Central Bedfordshire Council

AUDIT COMMITTEE 30 May 2018

Northamptonshire County Council Best Value Inspection – Summary of Findings and Learning Points for Central Bedfordshire Council

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Purpose of report:

The report discusses 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. Finally, this report proposes changes to the Council's existing processes, as a result of the recommendations outlined in the Best Value Inspection of NCC.

RECOMMENDATIONS
The Committee is asked to:

1. The Audit Committee is invited to discuss the contents of this report and make any recommendations arising from this discussion.

Overview and Scrutiny Comments/Recommendations

1. This report is for information only and has not been made to any Overview and Scrutiny Committee. The subject matter is most appropriate to the Audit Committee's terms of reference.

Background

2. On the 9th January 2018 the Secretary of State for Housing, Communities and Local Government appointed Max Caller CBE to undertake an

Inspection of the compliance of NCC with the requirements of Part 1 of the Local Government Act 1999. The Best Value Inspection took place between January and March 2018, the report was published on 15 March 2018.

3. The inspection was carried out following the issue of an adverse value for money opinion in the Annual ISA 260 reports (communication of audit matters to those charged with governance), relating to the 2015/16 and 2016/17 Statement of Accounts by NCC's external auditor KPMG. In September 2017 the Local Government Association (LGA) conducted a Peer Review at NCC which highlighted concerns in relation to the Council's financial planning and management.

4. During the course of the inspection;

   - The Council's Section 151 Officer issued a Section 114 notice on the 2nd February 2018 as in his opinion the Council was at risk of not being able to balance its budget by the year end and, as a consequence, imposed spending controls to attempt to restore the situation pending a full Council consideration of the position and how it should be rectified.

   - The Council's external auditors' KPMG issued an advisory notice on 20th February 2018, under the provisions of Paragraph 2(3) Schedule 8 Local Audit and Accountability Act 2014 on the basis that they believed the Council was about to set a potentially unlawful budget.

5. The Best Value Inspection concluded that the problems faced by NCC are now so deep and ingrained that it would not be possible to promote a recovery plan that could bring the Council back to stability and safety in a reasonable timescale. The report recommended the creation of two unitary authorities in Northamptonshire (East & West).

Summary of Best Value Inspection Findings

6. The NCC Best Value Inspection Report highlights a number of systemic failures & concerns in relation to NCC governance, financial management and Local Government Support Services (LGSS). These are summarised below:

NCC Governance

- NCC's performance can be characterised by three elements: poor budget management, the 'Next Generation Council' [a new but ill defined operating model] and a claim that NCC was specifically and unusually disadvantaged by the funding formula (the 'Mind the Gap' lobby strategy).

- 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.

- Scrutiny by the Audit Committee is 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.

Financial Management

- Following the Ofsted Inspection report published in August 2013 which resulted in an ‘inadequate’ judgement and the subsequent Statutory Direction, NCC lost tight budgetary control and appeared to abandon strong and effective budget setting scrutiny. Instead of taking steps to regain control, the Council was persuaded to adopt a ‘Next Generation’ model structure as the solution.

- The Council has fallen 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.

- Since 2014/15, overspending in Adults and Children’s has mainly been offset by reported underspends in the corporate and Chief Executive budgets. This is where (in the main) the use of reserves and one-off corporate resources are included, so masking the extent to which the Council has relied on one-off resources to support its spending position

- Across the piece, NCC is not the most disadvantaged shire county as a result of unprecedented changes to Local Government funding.

- NCC Council Tax base growth over the period 2014-17 was 7.38%, significantly higher than the shire county average of 4.67%.

- During 2014/15 NCC, like many councils, reviewed its minimum revenue provision (MRP) and received a one off retrospective benefit of £22m, of which it initially used £6.9m to support the budget, the remaining £15.1m was put into earmarked reserves and applied in later years. The MRP review also gave on-going benefits in excess of that budgeted for (£7m in 2014/15 and a further £3m in 2015/16).

