

# Financial Peer Review **Northamptonshire County Council**

Dates: 12<sup>th</sup> – 14<sup>th</sup> September 2017

Feedback Report

## 1. Executive Summary

- 1.1 Like much of local government, Northamptonshire County Council has seen major reductions in its funding over the past seven years and there are further significant grant reductions planned for local authorities to the end of the decade. This, together with service pressures, puts the Council at a cross roads in terms of its viability.
- 1.2 Service areas in recent years have sought to make significant savings, in particular in Adult Social Services costs. However, major shortfalls in achievement have been the norm in the last few years and reserves and balances have been used to ensure that the Council's annual budget and accounts show a viable position.
- 1.3 The Council has strengths within its management team and there is clearly confidence throughout the organisation in the new management team members. We heard from officers and members that there has been a step change in the stewardship of the budget with a better grip on finances since the arrival of the Interim Group Finance Director. Proper financial processes and control, with a sense of realism, are either now in place or are planned and budget holders are being challenged to deliver savings.
- 1.4 However, time is running out for Northamptonshire County Council.
- 1.5 The scale of savings needed in 2017/18 at £57.8m is substantial and this is after the further use of reserves and utilisation of capital receipt flexibilities to meet revenue expenditure. The management team is still in the planning phases of how this will be delivered.
- 1.6 The peer team sees a that a deliverable plan for a balanced budget for 2018/19 is still a work in progress and the first phase of this plan is to be published for the Cabinet meeting in October 2017.
- 1.7 Given this, the Council is focused on short-term 'survival' to shore up its 2017/18 position and to put forward a balanced budget for 2018/19. Thereafter the financial situation looks very serious.
- 1.8 The peer team got the sense that the Council is banking on the 'hope' that it will be bailed out by the government in 2019/20, because it believes other councils may also find themselves in a similar position.
- 1.9 This indicates that the Council is heading towards major financial problems and the actions it takes now will determine its future financial sustainability.
- 1.10 The Council's future financial plans appear to be built with a very optimistic bias as to what can be achieved in general savings and by transformation through the 'Next Generation Council' model. The degree of reliance on savings from transformation requires close questioning as recent experience does not suggest that plans will be delivered. The peer team found there to be a lack of overall understanding and

confidence within the Council, at both officer and member level, in the 'Next Generation Council' model because:

- Implementation of it is not affordable in the current financial situation
- There is insufficient capacity within the council to successfully deliver it
- The cost and benefits have not been articulated and approved and we found no evidence of fully worked business cases for each of the key strands of transformation
- It is a distraction away from core business and the urgent need to create a coherent and deliverable medium-term financial plan
- The team heard comments from several sources that 'time has run out' for the model

1.11 The council has had a historic problem of non-delivery of ongoing savings and this is having a cumulative effect on its financial position. While the budget has been delivered every year this has been through one-off interventions which has resulted in significantly depleted reserves.

1.12 We feel that the political leadership needs to be more involved in the detail of the budget and the core business of the council so that it can provide the strategic direction, challenge, impetus and impact that is now needed; and the challenging decisions that it will undoubtedly need to take.

## **2. Key recommendations**

2.1 There are a range of suggestions and observations within the main section of the report that will inform some 'quick wins' and practical actions. The following are the peer team's key recommendations to the Council:

- 1) Prepare a new 4 year service and resource plan backed up with a sensible delivery plan which shows a balanced budget over the period.
- 2) Focus all available resources on realising savings and return on investment.
- 3) The council should not be distracted by initiatives which do not provide sufficient rewards for effort.
- 4) A financial gap analysis of the 4 year plan should form the basis of the Council's discussions with government to identify short term solutions until it can achieve financial balance in the medium and longer term.
- 5) The Cabinet and the new management team need to demonstrate consistently a collective commitment to addressing the Council's serious financial position.
- 6) The new management team needs to ensure that all staff comply with proper financial and other processes.

- 7) The audit functions need to be more effective with the Council placing more value on them and using them as an effective tool for improvement and assurance.

