

Report to Cabinet

Title:	Financial Sustainability
Date:	Monday 21 May 2018
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Local members affected:	All
Portfolio areas affected:	All

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Summary

This report reviews recent material on financial sustainability in local government, most particularly a recent National Audit Office (NAO) report on this topic and the Best Value Review of services provided by Northamptonshire County Council. The NAO report especially draws attention to the growing service and financial pressures on local authorities with social care responsibilities.

This report then goes on to look at the key findings from the Northamptonshire Best Value Review and compare where Buckinghamshire stands on these issues. In conclusion Buckinghamshire is in a very different place. No concerns have been raised by the external auditor, there is a good record of managing spend within the overall budget, there are sufficient levels of reserves (allocated and unallocated), there is high Member involvement in the budget process and a strong Regulatory & Audit Committee exists.

However, national pressures in relation particularly to children's and adults services are still pertinent and there is no room for complacency. Specifically the Council has been addressing the challenges following the Ofsted review of Children's Social Care and has also been further strengthening its financial management arrangements.

Recommendation

Cabinet are asked to **NOTE the contents of the report and the appendix, including the on-going work around further strengthening financial management arrangements across the authority.**

Cabinet are also asked to **NOTE that it is imperative that the authority retains a strong financial grip in the run up to the potential creation of unitary local government for Buckinghamshire.**

A. Narrative setting out the reasons for the decision

1. *National Context*

- 1.1 There has been much reported recently in both the trade and national press about the financial sustainability of local government, particularly those authorities with care responsibilities. This report is aimed at reviewing this material and considering the applicability to Buckinghamshire, in particular, and what actions the County Council can take to mitigate the risks.
- 1.2 On 5th March 2018 the National Audit Office (NAO) published their report, "financial sustainability of local authorities 2018". At the beginning of their report the NAO sets out a number of key facts that also provide a useful contextual backdrop for this cabinet report.

NAO Key Facts

- From 2010/11 to 2017/18 the real terms reduction in Central Government funding of local authorities is **49.1%**
 - From 2010/11 to 2017/18 the real terms reduction in local authority spending power (Gov funding + Council Tax) is **28.6%**
 - From 2010/11 to 2016/17 the real terms reduction in local authority spending on social care services was **3%**
 - From 2010/11 to 2016/17 the real terms reduction in local authority spending on non-social care services was **32.6%**
 - The overspend on local authority service budgets in 2016/17 was **£901m**
 - The percentage of local authorities with care responsibilities that drew down on their reserves during 2016/17 was **66.2%**
- 1.3 According to the NAO report the Ministry of Housing, Communities and Local Government (MHCLG) views local authorities' ability to deliver their statutory services as the defining test of their financial sustainability.

1.4 Key findings from the NAO work are:

- 1.4.1 As well as facing funding reductions local authorities have faced considerable demand pressures in some areas such as: a **33.9%** increase in homelessness, a **10.9%** increase in the number of looked after children and a **14.3%** increase in the number of over 65's in need of care. Further, local authorities have experienced a number of significant inflationary pressures such as from: national insurance contributions, the apprenticeship levy and the national living wage.
- 1.4.2 Typically local authorities have changed their approach to balancing the books over the 6 year period considered. For the first three years local authorities reduced the level of services offered e.g. reduced standards of care, reduced bus subsidies, reduced bin collections etc. In the latter three years the emphasis has shifted to making savings in corporate/central costs such as debt financing, contributing less to reserves (or drawing upon them), or generating alternative sources of income.
- 1.4.3 Local authorities spend less in real terms on virtually all services, but the reductions are far less in care services due to demographic increases and the greater statutory requirements that exist compared to other services where more discretion is available.
- 1.4.4 On the topic of financial sustainability specifically the NAO states, *“Compared with the situation described in our 2014 report, the financial position of the sector has worsened markedly, particularly for authorities with social care responsibilities.”*
- 1.4.5 Financial resilience varies considerably between authorities. The NAO notes that despite overall social care authorities having higher levels of reserves than in 2010/11, some 10.6% have reserve levels (ear-marked and non-ear-marked) that would be fully consumed in less than three years if the current rate of decline were continued. Clearly this is not a sustainable position.
- 1.4.6 In considering how well MHCLG assesses the funding need of local authorities, the NAO comments that the process for the 2015 spending review was an improvement over that for 2013. This improved process identified that adult social care was the key pressure facing local authorities leading to increased flexibility in Council Tax setting. However, they also note that the Government has announced multiple short-term funding initiatives, but does not have a long term plan for funding local government.
- 1.4.7 Whilst MHCLG monitoring of local authorities financial sustainability has improved, the NAO notes that there is a lack of on-going co-ordinated monitoring of the impact of funding reductions across the full range of local authority services. Monitoring by individual government departments, e.g. DoH, DfE, DfT, etc. for their own area of interest is adequate, but the central co-ordination by MHCLG to understand the impact of one service area on another is not.