- NCC could have benefitted from an improvement in Council tax collection rates. The District and Borough Councils perform the billing and collection function, but improvements in their performance would have benefited the County most. A partnership arrangement which saw NCC invest in improvements at the second tier could have improved the spending ability of the county. However, this was ruled out as “it was not the County’s responsibility”.

- 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

Local Government Support Services (LGSS)

- LGSS claims to have delivered significant savings over its period of operation (from 2010) 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.

Transformation, Culture & Organisational Development

- Until this budget cycle there had been no report to full council, or anywhere else, which set out the specific transformation that was to be achieved, on a project by project basis, as required, nor has there been any report to full Council which sets out the actual outcome compared to the prediction.

- Instead of taking steps to regain control, the Council adopted a 'Next Generation' model structure as the solution. In essence NCC would have a small retained organisation called 'NCC Group' which would right source Safeguarding and Wellbeing outcomes through a federation of newly formed bodies, be they Mutuals, Community Interest Companies, Social Enterprises, public: public; public: private or private businesses which will have 'spun out' from direct council control. There has never been any business plan or justification to support this proposal, yet Councillors adopted this approach and authorised scarce resources to develop this. The approach did not and could not address the regular budget overspends which were covered by one off non-recurring funding sources.

- Budgets appear to have been set almost by fiat. Savings targets were imposed without understanding of demand, need or deliverability and some Chief Officers did not consider that they were in any way accountable for the delivery of savings that they had promoted.

- In the past 5 years there have been significant changes in personnel at Director level in NCC. All the Executive Directors have been replaced, some more than once. It appeared to the inspection team that there was no sense that the group worked together as a team, seeking to share and jointly solve the Council's problems. The impression was also that working together to understand the impact that decisions taken in one area had on another and addressing the conflicts is not encouraged. It was concluded that NCC works in silos and does not communicate well internally or share common objectives.

<u>Comparison to CBC</u>

7. In order to assess the applicability to Central Bedfordshire Council of the concerns raised in the Best Value Inspection Report, a detailed comparison of CBC & NCC has been conducted which addresses each point in turn.

LGSS Comparison

8. The 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.*

9. 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.

10. 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. This combination of roles means that CBC has first hand knowledge of the operations and financial performance of LGSS Law Ltd. This was something that NCC did not have, being represented on the Executive Board via LGSS employees (the Managing Director and the Finance Director), rather than having any independent input. (This situation has subsequently changed.)

11. 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.

12. The Best Value Inspection Report adds *While (sic) legal services are delivered by LGSS Law Ltd, the lack of an appreciable client role for legal services has not assisted the Council in controlling its legal costs.* Unlike the position at NCC, CBC implemented a client side role from the outset of the shared service arrangement to scrutinise and challenge legal service delivery, performance and costs, and to support internal improvements in commissioning legal support from LGSS Law.

13. This centralised Client function reviews operational and financial performance on a face to face basis with the LGSS Law Executive Director and management team on a monthly, six monthly and annual cycle.

14. Although CBC is currently experiencing a large overspend on legal services, this has not arisen from poor oversight of the contract. Additional volume of cases from Children's Services is the principal factor, together with putting more business through LGSS Law rather than going to other providers.

15. That said, there have been considerable issues for CBC in obtaining detailed and accurate billing information from LGSS Law. These problems are largely resolved now but demonstrate the need for continued vigilance in monitoring ongoing costs.

16. At this stage, it is unclear whether NCC will remain committed to the LGSS concept (Group and or Law). In particular, the attitude of the two new Unitary Authorities, if formed, is obviously unknown.

Governance Comparison

17. The report refers to there being no reports that set out "the actual outcome compared to the prediction" in relation to planned efficiencies. It also refers to requirements to report "whether planned savings or transformation have been delivered compared to original analysis". There was "a lack of accountability for non-delivery". Whilst CBC is certainly not in the same position as NCC, it would be reasonable to consider the extent to which Members are invited to consider progress in delivering the specific efficiencies that were included in the previous year. At present neither Overview & Scrutiny nor Executive have undertaken an analysis of how we are performing against previously identified efficiencies specifically, although this happens monthly at officer level and to the Directors, via the Efficiencies Implementation Group, chaired by the Director of Resources. Performance against delivery of efficiency targets is included as part of the quarterly budget monitoring reports considered by Corporate Resources Overview and Scrutiny Committee, but the level of detail could be improved.