### 3. Summary of the Peer Review approach

#### 3.1 The peer team

Peer reviews are delivered by experienced elected member and officer peers. The make-up of the peer team reflected your requirements and the focus of the peer review. Peers were selected on the basis of their relevant experience and expertise and agreed with you. The peers who delivered the financial peer review at Northamptonshire County Council were:

- **Patrick Flaherty** - Chief Executive, Somerset County Council
- **Councillor Ian Parry** - Deputy Leader and Cabinet Member for Finance, Staffordshire County Council
- **Margaret Lee** - Executive Director (Corporate and Customer Services), Essex County Council
- **Julie Parker** - Financial Improvement and Sustainability Adviser, Local Government Association
- **John Jackson** - National Care & Health Improvement Adviser (Finance & Risks), Local Government Association
- **Satvinder Rana** - Programme Manager, Local Government Association

#### 3.2 Scope and focus

The peer team considered the following five questions which form the core components looked at by all Financial Reviews. These are the areas we believe are critical to councils' performance and improvement:

1. **Financial leadership:** Does the authority have plans for its long-term financial sustainability which are owned by its councilors and officer leaders?
2. **Financial strategy, planning and forecasting:** Does the authority understand its short and long-term financial prospects?
3. **Decision-making:** Are key decisions taken in the understanding of the financial implications, risks and options?
4. **Financial outcomes:** Are financial results (including those of the Council's capital investments and transformation projects) monitored and acted upon so as to realise the authority's intentions?
5. **Partnership & innovation:** Is finance at the cutting edge of what the authority is working to achieve, working with partners and seeking innovative approaches?

### 3.3 In addition to these questions

The Council asked the peer team to consider/ review / provide feedback on the following areas:

- i. Is there anything in the peer review team's view that the Council is not doing but should consider to manage the revenue budget pressures in the longer term?
- ii. Is there anything in the peer review team's view that the Council should be doing in terms of investments to generate new income streams?
- iii. Does the peer review team deem the arrangements and governance for budget control and savings programme delivery appropriate and effective?
- iv. Are the arrangements for keeping Cabinet informed on budget position and options for budget mitigation sufficiently effective?
- v. How can political and managerial leadership build an engagement strategy to support advocacy of the council's financial position at Westminster?

### 3.4 The peer challenge process

It is important to stress that this was not an inspection. Peer challenges are improvement-focussed and tailored to meet individual councils' needs. They are designed to complement and add value to a council's own performance and improvement focus. The peer team used their experience and knowledge of local government to reflect on the information presented to them by people they met, things they saw and material that they read. The process is not designed to provide a technical assessment or due diligence on financial matters.

The peer team prepared for the peer challenge by reviewing a range of documents and information in order to ensure they were familiar with the Council and the challenges it is facing. The team then spent 2.5 days onsite at Northamptonshire County Council, during which they:

- Spoke to more than 39 people including a range of council staff together with councillors and the external auditor.
- Gathered information and views from more than 30 meetings and additional research and reading.
- Collectively spent more than 260 hours to determine their findings – the equivalent of one person spending more than 7 weeks in Northamptonshire County Council.

This report provides a summary of the peer team's findings. It builds on the feedback presentation provided by the peer team at the end of their on-site visit (12<sup>th</sup> – 14<sup>th</sup> September 2017). In presenting feedback to you, they have done so as fellow local government officers and members, not professional consultants or inspectors.

By its nature, the peer review is a snapshot in time. We appreciate that some of the feedback may be about things you are already addressing and progressing.

The peer team would like to place on record its thanks and appreciation for the way the officers and member of Northamptonshire County Council approached this review. We found all to be open, honest and interested. We also noted their commitment to working to improve the situation.

## 4. Feedback

### 4.1 Financial leadership: *Does the authority have plans for its long-term financial sustainability which are owned by its members and officer leaders?*

- 4.1.1 The Council does not currently have robust and deliverable plans for its long-term financial sustainability. It is having to dig deep and is now focused on short-term 'survival' to balance the budget in 2017/18 and put forward a balanced budget for 2018/19. Thereafter the financial situation looks very serious. The peer team got the sense that the Council is banking on its ambitious transformational plan to deliver substantial savings and the 'hope' that it will be bailed out by the government in 2019/20, because other councils may also find themselves in a similar position.
- 4.1.2 We have heard there was a lack of collective financial grip in the Council until recently. Many people have commented that this has changed for the better since the arrival of the Interim Group Finance Director. This clearly needs to continue.
- 4.1.3 In other parts of the Council there have been a number of newly recruited staff who recognised the need for greater focus on core processes and were looking to address areas of weakness.
- 4.1.4 However, there is a very short-term focus on solving the financial problems of today which could be to the detriment of the medium to longer-term. These particularly relate to the use of capital receipts, Section 106 monies and other treasury management approaches, many of which have revenue implications in the future. For example, we noted that funding had been withdrawn to support transformation work realising a saving on this budget head. Yet analysis of the current year overspend reveals several projects such as Learning Disability commissioning with a planned £4.5m saving are under threat due to lack of capacity. It is important that greater and earlier focus is given to delivery plans of savings targets to maximise success.
- 4.1.5 There is a lack of collective ownership of solutions to the 2017/18 forecast overspend. The peer team did not get the feeling that there was a total focus on addressing the in-year overspend. There was still activity taking place on other structural transformation initiatives and projects that appeared to be a distraction to addressing the current budget overspend in a sustainable way.

