

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

26th SEPTEMBER 2019

SECTION 24 RESPONSE

Relevant Portfolio Holder	Councillor David Thain, Portfolio Holder for Corporate Management
Portfolio Holder Consulted	√
Relevant Head of Service	Jayne Pickering, Executive Director Finance and Resources
Wards Affected	All Wards

1. SUMMARY OF PROPOSALS

This report details the formal responses to the Section 24 Notice as submitted to the Council in relation to future financial sustainability. This report enables members to consider and approve the action plan to ensure the Council has a balanced financial position for the medium term financial plan commencing 2020/21.

2. RECOMMENDATIONS

The Committee is asked to APPROVE the responses to the Section 24 recommendations as detailed at 3.6.4, 3.6.5 and 3.6.6 of this report.

3. KEY ISSUES

- 3.1 In July 2019, Grant Thornton , the Councils External Auditor undertook the relatively unusual step of issuing a number of Statutory Recommendations under Section 24 of the Local Audit and Accountability Act 2014. This measure was a strong warning to the Council of the Auditor's concerns but stops short of a public interest report.
- 3.2 A S24 notice requires the Council to agree its response to the points included within the recommendations within 1 month of issue and to publish how it proposes to address the issues raised.
- 3.3 As permitted in the legislation, an extension was sought from the Auditor to 27th September 2019 to ensure an additional Audit Committee could be set up to consider and approve the responses and this was granted
- 3.4 The formal Section 24 recommendation as included in the Audit Opinion and approved at the last Audit Committee stated :

That the Council needs to take urgent action to prevent both its General Fund and HRA balances being exhausted by the end of

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2020/21. Failure to take effective action will put the Council at risk of breaching its statutory duty to set a balanced budget. It must agree and implement an achievable financial strategy that ensures a sustainable level of General Fund and HRA balances is maintained in the medium term (at least the next three years up to and including 2021/22), taking into account the current uncertainties about future local authority funding.

This must include the following:

- A full assessment of the deliverability of the £1.13 million savings challenge for 2019/20 and the agreement and monitoring of actions by the Executive that either prevent or minimise the further use of both General Fund and HRA balances in 2019/20.
- A financial plan for 2020/21 that includes the identification of further deliverable savings and income generation schemes, cost base reductions and Council Tax increases that eliminates the planned £1.17 million use of General Fund balances and ensures there are no further calls on HRA balances. This will require Members to take difficult decisions about sustainable levels of service and increases in Council Tax.
- Agreement of a realistic financial plan for 2021/22 that has deliverable savings and seeks to ensure that there are no further planned uses of General Fund and HRA balances that would put them below a financial sustainable level.

3.5 **Section 151 Officer (Executive Director of Finance and Resources Comments)**

3.5.1 The Council has faced significant financial pressures over the last 5 years with savings and additional income being delivered whilst protecting front line services. The continued uncertainty around Local Government funding has made it increasingly difficult to manage the budget process and identify specific savings over the last 4 years. The Council continues to face challenging and uncertain times ahead if it is to deliver high quality services to its residents and businesses, at a cost that is within the annual resources available to it as it no longer has balances to support general fund budget shortfalls.

3.5.2 As with the rest of the local government sector, funding cuts and significant local expenditure pressures have made the Council's job far more difficult and has required over £5.5m savings (cumulative £18m) over the seven years to 2018/19. This is more than 40% of total net

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expenditure and the Council forecasts a further £1.5m savings to 2022/23.

The last three years have been especially difficult for the Council with services continuing to be delivered with a significantly reduced funding level and with planned savings and income falling below the planned level. In addition new spending pressures have emerged which have led to the balances position reduced to a lower level than anticipated.

Lessons Learned

3.5.3 It is critical that in future the impact of all decisions are made clear to all members to include potential impact on the balances / reserves position. This must include background to previously proposed officer recommendations and where funding will be sourced. This will enable all members to understand the options available to them in relation to decisions with full clarity of financial implications for the present time and ongoing impact to the Council .

3.5.4 There have been a number of decisions made that have impacted on the current and planned financial position of the Council, these include:

- Additional draw down of balances to fund:
 - Transfer back of property services from Place Partnership (£150k)
 - Feasibility of Town Centre regeneration works (£200k)
 - Financial cost due to delay in implementation of Rubicon Leisure (£74k)
 - Additional severance costs for Rubicon Leisure
- Reduction in the approved increase to Council Tax to 2.2% which was below the Executive Director of Finance and Corporate Resources planned increase of 2.99% (£50k pa)
- Reduction in the increase to cremation fees to 3.2% which was below the initially approved increase of 8% following the capital works undertaken at the crematorium (£40k pa)
- Unidentified savings not delivered as anticipated due to alternative methods of service delivery not undertaken and income estimated not delivered as initially assumed
- Management review delays due to staffing issues
- Increase in members allowances above the estimated budget position (£60k)

3.5.5 If the Council is to move towards financial stability, then it must ensure that it develops robust and deliverable spending and saving plans. If problems are identified in year, resolutions must be identified from within existing budgets, with any use of reserves being the option of last resort. Budget monitoring must be undertaken in a robust manner

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monthly by Heads of Services and quarterly to members to ensure saving plans are being delivered and any overspends are being managed.

