

Value for Money Tracker Update

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Division and Local Member: All

1. Introduction

- 1.1 At the September 2019 Audit Committee the external auditor, Grant Thornton, presented several recommendations for improvement in value for money (VFM) as part of their 2018/19 overall annual Audit Findings Report. Despite an improved position from an adverse opinion in 2017/18 to a 'qualified, except for' opinion for 2018/19 the auditor was clear that there remained more improvement to make.
- 1.2 To recognise the importance of these actions, the recommendations for improvement were turned into a VFM tracker and actions are recorded and tracked through JCAD (the Councils risk management tool). This tracker outlined improvements mainly to budget monitoring and the MTFP which have continually improved. This report now takes the next step in assessing the Council's preparedness for an unqualified VFM Audit in the summer of 2020 for the financial year 2019/20.

2. Issues for consideration

- 2.1 Members are asked to consider and comment on this report.

3. Background

- 3.1 In July 2018 the external auditor concluded that the Council did not have effective value for money arrangements in place for 2017/18 and that the financial challenges facing the Council were pervasive to the whole Council and reached an 'adverse' value for money conclusion, the worse conclusion that the Council could get.
- 3.2 In September 2019 the external auditor issued their conclusion for 2018/19 as 'qualified except for'. This improved VFM conclusion reflects the positive response by the Council throughout 2018/19 but also highlights the remaining weaknesses:

Grant Thornton conclusion says:

"This 'except for' rating recognises that there is still much to do within the Council to return it to a fully sustainable financial position and it is critical that continued effort is directed to ensuring the positive trajectory over the last 12 months continues".

3.3 In response, this Committee at its meeting in September 2019 was presented with an up-dated VFM tracker that the Council will maintain through JCAD and report to each Audit committee meeting through 2019/20 to track progress.

3.4 As the Council is now moving towards the VFM conclusion for 2019/20 it is important that the focus of this report is limited to the purpose of the value for money opinion guidance which is that:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

3.5 The three sub criteria for assessment to be able to give an overall conclusion are:

- Informed decision making;
- Sustainable resource deployment;
- Working with partners and other third parties

3.6 In addition to this the Council has also been asked to prepare a Statement of Going Concern.

4. Improvements to Date

4.1 The background to the Council's financial low point in the early part of 2018/19 with a predicted £12m overspend, low reserves, a budget that was not robust, non-delivery of savings and a track record of overspending is well publicised.

4.2 The Council took decisive action to affect a financial turnaround driven by a new experienced interim S151 officer. This included revising the 2018/19 budget with the Children's Service budget being rebased to a more realistic and sustainable level, identifying significant savings to address the potential in year overspend and putting in place a robust budget monitoring process.

4.3 The 2018/19 outturn showed an underspend of just under £6m which represented a significant turnaround compared to a projected overspend of

£12m. This also reversed the trend of an overspend in both 2016/17 and 2017/18 which had put pressure on the Council's reserves.

- 4.4 As well as improved budget setting, budget monitoring and financial control there were a number of improvements to financial management through such things as financial training for budget holders, LGA Peer Review and a process to track financial savings.

2019/20 Budget Setting

- 4.5 Building upon the rebasing of the 2018/19 budget the approach to budget setting was modernised and updated to ensure that robust and realistic budgets were set. The previous approach of setting cash limits for each service and requiring services to fund some of their own pressures such as pay awards, inflation etc by making their own service financial savings was stopped. Realistic budgets were set, for example, staff pay was based on the staffing establishment and an estimate for the national pay award and increments
- 4.6 The budget process previously had a significant number of unachievable savings and these were all removed. Savings put forward were scrutinised and their deliverability assessed. If they were deemed as realistic, they were included within the budget proposals. A key part of the improved approach to financial management included monthly tracking and reporting of the progress of delivering the savings which were reported to SLT and Cabinet.
- 4.7 A feature of the 2019/20 budget was a central contingency to cover any unexpected costs and if unspent at year end to help boost reserves.

Budget Monitoring during 2019/20

- 4.8 The budget monitoring process was revamped and updated with the introduction of monthly budget reporting to both SLT and Cabinet, and with more regular reporting to Scrutiny. The format of the reporting was agreed with the members.
- 4.9 As part of the budget monitoring reporting there was a commentary on the delivery of savings and their progress of being achieved. This was critical to move away from non-delivery of budgeted savings, which was a key feature of the overspending in 2016/17 and 2017/18.
- 4.10 In Month 9 the budget monitoring report showed an overall predicted favourable variance for the year with £6.550m of the contingency still unallocated. Therefore, members agreed to further replenish reserves and address the last remaining negative reserve, whilst still leaving £2m unallocated in contingency.

- 4.11 To help mitigate the uncertainties of Business Rates, Fair Funding and the Comprehensive Spending Review £2.187m was allocated from contingency to create a Funding Volatility reserve to provide resilience for future changes in external funding.
- 4.12 Even after transfers to reserves the final outturn position for 2019/20 shows an underspend of £4.428m against services with £1.996m of unallocated contingency giving an overall underspend of £6.423m for the year.

