The aim now is to submit the HLF round 2 bid submission in April 2011.
- As part of the Council re-structure, budgets are being reviewed and consolidated. Resource requirements are being reviewed. Budget and resource implications for the Historic Lincoln Programme will be considered and reported to the Project Steering Group. The Project Steering Group will be made fully aware of the key funding assumptions and in particular details of how the £1.5m shortfall in funding will be financed should the ERDF bid prove unsuccessful.
- Enhanced arrangements for budget monitoring will be developed anticipating a positive bid submission in April 2011.

- Work will continue to identify the benefits expected from the project and develop relevant performance indicators and targets to monitor achievement of those benefits.

Management response

The audit was undertaken during the development phase of the Lincoln Castle Revealed project. That phase involves the collation of information, which will subsequently be assessed by external funders before the main build programme commences in 2013. As such, some of the recommendations that are made by the audit will be very useful in planning structure and activity for the build phase.

Funding arrangements

I agree that bids should be realised and that other funding is required. The link between the Council's Tourism Development Team, who are leading the project, and the Funding and Regeneration Team is helping the bids to be written as strongly as possible.

Clearly the issues relating to the crown court are a major concern. In December 2010 the Historic Lincoln Steering Group agreed a contingency plan if the court did not move, as well as a plan of action to encourage the court to move. The contingency plan has been provided to audit (January 2011).

Financial management

The senior management restructure has put Economic Regeneration (who are leading the project) and Cultural Services (who manage the castle) under the same Assistant Director – who in turns reports to the Executive Councillor for Communities and who is the project sponsor. This will enable budgets to continue to be established and managed under a single line of accountability.

Project management

The programme governance has been structured according to advice from Mouchel (John Cousins) and the delivery of the Heritage Lottery Fund bid has been carried out using Mouchel project management.

End of Appendix B