- 3.5.6 The Council must address these issues, however difficult the decisions it needs to take to address them. This may involve re-designing some services, working in partnership with other bodies to deliver other services, reducing service levels and stopping some services altogether. Without these actions, the Council will not be able to provide services within the reducing funding allocation. It is essential therefore that the Council is clear as to its priorities and indeed its non priorities – these will need to be articulated within the Council Plan.

3.6 **Redditch Borough Council Response to the Audit Statutory Recommendations**

- 3.6.1 The Council recognises its responsibility in responding to the Statutory Recommendation under section 24 of the Local Audit and Accountability Act 2014.

The Act requires the Council to:

- consider the recommendation at a meeting held within one month of the recommendation being sent to the Council; and
- at that meeting the Council must decide:

- a) whether the recommendation is to be accepted, and
- b) what, if any, action to take in response to the recommendation.

- 3.6.2 The Audit Committee on 29th July agreed to accept the recommendation and that a report to include the responses to the recommendations be presented to a meeting of the Committee by the end of September. The external auditor is satisfied that this Audit Committee meeting is compliant.
- 3.6.3 Prior to the issue of the recommendation the Council had already acknowledged that it needed to plan for and manage the impacts of budget pressures and non-deliverable savings in the current and future years. Actions to address specific recommendations are set out below and it is proposed that the Audit Committee be asked to monitor progress on the achievement of the proposed actions.
- 3.6.4 **Recommendation 1 (from Grant Thornton S24 Notice)**
- A full assessment of the deliverability of the £1.13 million savings challenge for 2019/20 and the agreement and monitoring of actions by

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the Executive that either prevent or minimise the further use of both General Fund and HRA balances in 2019/20.

3.6.4.1 **Redditch Borough Council Response :**

- All savings are monitored on a monthly basis with Heads of Service and budget holders during finance meetings with individual finance representatives
- Quarterly reports to Executive and Audit and Governance Committee are presented to include detailed savings schedules showing delivery of savings or areas of concern where additional income or cost reductions are not being achieved. Action plans to be in place from Quarter 2 2019/20 to identify how any shortfalls will be met
- Quarterly identification of further additional income and savings detailed on separate schedule to ensure vacancy management savings and non allocated savings of £181k are being met
- Budgets to be adjusted to draw down additional savings to increase general fund balances where appropriate
- HRA – plans in place to mitigate spend on Repairs and Maintenance to ensure savings made to protect HRA balances
- Vacancy and non essential spend freeze in place with the aim to delivery additional savings to support the balances position for both HRA and General Fund
- Override on budgets no longer available and list of orders considered by the HOS on a monthly basis

It is clear in reviewing the April – June financial reporting that the expenditure is reducing for 2019/20 to enable the balances position to be strengthened.

3.6.5 **Recommendation 2(from Grant Thornton S24 Notice)**

- A financial plan for 2020/21 that includes the identification of further deliverable savings and income generation schemes, cost base reductions and Council Tax increases that eliminates the planned £1.17 million use of General Fund balances and ensures there are no further calls on HRA balances. This will require Members to take difficult decisions about sustainable levels of service and increases in Council Tax.

3.6.5.1 **Redditch Borough Council Response:**

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For future years the Council will adopt a financial framework and strategy that focuses on the following aims:

- To ensure resources are directed to the council's strategic purposes and priorities
- To set financially sustainable budgets over the 4 year period for General Fund and HRA
- To increase balances to £1.5m in the General Revenue Fund and £1m in the HRA
- To maximise income opportunities whilst supporting the vulnerable
- Identify and disinvest in non priority areas
- To ensure all savings are achievable and developed with robust data
- To reduce overheads & direct costs over the 4 year period
- To maximise use of assets and disinvest surplus or non performing assets
- To further develop the commercial culture within the Council
- To consider and adapt to the uncertain future financial climate
- To work with the public, members and staff to engage and inform partners on the impact of the financial pressures of the Council

3.6.5.2 Current estimated savings for the 4-year period will be around £1.5m. There are challenges to achieve this and impact on services and staffing are inevitable.

