MIDDLESBROUGH COUNCIL	Middlesbrough moving forward

AGENDA ITEM 7

CORPORATE AFFAIRS AND AUDIT COMMITTEE

Report title	Best Value inspection of Northamptonshire County Council
Director	Strategic Director of Finance, Governance and Support
Date	29 May 2018
Summary of the report	The report outlines findings from the recent government Best Value inspection of Northamptonshire County Council (NCC), which has received national media attention and will potentially result in local government reorganisation in the area. It compares the position in this Council with that of NCC and highlights learning in order to support continued improvement in the Council's corporate governance arrangements.
Decision(s) asked for	That the Committee notes the contents of the report and the proposed actions, to ensure lessons are learned from events at NCC are progressed.

What is the purpose of this report?

1. This report outlines findings from the recent government Best Value inspection of Northamptonshire County Council (NCC), which has received national media attention and will potentially result in local government reorganisation in the area. It compares the position in this Council with that of NCC and highlights learning in order to support continued improvement in the Council's corporate governance arrangements.

Why is this report necessary?

2. The report is necessary to ensure that Corporate Affairs and Audit Committee is provided with sufficient information to ensure it is able to keep the Council's arrangements for corporate governance under review, in line with the Committee's terms of reference.

NCC position

3. In February 2018, NCC's Executive Director for Finance issued a section 114 notice to members, the first Section 151 Officer to do so in 20 years. While this generated national media interest in the Council's financial position, a series of events over a number of years brought NCC to this point, including public sector austerity nationally, rising service demand coupled with poor budgetary controls and poor governance, two years of adverse VfM conclusions from its auditor, and a critical LGA Peer Review.

4. The National Audit Office's report 'Financial sustainability of local authorities (March 2018) provides useful context for this inspection, with the report identifying that, if council tax is excluded, funding from government to local government fell by 49.1% in real terms from 2010/11 to 2017/18. The forecast reduction for 2010/11 through to 2019/20 is 56.3%. In comparison, this Council forecasts a reduction in its central government funding during the same period of 66.2%. The Local Government Information Unit's summary of this report is at Appendix 1 for information.

5. In response to the problems facing NCC, the Secretary of State for Housing, Communities and Local Government, commissioned a Best Value inspection of the authority in January 2018. The inspection considered whether NCC:

   - has the right culture, governance and processes in place to make robust decisions on resource allocation and to plan and manage its finances effectively;
   - provides clear, useful and sufficiently detailed information to councillors to inform their decision making;
   - allows for adequate scrutiny by councillors;
   - has strong processes in place to manage services within the budget constraints – within the Council's finance department and also within service areas;
   - has and shares appropriately the right data to support spending decisions and to support the management of services; and
   - is organised and structured appropriately to ensure value for money in delivery of its functions.

6. The inspection found that NCC has failed to comply with its legal duty to achieve best value in the delivery of its services. The overarching impacts of NCC's governance failings were:

- a fundament lack of trust in NCC by its public sector partners;
- a dysfunctional staffing structure that was unable to implement effective governance;
- a broken culture where challenge and scrutiny by both members and officers was suppressed;
- failure to control spending year on year and to maintain an Medium-Term Financial Plan (MTFP) based on robust and realistic assumptions; and
- failure of transformation plans as they had no basis in sound decision making, or governance oversight to correct errors.

7. A number of concerns raised by those interviewed were outside the scope of the investigation and were referred to internal and external audit, and the NCC's complaints procedures for investigation, therefore further issues may arise in due course.

8. Ministers are considering the core recommendation of the report to abolish the Council, along with the districts councils in the area, and replace them with two new unitary local authorities from 2020. Until then the recommendation is that government inspectors take over the running of NCC.

9. While NCC's issues clearly arise from multiple failures in corporate governance, the NAO report notes that NCC exhibited a number of the characteristics, such as overspending on social care and drawing on its reserves, which are increasingly common across the sector.

10. Work has now been undertaken to analyse NCC Best Value inspection report, assess this Council's current performance in these areas, and identify whether there are any lessons that can be learnt from the serious failings that occurred at NCC.

MBC position

11. In general the exercise found that the Council's position is demonstrably stronger than NCC, particularly around corporate governance.

12. While this Council has experienced continuing pressures within Children's Care, transformation activity to address this situation is underway, and additional resources were allocated to the Directorate in the Revenue Budget, Council Tax, Medium Term Financial Plan and Prudential Indicators 2018/19 report to Council of 7 March 2018. If however pressures with Children's Care continue to increase and savings expected from this area in future years are not delivered, then fundamental changes to the Council's budget strategy and MTFP will be required. Monitoring of demand, expenditure trends, and transformation plans within the Directorate will therefore continue to be accorded the highest priority.