18. CBC is in a strong position in relation to quarterly budget monitoring. Not only do we produce monthly flash reports for Directors and the Leader and the Deputy Leader/Executive Member for Corporate Resources, the quarterly reports are presented openly and in public to both the Executive and Corporate Resources Overview and Scrutiny Committee (CROSC) providing the opportunity for open discussion and scrutiny of our position. These highlight reports draw out key issues and matters relating to reserves in a way that does not appear to have occurred at NCC. This is not to say that transparency on some issues could not be further strengthened.

19. At NCC the reports do not show a clear line of sight between the MTFP and service plans. CBC can evidence the various Executive reports on performance monitoring as demonstration that we are not in the same position as NCC. However, the CBC Peer Challenge report refers to the need for greater clarity of the outcomes we are seeking to achieve. The Council can demonstrate that we are doing this work (based on greater refinement of the projects supporting the corporate priorities) but it is not yet complete.

20. The findings of the 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. This was a Member decision taken by the Overview and Scrutiny Co-Ordination Panel at its meeting on 27 June 2017.

21. At NCC 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. This is not considered to be an issue at CBC 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.

22. Comments from Scrutiny were regularly not provided to Executive alongside proposals at NCC. CBC’s report template requires comments from Scrutiny to be included, the Chairmen of OSC meetings will regularly attend Executive meetings to present the views of Committee members and recommendations are always made available to the Executive from OSC where a report has been considered by the OSC first. This is not considered to be an issue for CBC.

23. At NCC, Scrutiny should have been given an opportunity to consider budgetary proposals earlier in their development (in the Autumn). This may be an area for CBC to review. The current timetable is condensed and Scrutiny receives a relatively short period of time to consider budget proposals.

24. 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. At CBC the equivalent auditor reports (from Ernst and Young, (EY) 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.

25. NCC’s peer review did not result in a tactical action plan. This was not the case at CBC, as our peer review was received by Members of Executive in public and a full action plan and delivery of the recommendations is being undertaken. This is both quantified, and contains lead persons and timescales. The recommendations relating to Scrutiny were also considered by the OSC Co-ordination Panel leading to recommendations that will be developed in their annual report to Council. The Report also refers to the fact that NCC did not take up the offer of a follow-up from the LGA. Again, this is not the case at CBC as a date has been arranged for a follow up peer team visit in late 2018.

26. 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.

Financial Comparison

Council Tax Collection Rates

27. Data collected from local authorities shows that the NCC Council Tax Collection rate is below the shire authority average in both 2015-16 & 2016-17. CBC is above the unitary authority average in both years. This shows that CBC is working hard to maximise this revenue stream. A shortfall of 0.5% in collection is estimated to be worth £1.3m for NCC.

Table 1 – Comparison of NCC & CBC Council Tax Collection Rates in 2015-16 & 2016-17.

	2015-16 Collection Rate	2016-17 Collection Rate
NCC	97.5%	97.6%
Shire average	**98.0%**	**98.1%**
CBC	97.8%	98.0%
Unitary average	**96.9%**	**97.0%**

28. The Table above relates to in-year collection. For CBC the final collection rate is c.99% of all council tax debt. CBC has actively invested in additional resources to supplement collection activity. In 2016 3 additional staff were taken on for this purpose and 3 more in 2017. The additional collection was c.3 times the cost of the additional salaries, and this has helped to maintain a high performance level in the Revenues Service.

Council Tax Base Growth;

29. NCC's Council Tax Base increased by 7.4% from 2014 to 2017, in the same period CBC's increased by 9.3%. This growth demonstrates valuable additional revenue for the Council and shows the advantage of being a growth area with strong commitment and regional leadership in this area.