- 4.1.6 As the council has previously managed to balance the budget each year there was the sense (amongst certain officers and members) that “we have done it before and we can do it again”.
- 4.1.7 There is no medium term financial plan in place which will sustain the council beyond the end of the current financial year (2017/18). While work has commenced on updating the forecasts for 2018/19 and beyond, the Council is a considerable way away from having a sustainable plan. The use of one-off solutions to balance the 2016/17 and 2017/18 budgets has placed further pressures on the Council’s medium term position and reduced its flexibility to provide investment for future service improvement and transformation.
- 4.1.8 The Council is exposed to high levels of borrowing and need to consider the longer-term implications of rate rises.
- 4.1.9 Both earmarked and free reserves appear to have been significantly depleted in recent years and now stand at a very low level, resulting in a low availability for their continued use to prop up the Council’s revenue budget position going forward.

**4.2 Financial strategy, planning and forecasting: *Does the authority understand its short and long-term financial prospects?***

- 4.2.1 The Council understands its short and long-term financial prospects. The difficulty was being able to identify solutions to address the scale of the challenge it faces. There is a tradition of producing medium term financial plans – but they have not worked because too many components of those plans have proved to be unreliable and undeliverable. In a number of cases the plans have been unrealistic in timing (with full year savings put in from year 1, or savings put in without clear delivery plans) while other plans have been dependent on decisions being made by others outside of the Council’s control.
- 4.2.2 For example, an examination of the 2017/18 plan reveals that for some of the ‘red’ projects (i.e. those where there is significant risk of non-delivery) there are no delivery plans in place (e.g. the ‘review of fostering and adoption provision’), or that a member decision is needed (e.g. Project Angel alternative funding model). We are not clear if that was as a result of governance issues, competency issues or capacity issues; or a combination of any number of these.
- 4.2.3 The current processes do not allow members to understand in sufficient detail the implications of the decisions being made. Members placed a high degree of trust in the approaches being proposed by officers without necessarily being involved or challenging the plans at an early stage.
- 4.2.4 There is no financial strategy to deliver a sustainable position for the Council.
- 4.2.5 There is an over-reliance on the government bailing the council out in 2019/20. There was a sense that the scale of the financial challenge for the Council was

just too great for it to overcome itself and that the government would have to bail it out.

#### **4.3 Decision-making: *Are key decisions taken in the understanding of the financial implications, risks and options?***

- 4.3.1 Key decisions are not always taken in the understanding of the financial implications, risks and options. This was particularly the case with the 'Next Generation Council' programme and its component parts. This has been the subject of an external audit comment with associated recommendations, but we could not find any record of these being addressed.
- 4.3.2 Transformation activities required funding but this had not been provided within the budget. Transformation is therefore not prioritised or approved against finance and outcome orientated business cases. It was however noted that Department for Education (DfE) funding was available to support the establishment of a separate company to deliver Children's services.
- 4.3.3 Financial information is not presented clearly and transparently. For example, the 2016/17 outturn report masks the difficult financial position of the Council as it is not totally clear the extent to which the Council has overspent. In the case of the capital programme, it is not possible from the reports to get a full sense of the size of the programme and how it is to be funded. Reporting the budget in the context of the Northamptonshire Group environment is novel in the experience of the peer team and led to a sense of 'opaqueness'.
- 4.3.4 There have been unrealistic savings targets built into budgets which have not been evidence based. While there has been a fair degree of rebasing for the 2017/18 budget by stripping out a number of previously agreed savings that were not deliverable, there are still a number of savings proposals in the 2017/18 budget that were not supported by strong evidence. In-year monitoring are showing these as being unrealistic at the time of the peer review.
- 4.3.5 The rebasing appears to have been negated by the scale of the savings required for 2017/18. For example the level of savings set for the adult social care service is considerable (£25m on a net budget of £150m) and virtually matches the rebased sum (£24m).
- 4.3.6 There was a concern expressed by senior operational leaders that the savings targets emerging for next year are unrealistic and would impact on operational effectiveness. It was specifically noted that the welcome progress from the previous 'Inadequate' judgement of Children's services remains fragile and could be easily undermined by sweeping and unplanned savings expectations.
- 4.3.7 The peer team also understand that previous commitments have been made to secure the ongoing funding stability for the forming of the Trust for Children's services. This pledge appears to be at odds with the current financial pressures but at the same time overly optimistic given the Council's financial position. It is