13. The 7 March report to Council also provided an assessment of the adequacy of the Council's reserves, in which the Strategic Director of Finance, Governance and Support (Section 151 Officer) advised Council that it would be appropriate to maintain a minimum reserve of £9.4 million over the medium term, an increase from the previously recommended level of £4.0m to £4.5m. This advice was based on an assessment of financial risks to the Council and the extent to which specific provisions are available to meet known and expected liabilities, and reflects a reduction in the level of specific reserves and provisions over the last 12 months, and increased uncertainty around future funding levels and levels of demand in social care. The approach improves the

Council's resilience while also providing for appropriate use of reserves to phase reductions to frontline services, and was agreed by Council.

14. The analysis of the NCC positions did however identify a number of areas in which the Council needs to undertake further work:

    - continued improvement of demand forecasting within Adult Social Care and (in particular) Children's Care, now linked to Change Programme 3.1;
    - conclusion of the review of current utilisation of Public Health Grant and forecasting of future needs to provide assurance and to identify future commissioning priorities;
    - development of medium-term Directorate Plans to demonstrate line of sight from the Strategic Plan to team level performance and communicate objectives to all employees;
    - continued development of the Council's approach to Programme and Project Management, in particular developing business cases in respect of projects with purely or majority social value;
    - development of overarching partnership arrangements linked to the Mayor's Vision and Public Sector Reform, linked to the Social Regeneration Prospectus;
    - a review of local scrutiny arrangements in line with the Government's response to the recommendations of the Communities and Local Government Committee on the Effectiveness of Local Authority Overview and Scrutiny Committees; and
    - implementation of a new approach to complaints including quarterly management information and lessons learned reports.

15. All of this work is either currently underway or planned to be undertaken in 2018/19. Where relevant, actions have been included in the action plan within the 2017/18 Annual Governance Statement presented to this meeting of the Committee.

What decision(s) are being asked for?

16. That the Committee notes the contents of the report and the proposed actions to ensure lessons are learnt from events at NCC are progressed.

Why is this being recommended?

17. To ensure the Council takes the opportunity to gain organisational learning from the events at NCC, and reflect how it can further strengthen corporate governance arrangements.

Other potential decisions and why these have not been recommended

18. The 'do nothing' option is not recommended because the Council would fail to take the opportunity to identify options where it could further strengthen its governance arrangements and would not be in line with its commitment to continuous improvement.

Impact(s) of recommended decision(s)

Legal

19. There are no direct legal implications arising from this report.

Financial

20. There are no direct financial implications arising out of this report, however some of the actions will have a financial impact, for example improved demand forecasting in Children's services may impact on the budget required for that service in future years.

The Mayor's Vision for Middlesbrough

21. There are no implications for the Mayor's vision.

Policy Framework

22. The report does not impact on the overall budget and policy framework.

Wards

23. No wards are directly impacted by the report.

Equality and Diversity

24. Not applicable.

Risk

25. The recommended actions will positively impact a number of risks contained within the Strategic and Departmental Risk Registers around corporate governance including the following risks:

- failure of the Change Programme to deliver the transformation and cultural change necessary to achieve required savings;
- failure to have adequate governance processes in place; and
- failure to ensure effective partnership working.

Actions to be taken to implement the decision(s)

26. Oversight of actions will be undertaken through the Annual Governance Statement process.

Appendices

27. Not applicable.

Background papers

No background papers were used in the preparation of this report.

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Appendix 1: Summary of National Audit Office's report 'Financial sustainability of local authorities (March 2018)

Part One – Challenges to the financial sustainability of local authorities

1. The government's preferred measure for local authority funding is "spending power" which includes the main central government funding streams (as announced annually in the local government finance settlement) plus council tax receipts. The report finds that spending power fell by 28.6% in real terms from 2010/11 to 2017/18 and that by 2019/20 the fall will have increased marginally to 28.7%. If council tax is excluded, funding from government fell by 49.1% in real terms from 2010/11 to 2017/18. The forecast reduction for 2010/11 through to 2019/20 is 56.3%.

2. The range of reductions in government funding between different classes of authority is relatively narrow – from a median reduction of 48.6% for London boroughs to 51.1% for shire districts between 2010/11 and 2017/18. However, the differences are amplified once council taxes are added back in because of differences in council tax bases, which affect the capacity to raise council tax receipts. On that measure, metropolitan authorities fared worst, with a median spending power fall over the period of 33.9% compared to 22.1% for county councils.

