

Regulatory and Other Committee

Open Report on behalf of Pete Moore, Executive Director of Finance and Public Protection

Report to:	Audit Committee
Date:	28 January 2019
Subject:	Northamptonshire County Council Best Value Inspection - Lessons Learned

Summary:

The purpose of this report is to provide Members of the Committee with a summary from the Lessons Learned exercise completed, following the publication of the Northamptonshire Council Council Best Value inspection report.

The Council has set a balanced budget and has a proven track record for delivery of savings targets. Careful consideration is given on the level of its reserves to support the budget. Members have quite rightly, on occasion, challenged whether - given the level of Council reserves - the Council could use these to reduce the immediate impact of potential funding reductions. A volatility reserve is in place to help smooth transition and delivery of transformation projects - minimising the impact on communities.

Officers do not underestimate the complexity of the budget challenges ahead but are satisfied that the appropriate structures, scrutiny and financial management processes are in place to protect the Council from similar issues at Northamptonshire CC.

However, the Council cannot afford to be complacent and the report highlights opportunities for improvement, namely:

- Capital programme reporting
- Reporting the benefits realised from flexible use of capital receipts
- Updating financial procedures
- Better reporting and transparency on delivery of savings targets
- Better clarity in committee reports (to support good decision making, better scrutiny and challenge)
- Capital strategy (to support good decision making)
- Forward financial planning & budget setting for April 2020 onwards
- Enhanced Member training
- More robust scrutiny over reserves by the Overview Scrutiny Management Board (OSMB)
- Robust scrutiny over financial risks and risk register by the OSMB

Recommendation(s):

That the Committee:

- identify and provide the Executive with assurance on financial resilience
- decide if there are any further assurances required by the Committee on the improvement areas and include in the workplan.

Background

1. The inspection report highlighted a number of areas of failure in governance and budgetary control which led to an assessment that the NCC had 'failed to comply with its duty under the Local Government Act 1999 to provide best value in the delivery of its services'.
2. The problems faced by NCC have resulted in the appointment of independent commissioners to oversee the Council's finance, governance and scrutiny, a capitalisation dispensation allowing £70m capital to be used to reduce its deficit and a recommendation for the creation of two unitary authorities in Northamptonshire.
3. We have reviewed the above report and asked some key questions:

Can it happen here?	May be	Unlikely given our existing tight grip on finances.
Do we need to make improvements?	Yes	Financial resilience is a strategic risk. Effective oversight and review is undertaken by the Corporate Management Board and the Executive.
Do we need to protect the organisation?	Yes	Our governance arrangements are regularly reviewed. Any significant governance issues are acted upon and reported to the public through our Annual Governance Statement. A Governance review around culture and ethics is coming to a conclusion – this will provide the Council with a platform to improve.

Our Approach

4. We identified the key areas of weakness from the Best Value report and compared our governance arrangements, processes and control framework (including outcomes of audit work) to assess officers' assurance and identify any gaps or improvements that should be made.

5. A joint workshop of the Audit Committee and Overview & Scrutiny Management Board (OSMB) was held on the 19th December 2018 to gather Member views and feedback (see Appendices A – C for workshop information).
6. Our focus was:
 - Financial Resilience
 - Culture and Accountability

We did not examine any associated service failures at Northamptonshire CC.

Financial Resilience

7. The S151 Officer is fully conversant with the recent high profile work undertaken by CIPFA in developing a resilience index to assess the financial health of English local authorities. The outcome of that work is not yet in the public domain but it is the current belief that the Council is in a sound financial position and has a good track record in both developing and delivering balanced budgets. The OSMB will be made aware of the Council's resilience indicators once it is made available, and consideration will then be given on how financial resilience indicators should be reported to Members in the future.

Areas of Good Practice

Financial Strategy & Risk Assessment reviewed annually and approved

A financial risk assessment and financial risk register in place that informs appropriate target levels for reserves.

Report presented to OSMB for their consideration and recommendation on reserves to the Executive Councillor responsible for Finance.

Executive Directors complete robustness statements on risks associated with delivery of their budget – including giving assurance on the budget management arrangements in place. These statements inform an overall corporate statement compiled by the S151 Officer.

Well defined process and scrutiny of annual budget setting process

Budget setting framework in place - reviewed annually for lessons learned and communicated to Finance Team.

Internal Audit Substantial Assurance reported for 2017/18.

Budget timetable in place for preparation, reporting & approval.

	<p>Budget consultation undertaken with feedback published in the annual Budget Book.</p> <p>Budgets are reported and scrutinised by individual Scrutiny Committees, OSMB, the Executive and approved by Full Council.</p>
<p>Sound financial management has resulted in a lower than expected impact on Council reserves</p>	<p>Regular monitoring and forecasting by Budget Holders.</p> <p>Finance team report financial position regularly to Directorate Management Teams and twice a year to OSMB and the Executive.</p> <p>Outturn report presented to Full Council. Internal Audit Substantial Assurance reported for 2017/18.</p>
<p>4-year Medium Term Financial Plan (MTFP) reflecting 'worst case scenario' developed & reported</p>	<p>This confirmed an up to date MTFP was in place up to 2021/2022, based on a strictly controlled Budget Model, clear and approved assumptions and was aligned with the 4 year funding agreement.</p> <p>The budgetary shortfall and plans to meet this are discussed throughout the year at Corporate Management Board (CMB) and Informal Executive meetings.</p> <p>Work on post 2020 savings is scheduled to commence in the Winter / Spring of 2019 with a view to going for scrutiny in the coming Autumn.</p> <p>Internal Audit Substantial Assurance reported for 2017/18.</p>
<p>Robust finance team support for Budget Holders</p>	<p>Finance team members provide support and challenge to Budget Holders based on their need, budget values and level of risk. Budget Holder training in place and Financial Procedures are being updated.</p>
<p>Unqualified KPMG Value for Money opinion 16/17 & 17/18</p>	<p>KPMG's review of specific value for money risk areas for 2017/18 included Financial Standing, medium term financial planning and continuing financial resilience. They determined that 'the risks highlighted in the 2018/19 budget are consistent with those faced by others in the sector, particularly</p>

around the demands on adult care services, and the medium term outlook remains challenging.