- 1.5 The NAO report concludes that the sector has done well to cope with the reductions in funding, but that cracks are now starting to appear in the system. Local authorities face a range of new demand and cost pressures, whilst statutory obligations have not reduced. Non-social care budgets have been reduced substantially, which has now eroded both local discretion over service delivery and the ability to find further savings going forward. Further, the lack of resolution to the revised funding arrangements for local government has created financial uncertainty which in turn encourages short-termism and threatens value for money.
- 1.6 Looking more broadly at the role of central government the NAO concludes that there is not central understanding of service delivery from local government as a whole, or the interaction between service areas. It also notes that the current spending review period has been characterised by **one-off short term fixes** and that “this increasingly crisis-driven approach to managing local authority finances also risks value for money.”
- 1.7 The NAO report makes a number of recommendations about how MHCLG should work with other major funding departments to continue to improve the over-sight and understanding of the impact on services of local authority funding levels and mechanisms. It particularly recommends that MHCLG should work with the local government sector to deliver from the Fair Funding Review a system that addresses the financial and demand pressures and secures financial sustainability for the longer term.
- 1.8 In addition to the NAO report the Chartered Institute of Public Finance and Accountancy (CIPFA) has also made comment on this topic. Immediately following the publication of the Northamptonshire Best Value Review (see below), CIPFA set out what it believes are key lessons that need to be learnt:
 - 1.8.1 The need for resources to be more appropriately distributed to meet the service demands placed on councils at a local level. This is especially key for those upper tier councils with high statutory demand services such as adults and children’s services.
 - 1.8.2 A call for greater transparency and ownership of the financial challenges faced by the sector, so that councils can make the tough decisions needed to maintain a balanced and resilient budget.
 - 1.8.3 To ensure council reserves are maintained to an appropriate and sustainable level and that future plans to deliver services remain realistic and avoid any risk of optimism bias in their finances.
- 1.9 CIPFA are also proposing to take a number of actions to increase support to local authorities such as:
 - 1.9.1 A new code of practice on Financial Management and Planning to complement the existing codes on Accounting, Treasury Management and Borrowing.
 - 1.9.2 Consultation on a methodology to identify councils’ financial resilience with respect to reserves, so that there is publically available early warning rather than media speculation.
 - 1.9.3 The development of a programme of events and training sessions for Member and officer leadership teams on financial planning.

- 1.10 The Local Government Association (LGA) has undertaken some research and this shows that nationally 75% of councils reported an overspend of more than £0.5m in 2015/16 within Children's Social Care and that the national overspend on Adult Social Care in 2016/17 was £366m.