3. Since the 2015 Spending Review, the rate of reduction has dropped. From 2010/11 to 2016/17 spending power fell in real terms by 28.5%, but from 2016/17 to 2019/20 it is forecast to fall by only a further 0.4%. Again, there are significant variations between different types of authority. Forecast real terms reductions for London boroughs, metropolitan districts and unitaries are 1.7%, 0.2% and 0.1% respectively. County councils will see an increase of 2.5% but, in contrast, district councils will be worst hit with a median reduction of 13.9%. The slower rate of reduction is partly due to the Improved Better Care Fund, but also to greater flexibilities over council tax increases for authorities will social care responsibilities. If new funding for social care is excluded, the rate of reduction from 2016/17 to 2019/20 is forecast to be 8.2%, which will add to the pressures on non-social care services.

4. From 2010/11 to 2016/17 the total population grew by 5% but demand for key services has grown more rapidly over the same period. The report finds that:

   - The number of looked-after children has increased by 10.9%
   - The estimated population in need aged between 18 and 64 has increased by 9.5%
   - The estimated population in need aged 65 or over has increased by 14.3%
   - Households accepted as unintentionally homeless and in priority need have increased by 33.9%.

5. Cost pressures have increased too. The report cites in particular the National Living Wage, increased employer national insurance contributions and the apprenticeship levy. Some case study authorities have also voluntarily increased spending on children's social care following adverse Ofsted inspections.

6. In response, authorities have generally sought to cut other spending, raise alternative income and use reserves to absorb funding reductions and minimise the effect on services. For the first three years of funding reductions, local authorities as a whole reduced service spending more rapidly than their income reductions and reserves actually increased. During the second three-year period authorities have switched to

reducing debt-serving costs, drawing on reserves and growing alternative income sources such a commercial trading and external interest. The report questions the sustainability of this approach.

7. Evidence from case study authorities suggest that savings programmes have been based largely upon efficiencies and service redesign and that authorities have sought to protect front-line services wherever they can. Overall spending on management and support costs has reduced by 25.7% in real terms. Authorities appear to have exhausted “easy wins” and “salami slicing” and are seeking to redesign and transform services, often making use of digital technologies.

8. Case studies suggest that authorities are nearing the end of their ability to make savings without affecting front-line services. The report suggests that ongoing income and demand pressures coupled with uncertainty about long-term funding will lead to reduced spending on front-line services which, in turn, will affect service levels and activities, but in general authorities have not yet identified when these will occur.

Part Two – Service sustainability

9. The report finds that adult and children’s social care services have been relatively protected from spending reductions. Adult social care has seen a real-terms reduction of 3.3% over the period whereas children’s services have had a 3.2% increase. Spending on environmental services and waste disposal have also seen a smaller reduction in spending than other services. The largest reductions are in planning and development (52.8%), non-HRA housing (45.6%), non-school education (40.5%) and highways and transport (37.1%). Data from the Department for Education indicates that spending on youth services fell by 65.5% in real terms between 2010/11 and 2016/17.

10. As a result of the changing pattern of expenditure, service spending is increasingly concentrated in social care which in 2016/17 accounted for 54.4% of overall service spend compared to 45.3% in 2010/11.

11. The report draws a distinction between net current expenditure on services (described in the paragraphs above), and total spending, which includes income from sales, fees and charges and transfers from other public bodies. Sales, etc. have partially mitigated the effect of funding in some areas, but mean that a greater share of the cost of service provision now falls on service users. Excluding social care, income from sales and fees and charges increased from 16.1% to 21.9% of total spend.

12. Local authorities are also seeking to capitalise revenue costs wherever possible. The report sees the value of this in the short term as it can reduce immediate revenue pressures, but it warns that this approach may not be sustainable in the long-term because future debt costs will still need to be met from revenue resources.

13. The report finds that the impact of service reductions on service users is mixed. It identifies some evidence that pressures on adult social care services are being passed on to the health sector and notes that restrictions on fees are resulting in concerns about market fragility for external social care providers. The case studies indicate that pressures on children’s social care are driven by growth in demand and issues with the supply of professional staff and child placements rather than budget restrictions, perhaps because many aspects of children’s care are statutory responsibilities.

Part Three – Financial Sustainability

14. The report finds that in the early years of funding reductions, local authorities were often able to deliver underspends on their budgets, but from 2014-15 onwards overspends have become more frequent. Adult and children's social care have been the main drivers of overspends. By 2016/17 overspends on adult social care amounted to 3.7% of budgeted expenditure for that service. The equivalent percentage for children's social care was 10.4%.

