

L.B. Croydon – Public Interest Report

The external auditors (Grant Thornton) issued a public interest report on 23rd October 2020 following the auditor's longstanding concerns relating to the council's financial sustainability.

Headlines

- An unsustainably low level of reserves for some time (lowest level of all London Boroughs) which had continued to decrease in each of the previous three years.
- Adverse qualification on the 'value for money' conclusion for the last three years.
- Prioritisation given to delivering service improvement over reigning in budget overspends.
- Council accused of "collective corporate blindness" and fostering a governance culture in which poor spending decisions were not robustly challenged or scrutinised by councillors.
- Serious concerns of governance failure, and the impact of not acting urgently to financial concerns.
- High borrowing during the past three years (£545m) to invest in housing and commercial property, in which the investments "were not grounded in sufficient understanding of the retail and leisure market."
- Large overspends on adult and children's social care with no plans to address this.

Key findings that are relevant to Buckinghamshire Council include the following: -

<u>Key Points</u>	<u>Buckinghamshire Council Assurance</u>
External auditor's gave adverse value for money opinions for the last three years. Reports not taken seriously or reported onwards.	The external auditors have given an unqualified opinion of the financial statements (true and fair view) for all the legacy authorities and, with the exception of the Ofsted findings (BCC), they 'are satisfied that, in all significant respects, the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources for the year ended 31 March'.
Across the past three years, it allowed a £39.2m overspend on adult and children's social care and has failed to have an impact on demand, savings or costs in this area.	<p>Overall overspend across Adults and Children's has been as follows over recent years: -</p> <p>2016/17=£3.3m (adults=£1.8m, children's=£1.5m) 2017/18=£1.7m (adults=£0.0m, children's=£1.7m) 2018/19=£6.4m (adults=£1.6m, children's=£4.8m) 2019/20=£3.7m (adults=£0.4m, children's=£3.3m)</p> <p>Corporate contingencies have been budgeted for in these areas in recognition of the financial risks.</p> <p>Modelling undertaken as part of the MTFP to address any issues together with transformation programmes (e.g. Better Live's).</p>
Low level of reserves which have continued to deteriorate in each of the last three years.	All legacy authorities have had adequate levels of reserves (general fund and earmarked reserves).

	General Fund reserves are currently £47m (over 10% of the net budget) and revenue earmarked reserves as at 1 st April 2020 are £130m.
Lack of data analysis and accountability around non-delivery of savings or budget overspends. Just accepted and added into the budget.	A savings plan tracker is reported to CMT as part of monthly monitoring as well as at Directorate Boards, where these exist. Consideration should be given to setting up budget boards for all directorates to ensure a tight grip of the finances, including savings plans.
No real support for the budget strategy approved by Council and a lack of scrutiny in existence.	Cabinet Members are fully involved in the budget process and “Member Priority Groups” were established, involving members of the ruling administration. There is a strong and thorough review of the budget proposals by a cross-member scrutiny committee in January and the final budget considered the recommendations of this committee.
Scrutiny of the financial accounts by the Audit Committee is not effective.	The Audit & Governance Committee has received training on the annual accounts before they are then presented to the Committee. This is to aid Members with their understanding of the accounts and to ensure that any potential issues, being identified as part of the external audit of the accounts, are understood. The committee also receive regular reports around internal audit findings, including financial governance and controls.
Poor Risk Management with the Audit Committee struggling to get it to be taken seriously in the council.	A strong Risk Management Group exists (sub-group to Audit & Governance Committee) in which strategic risks, directorate risks, Covid risks and financial risks are regularly reviewed and challenged.
Insufficient rigour and control of investment decisions in housing and commercial property (including retail and leisure) that have been taken to generate income.	Some of the legacy councils have invested in property for a return over recent years. Careful due diligence has been undertaken and diversification of the portfolio considered. A proper approval process has been followed with clear transparency of decision-making. There are a couple of commercial acquisitions within a company (Consilio). The gross yield on old BCC commercial investments is 5.46% (net yield of 1.15%). A review of all existing commercial properties is recommended that fully consider the strategy, economic conditions and the overall position / risk profile now that we are one organisation.
The Council (including Cabinet and Scrutiny and Overview Committee) should challenge the adequacy of the reserves assessment which should include a risk assessment before approving the budget.	A reserves assessment is included within the CFO report that is considered as part of approving the budget. CMT receive a report on reserves a couple of times a year. This could be made quarterly and then reported to Cabinet members as part of the monitoring report from 2021/22 onwards.