2. Northamptonshire County Council

- 2.1 Northamptonshire County Council (NCC) has attracted much media attention for being the first local authority in over 20 years to issue a Section 114 notice, which effectively means that in the opinion of the Chief Finance Officer there is a high likelihood that the authority cannot balance its books, or is choosing not to do so.
- 2.2 Prior to the S114 notice the Secretary of State had already sent in an Inspector to carry out a best value review of the authority. The report from that inspection was published on 16th March 2018. The S114 notice and Best Value inspection came following some earlier warning signs of concern. The external auditors had qualified their value for money audit opinion for both 2015/16 and 2016/17. A Local Government Association (LGA) peer review carried out in September 2017 also found concerns in respect of effective financial management. Also during the inspection period the external auditors issued an Advisory Notice indicating that they believed the Council was about to set an illegal budget.
- 2.3 The headline finding of the Best Value review was that NCC had failed to comply with its duty to provide best value in the delivery of its services and went on to recommend that two new unitary authorities be created to cover Northamptonshire and in the meantime consideration be given to asking commissioners to run the authority.
- 2.4 *Appendix 1* to this report sets out a detailed list of the issues identified by the Best Value review and draws direct comparison with the situation in Buckinghamshire. However, the key findings from the report are set out below:
- 2.4.1 Northamptonshire recognised that they faced a challenging operating environment and developed their "Next Generation" model in response. However, the model did not have any hard edged business plan or justification to support it.
- 2.4.2 Following the adverse Ofsted inspection report of Children's Social Care in August 2013, the authority lost tight budgetary control and effective budget setting scrutiny (it abandoned its "Star Chamber" process).
- 2.4.3 The Council used large amounts of capital receipts (£21m in 2016/17 and £21.5m in 2017/18) to fund its revenue transformation programme without proper authorisation and pushing the boundaries of legality.
- 2.4.4 The report identified that NCC struggles to take the necessary hard decisions at both Member and officer level to control and restrain expenditure, even after the issue of the S114 notice.
- 2.4.5 It was further identified that the Council does not respond well, if at all, to external or internal criticism.

3. *The Position in Buckinghamshire*

- 3.1 It is important given the general and specific concerns around local government finance that Buckinghamshire County Council reviews its current position and practices. *Appendix 1* sets out a detailed comparison between Buckinghamshire and Northamptonshire against each of the issues raised in the Best Value Review.
- 3.2 There are many reasons why Buckinghamshire is not in the same position as Northamptonshire. BCC has a reasonably healthy level of reserves both unallocated and earmarked, whereas Northamptonshire has applied virtually all of its reserves to propping up its recurrent funding. The level of unallocated reserves equates to nearly 8% of the net operating budget. This compares favourably with other authorities and is above the old recommended level of 5% that used to be quoted for guidance. Levels of reserves should be based on the financial risks facing an authority.
- 3.3 Furthermore, BCC does not use its capital receipts to fund revenue expenditure. BCC has a four year budget plan for both revenue and capital which is fully balanced with specific savings/income generation proposals. The issue of the Advisory Notice by Northamptonshire's external auditors challenges whether they even have a balanced budget for one year let alone four. BCC has a strong record of bringing the budget in on target even when faced with challenges in the year, whereas Northamptonshire's history shows regular and substantial overspending.
- 3.4 There is a strong Regulatory & Audit Committee at Buckinghamshire. The Committee regularly scrutinises and challenges internal audit findings, including financial governance and controls, and the risks facing the authority (strategic risks, BU risks and financial risks).
- 3.5 Despite these very distinct differences there are also some parallels to be drawn. Both BCC and NCC have had adverse Ofsted inspections of Children's Social Care services leading to additional funds being allocated to support and improvement programme. Although at a corporate level BCC has a strong track record of spending within its budget, Children's Social Care has overspent on a number of occasions, albeit not at the same level as in Northamptonshire. Both authorities had a fairly devolved/distributed operating practice for financial transactions and management, NCC more so than BCC.
- 3.6 Although both the underlying financial position and the operational practices in Buckinghamshire compare favourably with Northamptonshire there is no room for complacency. The financial challenges described by the NAO apply to all local authorities and especially those with social care responsibilities. A number of shared challenges with Northamptonshire have been identified, the most significant of which is the position of children's social services.
- 3.7 Faced with these challenges it is essential that the Council should have robust financial management arrangements in place. To this end the Corporate Management Team have commissioned a review of Financial Management across the Council. The investigation phase of the review has now been completed and a detailed improvement plan drawn up. Implementation of the plan is being regularly monitored by the Corporate Management Team and Cabinet Members.

