



# Lessons Learned from the Northamptonshire County Council Best Value Inspection Report

Audit Committee 30 May 2018

# Purpose

This presentation to the Audit Committee summarises the findings of the Northamptonshire County Council (NCC) Best Value Inspection and compares the financial and governance position of Central Bedfordshire Council (CBC) with NCC.

It also identifies proposals to refine some of the Council's existing processes as a result of lessons learned from the recommendations outlined in the Best Value Inspection of NCC.

# NCC summary findings

NCC's performance can be characterised by four elements:

1. poor budget management and loss of financial control
2. a new but ill defined operating model ('Next Generation Council')
3. a claim that NCC was specifically and unusually disadvantaged by the funding formula (the 'Mind the Gap' lobby strategy).
4. a series of governance issues relating to Member involvement, or lack of it, in the above matters

Councillors were also regularly refused information when they sought clarification. Members were told that 'you can only ask that at scrutiny meetings and not outside a meeting' that 'I need to get permission from the Cabinet member to discuss this with you' or just did not get a response.

Individual Councillors right to know was not understood and Councillors had been refused information when they asked questions. It was also noted that ~~Members were told they were not to be given access to some information.~~

# NCC Financial Management

- NCC fell well short on achieving its planned savings since 2014/15. The analysis shows that the Council had a shortfall in achieving its planned savings of £7.1M in 2013/14, £6.3M in 2014/15, £21.2M in 2015/16, £21.6M in 2016/17 and £27.1M in 2017/18.
- The main way in which NCC has sought to balance its budget since 2016/17 is to make use of the flexibility allowed by Government to use capital receipts for transformation purposes. Councillors were neither clear nor briefed on the rules and application of this funding source. There have also been recent questions about the inappropriate use of the ringfenced Public Health Grant.
- Budgetary control and financial grip is not assisted by the way the finance support is structured at NCC. The Executive Director of Resources (Section 151) has no staff supporting him in the delivery of the financial management for the council. All the staff work within LGSS. This includes the Strategic Finance Managers who are the key staff that support Service Directors and are the most senior finance office that the Section 151 officer would rely on. There appeared to be no one officer who has clear responsibility for setting professional standards for finance staff.
- The Council has made extensive use of one off resources to support its on-going revenue expenditure since 2013/14, both in terms of general use and for service specific purposes. In 2013/14 earmarked reserves stood at £57.7m, by 1st April 2017 they stood at £8.8m

# CBC comparison (1)

## Poor budget management

- Monthly budget monitoring reports are presented to Directors and Directorate Management Teams monthly, and the Executive and CR OSC quarterly.
- An officer group “Efficiencies Implementation Group (EIG)” track planned efficiencies monthly. Chaired by Director of Resources.
- The findings of the NCC inspection highlight a reduction in the amount of key data presented to Members to be able to understand and challenge financial performance. Whilst the CBC budget monitoring is quite comprehensive, from 2017 onwards we commenced presenting quarterly budget monitoring data to only one of the four OSCs.

# CBC Comparison (2)

## Refusal to Provide Information

- CBC officers work conscientiously to support each of the 59 elected Members, regardless of their political affiliations. The Finance team also provide briefings and assistance to the Opposition Members as part of the MTFP process and there is an opportunity for all Opposition Members to attend a budget briefing from all Directors. Officers are invariably thanked publicly by the Members for this process at the annual budget setting Council meeting in February.
- Confidential information is regularly shared with Members of Executive and non-Executive Members, appropriately in 'part 2' of formal meetings. There is no systemic failure to provide information at CBC. Work programmes for OSCs and other meetings are regularly directed by Members of the respective Committees and requested items are regularly a feature of meetings.

# CBC Financial Management (1)

## Planned Savings

- EIG monitor planned savings.
- Any shortfall must be offset by compensatory savings
- Ongoing pressures incorporated into next year's MTFP

## Use of Capital Receipts

- CBC does not use capital receipts for anything other than reducing the borrowing requirement to support capital investment

## Use of Public Health Grant

- CBC has a strict process for ensuring that the PH Grant is only used for the purpose for which it is provided.

# CBC Financial Management (2)

## Finance Support

- Each Directorate within CBC has dedicated financial support, and the structure of AD Finance and three Heads of Service is sufficient to cover all aspects of financial control.