Council Tax Increases;

30. Along with a number of other authorities, CBC froze Council Tax increases for 2011/12 to 2015/16. To encourage councils to keep increases to zero, the Government provided compensation for the lost income by way of a Council Tax Freeze Grant. For CBC, this Grant amounted to c£1.3M per year where increases were held at zero. During the Spending Review

2013, central Government confirmed that both of the existing Freeze Grants and any new Grants in 2014/15 and 2015/16 would in future be 'baselined' into the Formula Grant (Revenue Support Grant - RSG) and would therefore constitute continuing funding.

31. That said, RSG is now been phased out and 2018/19 is the last year in which CBC will get RSG. There is therefore an arguable point as to whether this funding is really being continued as promised.

32. Analysis of the Council Tax increases adopted and proposed for NCC & CBC is shown in the table below. This shows that NCC maximised their Council Tax in each of the years shown below. The only exception is the draft 2019-20 proposal, but the maximum Council Tax Increase of 3% is dependent upon the inflation at that time.

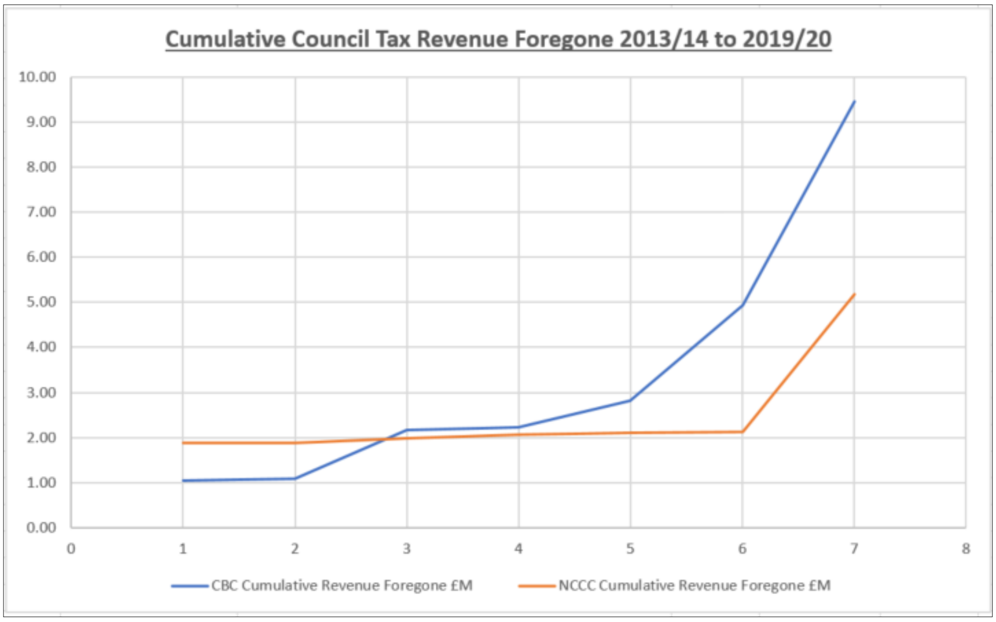
33. The analysis below also highlights that CBC has not maximised its income. In the earlier years (2013/14 to 2015/16) the Council received a separate Council Tax Freeze Grant (CTFG) which equated to a 1% Council Tax Increase. In 2018/19 CBC has foregone £2.1M by increasing Council Tax by 4.49% instead of the permissible maximum of 6%. In 2019/20 the current planned freeze results in revenue foregone of £4.5M.

Table 2 – Comparison of NCC & CBC Council Tax Increases 2013/14 to 2017-18

		CBC		NCC	
Year	**Max CT % Increase**	**CBC % Increase**	**Revenue foregone by CBC £M**	**NCC % Increase**	**Revenue foregone by NCC £M**
2013/14	1.99%*	0.00%	1.05	0.00%	1.88
2014/15	1.99%*	0.00%	1.08	1.99%	0.00
2015/16	1.99%*	0.00%	1.09	1.95%	0.09
2016/17	3.99%	3.95%	0.05	3.95%	0.10
2017/18	4.99%	4.55%	0.59	4.98%	0.03
2018/19	5.99%	4.49%	2.12	5.98%	0.03
2019/20	2.99%	0.00%	4.52	1.98%	3.05
Cumulative Revenue foregone			**10.50**		**5.18**

* A Council Tax Freeze Grant equivalent to a 1% rise in council tax was provided in each of these years.