clear that a sensible middle ground will have to be sought and discussed with the Department for Education.

- 4.3.8 There is a lack of sufficient challenge among officers and from members. There is a considerable amount of trust in plans that are presented without evidence that those plans have been challenged. Some Portfolio holders readily accept the information they are given without systematic and robust challenge. There is a tendency for cabinet members to trust that the relevant individual portfolio holder has challenged proposals.
- 4.3.9 Decisions taken by the Cabinet need greater transparency. Council members and scrutiny chairs need access to more information. There was a desire expressed from some cabinet members for greater discussion and challenge across portfolios. However, where challenge has been provided, for example from the Audit Committee, that has not been welcomed.
- 4.3.10 We have not seen evidence that addresses the significant concerns highlighted by the KPMG VFM report about the 'Next Generation Council' model. There was support for the model but not universal support for the vision. Some felt that it may be the right thing to do but it was coming at the wrong time for the Council and they wished it had been started earlier.
- 4.3.11 Whilst some people the peer team met expressed a sense of excitement in the model, there was concern expressed at the capacity and investment to do this alongside the other financial challenges.

#### **4.4 Financial outcomes: *Are financial results (including those of the Council's capital investments and transformation projects) monitored and acted upon so as to realize the authority's intentions?***

- 4.4.1 The Council has a poor record of delivering its approved budget. In 2016/17 the People Service overspent by £30m which was offset by the use of reserves and capitalisation flexibilities. There was a similar overspend across Adults and Children's in 2015/16. Although the Council has rebased the 2017/18 budget to remove what it considers to be the structural deficit it is already not delivering the 2017/18 budget. At the time of the peer review the in-year position was worsening.
- 4.4.2 Under the Interim Group Finance Director there has been a much stronger financial grip. This greater grip has been welcomed in the Council. However there is much more to do. It is vital that the grip and a focus on driving out savings continues in the future.
- 4.4.3 We understand the new financial training has been well received and this must continue. We are concerned that this is only the start of raising financial skills in the organisation and given that the training has only recently taken place we were not able to assess how effective it was.

- 4.4.4 The audit functions need to be more effective and the Council needs to place more value on them and use them as an effective tool for improvement and assurance. The non-delivery of the full internal audit plan in 2016/17 was an area of concern, together with the extent to which external audit works with internal audit. Both internal audit and external audit work could be more effectively used by management to support an improvement and efficiency programme as well as provide valuable assurance that controls are operating appropriately.
- 4.4.5 There were signs that the Council may be experiencing in some areas weaknesses in the compliance with proper financial and other processes. The cost of failure can be high and audit can be a valuable tool in giving early warning that processes are not as robust as they could be.
- 4.4.6 Implementation and monitoring of the savings programme needs to be constantly reviewed and strengthened where required. This has not been particularly evident in the last 2 years and in 2017/18 a number of the planned savings are not being implemented in accordance with the budget plan, less than 3 months into the plan (see earlier examples).

**4.5 Partnership & innovation: *Is finance at the cutting edge of what the authority is working to achieve, working with partners and seeking innovative approaches?***

- 4.5.1 The Council has complex partnership arrangements in place as part of its shared services and arms-length service delivery vehicles. The peer team did not have the opportunity to examine these in detail within the timeframe of this peer review. Therefore we have been unable to offer a view on the financial effectiveness of these partnerships and innovations.
- 4.5.2 Nevertheless, we did hear that the Council now has a much stronger relationship with the local health sector and is working more closely and collaboratively to address the health and wellbeing of the local population.
- 4.5.3 We also understand the partnership with Keir is working well and would encourage the organisation to maximise benefit from this.