## Use of Reserves

- Use of Reserves is reviewed by Directors monthly and reported to the Executive and CROSC on a quarterly basis.
- To date use of reserves has been quite limited. The Budget for 2018/19 requires a greater than usual level of support from reserves but this is to cover timing issues whilst ongoing efficiencies are delivered.

## Scrutiny

- At NCC, Scrutiny should have been given an opportunity to consider budgetary proposals earlier in their development (in the Autumn). This is something for CBC to consider as the current timetable is tight and Scrutiny receives a relatively short period of time to consider budget proposals.



# NCC Audit Committee (1)

- Scrutiny by the Audit Committee was not effective. Whilst the Chair of the Committee and the Committee members gave inspectors the impression that they had tried to challenge, it is clear that they have been repeatedly thwarted. Matters that the Committee have wanted reports on have taken many months and much persistence for the reports to be prepared and brought to the Committee.
- The Council did not respond well, or in many cases even react, to external and internal criticism. At its most extreme, the two KPMG ISA 260 reports, stating an adverse opinion on Value For Money matters were just reported to the Audit Committee without comment and the unprecedented KPMG Advisory Notice issued under the 2014 Act was reported to full Council without any officer covering report giving advice on what the response was recommended to be.
- The Audit Committee consideration of the external audit report at NCC appears to have been superficial and the Best Value Report criticises NCC for not producing a covering report with officer recommendations. The auditors' reports were not presented to Council or Executive. The real significance here is that these auditor reports were flagging a qualified opinion on NCC's delivery of value for money, which is an important part of the overall financial audit of the authority. CBC has never had such a qualified report.

# NCC Audit Committee (2)

## Extract from the NCC Audit Committee Constitution: Statement of Purpose

- 3.1. To provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority's financial and non authority's exposure to risk and weakness of the control environment and to oversee the financial reporting process.
- At the February 2018 Audit Committee, the Chairman expressed his concern that the Corporate Risk register did not contain the financial risks or the risks around Transformation.

# CBC Audit Committee

## Officer Involvement

- At CBC the equivalent auditor reports are discussed with officers prior to being submitted to the Audit Committee and whilst there is no covering report (because it is an EY document), officers will always discuss the EY report fully at Audit Committee. In respect of reports on the Statement of Accounts there is always an officer report covering the same issues on the same agenda which sits alongside the EY report and these reports are usually considered by the Audit Committee together, and this will have a management response and action plan as appropriate.
- All papers presented to the CBC Audit Committee have a senior officer presenting. EY send senior representatives to all Audit Committee meetings.

## Risk

- At CBC the Strategic Risk Register identifies financial risk as a high priority to monitor along with mitigating actions.

# LGSS & NCC

- The Inspection Report states that LGSS claims to have delivered significant savings over its period of operation but it is very hard to see what additional saving has been produced by the structural grouping and what could have been generated by normal management action. Further, much of the reported saving is not more for less but routine service reductions.
- The Inspection Team feel there would be benefit in reviewing the relationship between NCC and LGSS to ensure there was clearer accountability and the Council had strategic capacity close to its decision makers.
- This is particularly pertinent as it appears that LGSS is no longer generating surpluses which can be applied to reduce the overall costs to the constituent councils.

# LGSS & CBC

- CBC engagement with LGSS is limited to legal services in the form of a separate trading company - LGSS Law Limited – of which CBC is a 33% Shareholder and therefore exposure to any under performance of the wider LGSS group is limited. However, CBC needs to be cognisant of the fact that the Law company is currently also underperforming financially.
- CBC retains strategic governance control through Member representation on the Shareholder Board of LGSS Law Ltd and control and influence of the business operation through representation on the Executive Board, through the Director of Resources.
- CBC has recently completed an internal Governance Audit of the legal shared service arrangement which found the management controls to be adequate but has recommended representation is made for the current wider LGSS Governance structure – currently under review – to be strengthened and clarified.
- Work is currently underway to strengthen the financial performance and processes within LGSS Law.

# Recommendations arising from the analysis of the NCC report

These are set out in the accompanying detailed report on this agenda, to which Members are referred