<p>The Chief Executive should oversee a review of the outcomes achieved from the use of transformation funding to demonstrate that the funding has been applied in accordance with the aim of the scheme.</p>	<p>A Service Improvement Board has been established to oversee the Better Buckinghamshire Programme and this board considers all requests for funding. It also monitors the use of this funding as well as the savings achieved. Regular reports are presented to CMT.</p>
<p>The Cabinet reports on the financial position need to improve the transparency of reporting of any remedial action taken to address in-year overspends.</p>	<p>Financial reports are taken to Cabinet on a quarterly basis setting out both the financial position and the actions being taken to address any overspends. All legacy authorities had a good track record in managing overall spend to the approved budget.</p>
<p>The Council (including Cabinet and Scrutiny and Overview Committee) need to show greater rigour in challenging underlying assumptions before approving the budget including understanding the track record of savings delivery.</p>	<p>Underlying assumptions are discussed at CMT and with Cabinet Members. Furthermore, there is a "Check & Challenge" process for the Leader and Deputies to scrutinise all budget proposals and the budget scrutiny committee also look at all assumptions (corporate and service) and make recommendations to the Cabinet.</p>
<p>The Cabinet and Council needs to re-consider the Treasury Management Strategy for ongoing affordability of the borrowing strategy, the associated risks and identify whether alternative options can reduce the financial burden.</p>	<p>The Treasury Management Strategy sets out how the Council manages its cash, including its borrowing and investments. The security of funds is a key component of the strategy and this always comes before yield. The strategy also sets out key indicators around borrowing and investments to ensure that there is adequate diversification and adherence to best practice. Furthermore, the Council uses advisors (Arlingclose) to assist with the borrowing strategy and to help identify opportunities to mitigate risks / reduce costs. Current external borrowing is £358.5m.</p> <p>All capital schemes to be financed from borrowing are subject to a business case, that clearly sets out the financial implications of the scheme. Borrowing to fund the capital programme is only considered for schemes where there is a net benefit of investment. Furthermore, such schemes are taken through Cabinet.</p>
<p>The Chief Executive should arrange detailed Treasury Management training to assist Members to better understand and challenge the long-term financial implications of matters reported within the Treasury Management Strategy.</p>	<p>The Members of the Audit & Governance Committee received detailed treasury management training in July from our treasury management advisors (Arlingclose). This will be undertaken on an annual basis.</p> <p>Furthermore, a Treasury Management Group meets on a quarterly basis and includes the Cabinet Member for Resources and the s151 Officer. Arlingclose often present to this group.</p>
<p>The s151 officer should revisit the Minimum Revenue Provision policy to demonstrate that a prudent approach is being taken.</p>	<p>The Minimum Revenue Provision policy was reviewed as part of bringing the five legacy authorities together. This is based on an annuity basis over the life of the asset.</p>

<p>The Cabinet and Council should review its arrangements to govern its interest in subsidiaries, how the subsidiaries are linked, the long-term impact of the subsidiaries on the Council's financial position and how the Council's and tax-payers interest is safeguarded.</p>	<p>Buckinghamshire Council has several subsidiary interests, including a 100% owned company, trust funds and a joint venture.</p> <p><i>Governance arrangements need to be reviewed and regular reporting established to ensure that the financial position, performance and outcomes against their business plans are clearly being monitored and understood.</i></p>
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