They were satisfied though that there were adequate arrangements in place at 31 March 2018.

Where we can improve

Production of a Capital Strategy

Work to progress the document is on schedule and the Strategy will be taken through the political process during January and February 2019 before it is adopted by the Council.

Capital programme reporting

Internal Audit assurance over Capital programme in 2017/18 was Limited.

Capital reporting is being reviewed to improve the transparency of a scheme's finances - with a particular emphasis on affordability. This will enhance scrutiny and support project teams in making informed decisions around their spend.

Reporting on use and benefits realised from flexible use of capital receipts

In 2016 Section 15(1) of the Local Government Act 2003 gave councils more flexibility in the use of capital receipts. It allowed these to be used to fund expenditure on projects that are designed to generate ongoing revenue savings or transform services to reduce costs. The recent Internal Audit report identified that better reporting to Full Council is needed to ensure appropriate disclosure and visibility.

Improvements to reporting on the flexible use of capital receipts are planned to include additional information on actual savings achieved where these can be calculated. Where savings cannot be calculated the transformational benefits will be described.

Forward financial planning & budget setting from April 2020

Government spending review from April 2020 is not due until November 2019, but in preparation a thorough and in depth review over budgets and potential savings is being undertaken.

Transparency of savings targets

CIPFA guidance on building financial resilience highlights the importance of clear savings plans that are separately monitored. No major savings have been defined in recent budgets – savings are merged into budgets and monitored accordingly.

Additional budget reporting to Scrutiny committees	<p>Consider how future savings plans are to be monitored and reported.</p> <p>Quarterly budget reports are received by OSMB and the Adults & Community Wellbeing Scrutiny Committee. Consider presenting detailed quarterly budget reports to each individual Scrutiny Committee to provide more detailed scrutiny of each element of the budget.</p> <p>This should include financial risk register and understanding the risk appetite – linked to saving targets.</p>
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Earlier information through informal governance arrangements	Assess if it's viable for informal Executive information / papers could be shared with OSMB – informally.
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Enhanced Member training	Financial Strategy provides training to Members but this is not always well attended. Consider the benefits of budget / finance training being mandatory. Investigate the use of on-line training & assessment tools.
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More clarity and impact report writing	Many reports are written from the Officer point of view – a logical sequence of events. They don't always think about the reader eg plainEnglish etc. The clarity and impact of information gets lost and information isn't always easy to understand. Effective report writing training and protocols should be considered.
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Culture & Accountability

Areas of Good Practice

Defined values and behaviours for all who work for the Council	The Council adopted a set of Values and Culture to support its Vision and Purpose. Our appraisal process includes evidenced review over these core Values and Behaviours.
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Positive assessment of Governance against CIPFA / SOLACE framework	<p>Internal Audit completed a review against the 2016 CIPFA / SOLACE 'Delivering Good Governance in Local Government Framework'.</p> <p>This gave High or Substantial Assurance across the 7 principles. Further work covering Culture & Ethics is currently in progress and will be reported to Audit Committee in March 2019.</p>
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External review over Scrutiny arrangements	<p>The East Midlands Councils completed a review over scrutiny arrangements, making a number of recommendations that were implemented by the Council from May 2017.</p> <p>Work is currently being undertaken to review what difference this has made and if any further improvements could be made.</p>
Effective Audit Committee holding officers to account	<p>Officers are required to attend Audit Committee to report on progress where Internal Audits reports have Limited or low Assurance. Persistent challenge has been demonstrated around regular management reporting on payroll and IMT concerns.</p>

Where we can improve

More regular review and update of Financial Procedures.	<p>Financial Procedures have not been updated since the implementation of Business World (previously known as Agresso) in April 2015. Review and update is currently in progress, defining processes, expectations and making clearer lines of accountability.</p>
Have a better understanding of reserves when approving accounts	<p>Acknowledged that more information and challenge on Council reserves may be needed on annual scrutiny of accounts by the Audit Committee.</p>

Conclusion

Evidenced based comparison of the Council's governance and financial management arrangements against the issues highlighted in the NCC Best Value Inspection report give officers assurance that the risk of similar issues occurring at LCC is Low. However, areas for improvements have been identified that will further strengthen reporting, scrutiny and transparency.

Consultation

a) Have Risks and Impact Analysis been carried out?

No

b) Risks and Impact Analysis

N/A

Appendices

These are listed below and attached at the back of the report	
Appendix A	Audit Committee and OSMB Workshop 19 December 2018 - Pre-workshop briefing paper
Appendix B	Audit Committee and OSMB Workshop 19th December 2018 - Presentation slides
Appendix C	Audit Committee and OSMB workshop 19th December 2018 - Workshop feedback

Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

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