**4.6 Other specific focus areas determined by the Council**

**4.6.1 Is there anything in the peer review team's view that the Council is not doing but should consider to manage the revenue budget pressures in the longer term?**

See 4.6.2 below

**4.6.2 Is there anything in the peer review team's view that the Council should be doing in terms of investments to generate new income streams?**

Below are a number of suggestions which the peer team think you should further explore in order to release further efficiencies and generate income streams both in

terms of the short and longer term in response to the requested areas of focus at 4.6.1 and 4.6.2:

a. *Council tax:*

- Re-examine the council tax base
- Review estimates for growth
- Further improve collection rates

b. *Business rates:*

- Re-examine the business rates base
- Review estimates for growth
- Review discretionary discounts

c. *Contracts reviews:*

- Off-contract purchases
- Review inflation terms
- Negotiate contract extensions where there are opportunities for improved value for money
- Joint procurement with other bodies (DCS/LGSS partners etc.)

d. *Review legal costs*

e. *Commissioning* – the Council’s approach to commissioning of key services such as the care market appears to be immature with a too prevalent acceptance of current market conditions. The Council should seek to enhance its market engagement and use its purchasing powers to remodel the current market to its economic advantage.

f. *Review transport* - including home school transport, Special Educational Needs and social care transport. Review the use of dynamic purchasing and the timely use of block purchasing.

g. *Adult social care:*

- Review the Shaw PFI contract
- Range of learning disability savings
- Strengthen commissioning and market-making

h. *Scope of savings in children’s outside of social care* – especially the extent to which the Council provides services to support schools plus the effective use of school orientated budgets. However, within Childrens social care continue to focus on safely reducing the number of children in the care of the Council, and focussing on developing a more effective cost commissioned care provider market in Northamptonshire.

i. In the medium to longer term, it should be possible to realise savings in children’s social care given your current levels of activity and unit costs which are higher than average. However, it is important that this service is stabilised first to ensure service delivery is appropriate to vulnerable children.

- j. *Review the Capital programme* – its affordability and whether efficiencies are realised such as the standard designs and frameworks for the delivery of new schools.
- k. *Reassess business cases for viability and deliverability* - i.e. what will it take to deliver and reassess from a Return On Investment (ROI) point of view.
- l. *One Angel* - consolidate office accommodation, consider options such as sale and lease back, or rent out spare capacity.

Members of the peer review team can provide further details to the Council if required.

**4.6.3 Does the peer review team deem the arrangements and governance for budget control and savings programme delivery appropriate and effective?**

The arrangements that the Council has in place are not working consistently, even though savings are being achieved. The Council continues to have to find mitigating measures to address the in-year overspends. The Council would benefit from putting in place better challenge to the deliverability of savings plans before they become firm proposals within the medium term financial strategy. There needs to be greater focus on holding budget managers to account.

**4.6.4 Are the arrangements for keeping Cabinet informed on budget position and options for budget mitigation sufficiently effective?**

See comments under 4.3

**4.6.5 How can political and managerial leadership build an engagement strategy to support advocacy of the Council's financial position at Westminster?**

Recommendation 4 addresses this, additionally the Council needs to show what it can do itself to address the funding gap and evidence that it has taken all the actions possible at its disposal. The presentation of a robust medium term plan which demonstrate financial balance over this period is essential to be used to enable constructive discussions with central government.

## **5. Next steps**

### **Immediate next steps**

We appreciate you will want to reflect on these findings and suggestions with your senior managerial and political leadership in order to determine how the Council wishes to take things forward.

As part of the peer review process, there is an offer of further activity to support this. The LGA is well placed to provide additional support, advice and guidance on a number of the areas for development and improvement and we would be happy to discuss this.

Mark Edgell, Principal Adviser is the main contact between your authority and the Local Government Association (LGA). His contact details are: Tel: 07747 636 910 and Email: [mark.edgell@local.gov.uk](mailto:mark.edgell@local.gov.uk)

In the meantime we are keen to continue the relationship we have formed with you and colleagues through the peer review. We will endeavour to provide additional information and signposting about the issues we have raised in this report to help inform your ongoing consideration.

A handwritten signature in black ink, appearing to read 'Satvinder Rana', written in a cursive style.

**Satvinder Rana**  
Programme Manager

(On behalf of the peer review team)