Graph 1 - Comparison of NCC & CBC Council Tax Foregone 2013/14 to 2019/20



Overspending in Adult Social Care & Children's Services;

34. Since 2014/15 NCC has repeatedly overspent on Adult Social Care & Children's Services. This is also true to an extent in each year for CBC, except for 2015/16 and 2017/18 (Q3 forecast). However, as Table 2 shows, only in two years has the overspend been significant – 2014/15 for ASC and 2015/16 for Children's.

35. However the scale of overspends in comparison to the in year budget shows that NCC has overspent on average by 10% in relation to Adult Social Care and 8% in relation to Children's Services. Over the same period CBC has overspent on Adult Social Care by an average of 1% and on average 0.2% in Children's Services.

Table 3 – Comparison of NCC & CBC overspends on Adult Social Care & Children's Services from 2014/15 to 2017/18 quarter 3.

	2014/15				2015/16				2016/17				2017/18 q3			
	NCC		CBC		NCC		CBC		NCC		CBC		NCC		CBC	
	overspend £m	as % of in year budget	overspend £m	as % of in year budget	overspend £m	as % of in year budget	overspend £m	as % of in year budget	overspend £m	as % of in year budget	overspend £m	as % of in year budget	overspend £m	as % of in year budget	overspend £m	as % of in year budget
Adults Social Care	11.9	8.2%	1.5	2.4%	8.5	6.1%	0.2	0.3%	25.6	17.6%	0.5	0.7%	12.6	8.3%	0	0.0%
Children's Services	10.5	9.2%	0.1	0.2%	20.9	17.0%	0.9	2.5%	7.4	5.7%	(0.6)	-1.6%	0.3	0.2%	(0.1)	-0.3%
Total	**22.4**	**17.3%**	**1.6**	**2.6%**	**29.4**	**23.0%**	**1.1**	**2.8%**	**33.0**	**23.4%**	**(0.1)**	**-0.9%**	**13.0**	**8.5%**	**(0.1)**	**-0.3%**

36. It is quite clear therefore that the loss of financial discipline experienced in NCC is not replicated in CBC. Budgetary control is tight, as the Table demonstrates, and in the face of rising pressures on both services financial control has been maintained in CBC in the two key service areas.

Earmarked Reserves;

37. NCC used reserves to balance their budget and fund overspends. The analysis below shows that over the period 2013/14 to 2016/17 NCC's reserves have decreased by £39.3M (66% decrease), whilst CBC's reserves have increased by £15.9M (37% increase).

Table 4 – Comparison of NCC & CBC Reserves 2013/14 to 2016/17

	2013/14		2014/15		2015/16		2016/17		Overall Change	
	NCC	CBC	NCC	CBC	NCC	CBC	NCC	CBC	NCC	CBC
	£m		£m		£m		£m		£m	
General Fund	12.8	15.1	12.9	15.2	12.0	15.5	11.7	15.6	**(1.1)**	**0.5**
Earmarked Reserves	47.0	27.8	58.3	31.6	22.1	31.5	8.8	43.2	**(38.2)**	**15.4**
Total	**59.8**	**42.9**	**71.2**	**46.8**	**34.1**	**47.0**	**20.5**	**58.8**	**(39.3)**	**15.9**

38. Over recent years CBC has steadily built up its reserves, from an initially unsustainably low position in 2009. This deliberate financial strategy has enabled a degree of *relative* comfort to be built up, to the extent that the Council has decided to use revenue reserves (New Homes Bonus) to fund capital projects. This is the diametric opposite of the approach NCC has taken, where capital resources have been inappropriately applied to fund ongoing revenue shortfalls.

Capital Receipts flexibility & ringfenced grants;

39. In addition to the use of reserves, NCC has to date used £42.5M of capital receipts to fund its revenue budget, making use of the flexibility allowed by Government to use capital receipts for transformation purposes. The report on NCC comments that this policy was poorly implemented and not sustainable in the longer term. Relevant guidance notes were not followed (see 40 below). CBC has deliberately not followed this path, and does not have any future intention of utilising this flexibility. Capital receipts will instead be used exclusively to fund capital expenditure.