15. Much of the shortfall is being met from reserves. Although in the early years of funding reductions many authorities were able to build up their reserves that is no longer the case. In 2016/17, 66.2% of authorities drew on their reserves, and total reserves reduced by £858 million year-on-year. Some of this reduction funded "invest to save" schemes, but the report's analysis suggests that authorities with social care responsibilities are increasingly drawing on reserves to meet unplanned budget overspends. The report points out that "a financial model based on dwindling reserves and difficulties in delivering services is not sustainable over the medium term".

16. The rates at which reserves were initially built up and are now being drawn down have varied considerably. Analysis shows that 10.6% of single-tier and county councils would have the equivalent of three or less years reserves left if they continued to draw down at the same rate as in 2016/17. A further 9.9% have the equivalent of more than three but less than five years of reserves.

17. The report makes reference to the section 114 notice issued to Northamptonshire County Council. Whilst the precise causes of Northamptonshire's financial difficulties are not yet clear, the report notes that the authority exhibits a number of the characteristics, such as overspending on social care and drawing on its reserves, which are increasingly common across the sector.

Part 4 – The role of government

18. The report recognises that MHCLG and some other government departments have important roles in ensuring the financial and service sustainability of local authorities. These include:

    - Assessing funding needs to inform decision-making
    - Maintaining a framework that provides assurance about the use of resources and preventing financial failure
    - Ensuring that statutory services are sustainable.

19. For the 2015 Spending Review, MHCLG requested information from 13 government departments on:

    - Local authority services over which the department had policy responsibilities
    - The cost of delivering services and cost pressures
    - The scope for efficiencies and savings
    - Funding expected to be available to local authorities from all sources.

20. MHCLG drew this information together to inform its overall estimates and identified three areas for closer monitoring over the review period: adult social care, children's social care and homelessness. The report considers this analysis to have been better

than for the 2013 Spending Review, but notes that the evidence gathered was highly variable in quality and at too high a level, with little evidence that departments had analysed distributional issues or understood how pressures differed across authorities with the same duties, either geographically or by type.

21. The 2015 Spending Review resulted in measures to support adult social care including the Improved Better Care Fund and the adult social care council tax precept. Following the Review, MHCLG and the Department of Health and Social Care worked together to monitor financial pressures and risk which resulted in additional funding in the 2017/18 local government finance settlement and in the 2017 Spring Budget. The case study authorities generally welcomed the new funding, but indicated that conditions had limited their ability to use the extra funding to meet pressing local issues.

22. The report states that there is no settled consensus on why demand and cost pressures have increased so significantly for children's social care. MHCLG and the Department of Education have commissioned joint research into children's social care costs, but this will not conclude until summer 2019. This and other work is expected to inform the next Spending Review which will set out department allocations for 2020 to 2021.

23. The report notes that MHCLG sees devolution "as a locally driven process to promote local growth and productivity". However the department has not quantified potential savings from devolution. MHCLG also told researchers that there is evidence that reorganisation is able to make a significant contribution to achieving efficiencies and savings, but again this does not seem to have been quantified.

24. The four-year financial settlement offered by MHCLG in 2016/17 was generally welcomed by local authorities and had a very high take up. However, the report notes that central funding outside the settlement has changed a number of times since 2015/16:

- There have been three adult social care grant announcements
- The adult social care precept has been introduced and then amended
- There have been two changes to rural services delivery grant.

25. As a result, the report views the funding landscape since the 2015/16 Spending Review as being characterised by one-off and short-term funding initiatives.

26. The report also questions MHCLG's long-term financial planning and notes the uncertainties regarding business rates retention, the Fair Funding Review and care for older people and working-age adults. The report concludes that "whilst there are clear funding and demand pressures, there is as yet no comprehensive, long-term plan to address them".

27. The report considers that MHCLG has improved its assurance over local authority financial sustainability since 2014. It has developed a local authority sustainability tool and complements its analytical work with a wide variety of other data. The report sees evidence that the department is able to identify authorities with issues about leadership, financial capacity and service delivery, but expresses concern that this oversight is too narrowly focused on social care issues. There is also concern that the department could overstate the role of leadership in authorities and underplay systemic factors in the reporting of risk.

28. Some other government departments have questioned the impact of reduced funding on local services, and the report repeats concerns raised by NAO in 2014 that there is still no single point within government that monitors the impact of funding decisions on an on-going basis. The report sees the development of more integrated approach as essential to ensure the future sustainability of the sector.

(Source: Local Government Information Unit)