- 3.8 Given the known fluctuations and risks in terms of the volume of vulnerable clients we have proactively instigated weekly budget meetings in both Children's Services and Adult Social Care to help manage this. These are chaired by the S151 Officer and include the full leadership teams of the service areas. As well as seeking ways to improve the financial position these have been reviewing financial processes and governance arrangements and strengthening these in order to enhance financial management arrangements, improve forecasting and tighten the grip around finance.
- 3.9 To ensure that the council sets a balanced budget and that it manages the finances within the approved budget the council has had to be innovative in order to reduce costs and maximise income. For example, the council has invested in property for a return, been successful in bidding for external funding and borrowed to finance an Energy for Waste plant. Careful due diligence and strong business cases have been scrutinised before such decisions are made.
- 3.10 It is also clear that one of the top priorities for the Council must be to address the issues identified by the recent Ofsted inspection on Children's Social Care. Not only should this have direct benefit for the vulnerable children and young people of Buckinghamshire but it would improve the Council's reputation and minimise the associated financial risks.

B. Other options available, and their pros and cons

Not applicable, as this is a review of existing material.

C. Resource implications

Implementing any improvement programme will inevitably require an injection of additional resource, albeit that this may be expected to be time limited. Funding for the required children's social care improvement programme has been allowed for within the approved budget based on the agreed service improvement plan.

D. Value for Money (VfM) Self Assessment

This report essentially concerns itself with a strategic overview of value for money. The Value for Money Opinion provided by the Council's external auditors, Grant Thornton, has been qualified for the past three years but only because of the Ofsted findings. This is likely to remain so until the adverse Ofsted opinion of Children's Social Services is addressed. The audit opinion indicates that other aspects of the way the Council is run do offer appropriate value for money. This demonstrates the importance of addressing the issues identified by Ofsted for the whole of the Council and not just Children's Services.

The wider environmental conditions identified by the NAO also demonstrate the continuing need for vigilance in the way that the Council manages its financial affairs. Value for Money is not a static concept and it is likely that in order to deliver the best possible value to residents within tightening financial constraints will require tough decisions to be taken. Unpopular as it may be it is probable that a number of lower priorities will have to be reconsidered or delayed.

E. Legal implications

There are no legal implications arising directly from this report.

F. Property implications

There are no property implications arising directly from this report.

G. Other implications/issues

It is important that all Members and managers within the organisation remain alive to the environmental conditions prompting this report and take appropriate action to mitigate the risks and issues emerging in order to provide the most effective service to residents within the resources available and to avoid reputational damage.

H. Feedback from consultation, Local Area Forums and Local Member vie

Not applicable

I. Communication issues

The Ofsted Improvement work already includes a communication plan and a similar approach will be taken in respect of the Financial Management Review.

J. Progress Monitoring

The financial management improvement plan will be monitored regularly by Corporate Management Team.

K. Review

Review arrangements in respect of the Ofsted Improvement Programme and the Financial Management Improvement Programme will be agreed as part of the reports on those specific items.

Background Papers

[Northamptonshire County Council Best Value Inspection](#)

[NAO - Financial Sustainability of Local Authorities 2018](#)

Your questions and views

If you have any questions about the matters contained in this paper please get in touch with the Contact Officer whose telephone number is given at the head of the paper.

If you have any views on this paper that you would like the Cabinet Member to consider, or if you wish to object to the proposed decision, please inform the Democratic Services Team by 5.00pm on [Date]. This can be done by telephone (to 01296 382343), or e-mail to democracy@buckscc.gov.uk