3.6.5.3 The process for the 2020/21 – 2023/24 four-year cycle commenced in July 2019 – considerably earlier than in previous years. This involved Heads of Service commencing a detailed review of prior year spend and income compared with budget projections over the following four years.

3.6.5.4 The following actions are in place for the next 5 months to ensure that the spending and income plans for the 4 year period deliver the £1.2m in 2020/21 arising to £1.5m by 2022/23:

- Portfolio Holder and CMT workshop arranged to consider future direction (priorities and non-priorities) against the backdrop of the financial position to enable robust and deliverable saving proposals to be made
- Present to members from September onwards options for savings and additional income generation to be proposed for medium term financial plan

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- Delivery of financial strategy for October Executive to address concerns on financial sustainability
- Detailed review of 2018/19 actual v 2019/20 budget to enable any additional budget allocated to be released for the period 2019/20-2021/23
- Consideration of all vacant posts by Head of Service and Strategic Lead to ensure any excess vacant posts are released for the period 2019/20-2021/23
- Review of costs associated with support services and robust estimates of savings realised from new systems and automation to be made
- Full and detailed review of the Capital Programme to assess need of spend against projects and vehicles (including replacement period of vehicles).
- Robust business cases to be presented where additional spend is required to meet strategic priorities
- Maximise asset sales to receive capital receipts where appropriate to balance revenue streams within the Council.
- Maximise rental income from assets
- Consideration by budget scrutiny to enable challenge of savings proposed
- Work with Grant Thornton and other Councils to identify best practice in the identification and monitoring of savings
- Further review of use of agency staff to reduce spend
- Staff briefings in September to explain the current financial issues
- Consideration of further efficiencies that can be achieved by digitisation / automation of services
- Realistic assessment of income that can be achieved by more commercial activity

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- 3.6.5.5 Central to ensuring delivery will be ownership by the Management Team and the establishment of challenge sessions with the Strategic Directors, Heads of Service and Portfolio Holders to enable robust discussions to be held as to the level of savings and additional income identified to deliver services over the 4 year period.

Corporate Management Team consider updates to the budget position on a regular basis during their weekly meetings and a number savings and additional income have already been identified that will be reported to members in the next few months.

3.6.6 Recommendation 3(from Grant Thornton S24 Notice)

- Agreement of a realistic financial plan for 2021/22 that has deliverable savings and seeks to ensure that there are no further planned uses of General Fund and HRA balances that would put them below a financial sustainable level.

3.6.6.1 Redditch Borough Council Response:

The current level of savings or additional income are most significant in 2020/21 at £1.2m, this rises to £1.5m over the following 3 year period as currently defined in the Medium Term Financial Plan.

As detailed above one of the aims of the financial strategy is to have a balanced position for the 4 year period when the budget is agreed for 2020/21. Therefore the actions as detailed in Recommendation 2 will cover the 4 year period to enable the delivery of a financially sustainable plan and mitigate the risk of any further reduction in General Fund or HRA balances.

4 Financial Implications

- 4.1 As detailed above the financial position of the Council needs urgent review and consideration in order to meet the projected future budget shortfall.

5 Legal Implications

- 5.1 The Council has a statutory responsibility to comply with financial regulations. Included within the report is a recommendation to the Council under section 11(3) of the Audit Commission Act 1998.
- 5.2 Following the Audit for 2018/19 Grant Thornton have issued the Council with a Statutory recommendation made under section 24 of the

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Local Audit and Accountability Act 2014. Grant Thornton has powers and duties under this Act to include making written recommendations to the Council and the Council is required by the Act to hold a public meeting to consider such recommendations and publicly respond to them.

- 5.3 Grant Thornton have concluded that it is appropriate for them to use their powers to make a recommendation under section 24 of the Act due to the Council's current and forecast financial position. It is a legal obligation for the Council to submit a full response to the recommendations that are considered and approved in a public meeting.

6 Service/Operational Implications

- 6.1 The future financial position of the Council and the ongoing uncertainties for Local Government funding will require significant savings and additional income. It is clear that there will have to be changes to service delivery to meet the required level of savings and officers will be working with members to ensure any impact on service delivery is considered in full with all impacts understood.

7 Customer / Equalities and Diversity Implications

- 7.1 Should any service delivery be revised or reduced then full impact assessments will be undertaken to ensure the impact on members of our community is understood and assessed.

8 RISK MANAGEMENT

- 8.1 The Section 24 recommendation will be included on the Corporate Risk Register to ensure it is given the highest priority for resolve over the next few months.
- 8.2 The financial sustainability of the Council is a risk that will be managed and reported to members on a regular basis.

9 APPENDICES

None

10 BACKGROUND PAPERS

None

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