40. Another key finding of the NCC report was that having made the application to the Secretary of State for such flexibility, NCC did not comply with the terms of the relevant guidance. This requires that a list of transformational projects is identified (the emphasis being that the spend is one-off in nature but delivering ongoing revenue savings) and progress in delivering them is reported on a regular basis to full Council. Such reporting did not happen at NCC, nor was any identifiable progress made, and the resources provided by the capital receipts were largely consumed on ongoing revenue expenditure.

41. The inspection team at NCC heard concerns that the grant from Public Health England was not being applied to the appropriate services. It was concluded that this be left to the external auditors and Public Health England to investigate. CBC does not believe that there are any such

concerns in relation to its use of ringfenced grants, however a recommendation is included below to ensure this remains the case.

Prudent approach to Pressures

42. The Report criticises NCC for its treatment of budgetary pressures, especially the failure to deal with these in year, allowing them to roll forward and build up over a number of years. CBC's planning approach each year considers prior year pressures, including non-achievement of planned efficiencies. In the latter years of the MTFP additional potential pressures have been included which provide significant hedging against future expenditure or shortfalls in predicted income, such as NNDR. The long term strategy is not dependent upon reserves or capital receipts, but it should be noted that the short term use of reserves is greater than has previously been the case. It will therefore be essential to rigorously monitor progress in delivering the planned efficiencies that will reduce ongoing revenue costs.

Minimum Revenue Provision (MRP);

43. NCC reviewed its MRP methodology and received a one off retrospective benefit of £22M, of which it initially used £6.9M to support the budget. The MRP review also gave on-going benefits. Along with a number of other local authorities CBC has conducted a similar review and received a one off retrospective benefit of £27.9M. Council approved the application of this, over a reasonable timescale, to offset, for example, the annual impact on the General Fund of the outstanding Private Finance Initiative (PFI) liability. To date none of this funding has been used, nor is it currently forecast to be used as part of the Council's 2018-19 MTFP.

Achievement of Planned Savings;

44. NCC has in every year since 2013/14 experienced a shortfall in achievement of its planned savings. This amounts to a cumulative shortfall of £83.3M over the period 2013/14 to 2017/18 quarter 3 forecast. In the same period CBC has had a shortfall of £0.6M, after identification of some compensatory savings.

45. In 2010/11 CBC set up an Efficiency Implementation Group, chaired at first by the Deputy Chief Executive and subsequently by the Director of Resources. This group has maintained a very detailed review of all budgeted efficiencies and has reported monthly to Directors on progress. This has enabled the identification of shortfalls early on in the financial year, with compensatory savings being identified and delivered.

46. Where savings have not been delivered due to changed circumstances, rather than timing issues, these have subsequently been reflected in the next year's budgeting. This is again something NCC did not do, allowing unachievable savings to simply be rolled forward each year, thus building an ever growing underlying overspend.

Table 5 – Comparison of NCC & CBC shortfall in achievement of planned efficiency savings 2013/14 to 2017/18 quarter 3 (inclusive of compensatory efficiencies)

	2013/14		2014/15		2015/16		2016/17		2017/18 q3		Cumulative shortfall	
	NCC	CBC	NCC	CBC	NCC	CBC	NCC	CBC	NCC	CBC	NCC	CBC
	£m		£m		£m		£m		£m		£m	
Shortfall in savings	7.1	(0.0)	6.3	(0.6)	21.2	(0.3)	21.6	1.1	27.1	0.4	**83.3**	**0.6**

Transformation, Culture & Organisational Development Comparison

47. The Best Value Inspection report refers to a silo mentality and a lack of integration across the Council in considering how the Council's problems could be resolved. CBC's current approach via the wider management team is very different and demonstrates a clear attempt to work across service areas and Directorates.

48. However, CBC has more work to do regarding its transformation programmes: how are these quantified, and clearly communicated across the Council? How joined up are the individual projects? Are there specific and measurable outcomes? There are improvements that could be considered such as a one page Project Initiation Document (PID) for each efficiency/ pressure as part of the MTFP.