2020/21 Budget Setting

- 4.13 The 2020/21 budget process built upon the rebased 2018/19 and 2019/20 budgets continuing with the approach of building in realistic assumptions around changes in costs e.g. pay awards; demands in adults & children and, building in realistic savings. Scenario testing was used to understand the financial impacts of changes to assumptions and their impacts upon the MTFP. The process was further improved by a clear strategic financial overview linking Revenue & Capital Budgets and Reserves.
- 4.14 With national funding being a key issue an independent review of the MTFP assumptions was undertaken by LG Futures including modelling around business rates income.
- 4.15 All Budget holders carried out a budget confidence exercise identifying key risks to the delivery of their budgets over the next 3 years. This was used to refine the MTFP and budget assumptions.
- 4.16 There was a 3-day Budget Challenge session in August where all Directors' budget proposals were subject to challenge, scrutiny and review. This was led by Pat Flaherty, Chief Executive with support from Jason Vaughan, Director of Finance and Vikki Hearn, Strategic Manager Business Change. In October there was a full day where SLT carried out a Capital Challenge Session. All budget holders had to outline their bids which were then reviewed and scrutinised by SLT including understanding the alternative options and the impact of not doing the scheme.
- 4.17 A key part of the budget setting process has been wide engagement with budget holders, Directors and Senior Managers across the Council. There has been 3 all member briefings, in addition to briefings to political parties and formal committee processes including the 3 scrutiny committees. There has been on-going updates and briefings with trade unions as well as engagement with the business sector and Growth Board.

- 4.18 In reviewing the 2020/21 Budget and MTFP proposals, use was made of the CIPFA Resilience Index to compare the Council against others which was used in the Section 151 Officers Section 25 Report Statement.
- 4.19 At the end of the process there was a MTFP review & lessons learnt session involving a variety of officers involved in the process and the whole budget setting has been reviewed by SWAP Ltd, the Council's internal auditors who produced a positive report on the process.

Reserves

- 4.20 There has been significant work on improving the level of reserves that the Council holds and also being clear around the reserves held by SCC on behalf of others. All SCC negative reserves have been successfully addressed and eradicated.
- 4.21 The analysis of Reserves now clearly identifies General and Earmarked reserves which are the Council's with any reserves held on behalf of others being clearly and separately identified. The Council's earmarked reserves have notionally been broken down into Resilience Reserves and other reserves.
- 4.22 The level of General Fund Reserve was increased by £2m to £19.690m as part of the 2019/20 budget setting process. The level was reviewed when setting the 2020/21 budget and compared well with other similar authorities using the CIPFA Resilience Index.
- 4.23 The level of Earmarked Reserves has been significantly increased from £25.847m at the end of 2018/19 to £56.482m at the start of 2020/21. There has been a real focus on increasing the 'resilience' reserves element of this and as a result they have been increased to £29.570m from £5.215m over the period.
- 4.24 Overall the level of General and Earmarked Reserves has increased significantly from £43.537m at the end of 2018/19 to £76.172m at the start of 2020/21. This is an increase of £32.635m or 75% over the period and has ensured that the reserves position is more robust.

MTFP & Future Years

- 4.25 The MTFP which Council approved in February 2020 set out modest budget gaps of £5.4m in 2021/22 and then £4.1m in 2022/23. However, these figures were based upon very prudent assumptions around the changes to local government funding through Fair Funding and Business Rates Retention and the Comprehensive Spending Review.

- 4.26 This prudent approach puts the Council in a good position to continue to set balanced robust budgets.

Financial Sustainability

- 4.27 The significant improvements that the Council has made in its approach to financial management and financial control has seen it set robust budgets and significantly build up its level of reserves over the last couple of years. These two areas were a key weakness previously and were highlighted in previous VFM conclusions.
- 4.28 The Council now has a proven track record of not only setting robust budgets, delivery of savings but of underspending with the 2018/19 outturn showing an underspend of £5.909m and 2019/20 being an underspend of £6.423m.

Covid-19

- 4.29 There is no doubt that the financial impact of Covid-19 is substantial and is having an effect upon all Councils including SCC. The Council is closely monitoring spend and loss of income as a result of the pandemic and continues to work with Central Government to address the shortfall in grant.
- 4.30 The significant improvements that the Council has made to its Reserves means that it is not in the position of currently considering a section 114 notice. Work has started on a 'Finance Reset' programme to address any funding shortfalls in the current financial year and to update the MTFP for September.

Conclusion

- 4.31 The Council has made significant improvements in its financial management and financial control processes. As a result, it has set 3 robust budgets, delivered underspends of £5.9m and £6.4m in the last two years and successfully increased its level of reserves by 75%. These improvements fully address the previous concerns raised by the external auditor.

5. Consultations undertaken

- 5.1 Officers will continue to hold regular liaison meetings with the external auditor, the frequency of these will be agreed between the S151 Officer and the External Audit lead and be proportionate to the actions required.

6. Implications

- 6.1 The Council has made significant improvements in its preparation for its VFM conclusion for 2019/20 and will continue and further embed improvements already made.