49. NCC appears to have had a somewhat dysfunctional leadership team, with every director position having at least two incumbents over a 5 year period. There was a lack of common ownership of corporate decisions and each directorate operated without consideration of the overall financial picture. CBC has had much greater stability at Director level.

Recommendations and Conclusions

50. The culture and financial practices inherent at NCC and outlined in the Best Value Inspection Report have been considered in full by Directors, Finance, Governance, the client side Legal Services and the Council's Section 151 officer. As a result there are a number of learning points for CBC, which has led to the formulation of the recommendations outlined below to refine existing procedures & processes;

LGSS Law Recommendations

51. There is a need to develop greater control over the commissioning of legal services and to share, and learn from, best practice across the 3 constituent council owners. The Council's Board representative is

currently engaged in various matters to strengthen the governance and financial performance of the law company.

Governance Recommendations

52. **Recommendation 1-** that consideration is given to the manner in which Scrutiny is involved in the monitoring of previously identified efficiencies and the extent to which their attention is drawn to known pressures on the budget

53. **Recommendation 2-** that improved clarity of the proposals for efficiency savings required to deliver the MTFP be undertaken at least annually. This could take the form of a PID style 1 page document for each proposal greater than a given de minimus value.

54. **Recommendation 3-** that consideration is given to whether to recommence presenting detailed quarterly budget reports to each individual OSC so as to provide more detailed scrutiny of each element of the budget.

55. **Recommendation 4-** that consideration is given to whether OSCs be given the opportunity to influence at an earlier stage (Oct-Dec) the principles to be included in the budget report prior to formal consultation.

56. **Recommendation 5-** that further updates are added to the forward work plan for Executive on the implementation of the Peer Review recommendations. These could be scheduled when there is something of significance to report.

Finance Recommendations

57. **Recommendation 6** – From quarter 1 of 2018-19 budget monitoring will be produced in a gross and net format, to provide greater transparency of both income and expenditure.

58. **Recommendation 7** – The financial procedures will be reviewed, updated and communicated to staff by the end of July 2018.

59. **Recommendation 8 –** From 2018 all budget holders across the Council will receive Finance business partner support based on risk based assessment. This approach is already in place but is not currently formally documented. A report will be brought to Directors prior to Quarter 1 2018-19 budget monitoring outlining the approach and the resulting risk assessments.

60. **Recommendation 9 –** As part of the 2019-20 MTFP process the classification of Pressures, descriptions and explanations will be reviewed to ensure that the ‘unavoidable pressures’ is not a description used and to ensure that ‘demand pressures’ and ‘demographic pressures’ are fully explained.

61. **Recommendations 10 –** As per the Council's Constitution, a capital scheme should not be included in the MTFP unless a business case is provided during the collation of the draft MTFP. Consideration needs to be given to how this practice might be improved for the next MTFP.

62. **Recommendation 11 –** The 2019/20 MTFP will include a comprehensive explanation of compensatory efficiencies for previous years and details of unachievable efficiencies

63. **Recommendation 12 –** To enhance monitoring to ensure that ringfenced grants (such as Public Health, the Adult Social Care precept & Improved Better Care Fund) are spent as per the grant regulations. This could involve internal audit reviews and details regarding expenditure would be included in the outturn report.

Transformation, culture & organisational development Recommendations

64. **Recommendation 13 –** Transformation Projects across the Council will be reported separately in corporate budget monitoring from Quarter 1 of 2018-19. They will also be detailed in the Council's 2019-20 MTFP Report.

Conclusion

65. Following a detailed review of the findings and criticisms in the NCC Best Value Inspection Report it is clear that there are lessons to be learned by the entire local government sector. It is recognised that whilst CBC does not find itself in a similar financial or governance position to NCC, nonetheless this does not mean that the Council can afford to be complacent.

66. The aim of this report is to assess the applicability of these findings to CBC and to propose recommendations to ensure that the Council continually improves upon its existing processes & procedures.

Appendices

Appendix A – Summary Presentation