

Northamptonshire Commissioners

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James Brokenshire
Secretary of State
Ministry of Housing, Communities and Local Government
2 Marsham Street
London SW1P 4DF

Ref: Update 3

Date: 12 July 2019

Dear Secretary of State,

We write to give you a progress report on our work in Northamptonshire since our last update in February.

We are pleased to report that the Council's decision-making and forward planning activity continues to demonstrate a good understanding of the issues facing the Authority and of the nature and scale of the remedial measures that it is necessary to take to address these. Difficult decisions have been taken, transparently and with constructive scrutiny. Our advice and guidance to the Council continues to be welcomed and accepted by members and senior managers. Our concerns are acted upon when we raise them. We have not needed to issue any formal directions in order to realise this progress. We will continue to work with the Council in this manner, and our expectation is that the fundamentals of good governance will continue to mature as we do so.

Financial matters

It is disappointing to report that, sixteen months after the 2017/18 year end the external audit is still not completed. While we believe this is unlikely to present any material obstacle to our work it is nonetheless frustrating. Publication of this material will focus upon the Council's most difficult period and will both amplify discouragement and rehearse criticisms in the middle of a fragile recovery. We continue to encourage the external auditor and the Council to finish this work.

In our last update, prepared a month before the end of the last financial year, we raised the possibility that the Council might achieve a balanced financial position at the year-end. We are pleased to confirm that the final outturn for 2018/19 shows a revenue surplus of £4.5m. This has been achieved without the application of any

extraordinary support, just nine months after a s114 notice was issued following the identification of an expected £30m overspend. It is a testimony to the hard work of members, managers and staff of the Authority, who have responded to the challenge and the opportunity presented to them to demonstrate what the Council is capable of. It is also evidence, if it were still needed, of the degree of inefficiency operating within the Council previously, since for the most part, this recovery has been achieved without reducing service provision. Given the improved financial position, the Council's s151 officer, in consultation with us, lifted the s114 notice with effect from 1st April 2019. While the Council's financial position remains extremely fragile, we nevertheless believe the Council has demonstrated a commitment to live within its means. There is much more to be done, however, to build sustainable financial resilience and we continue to work with the Council on this.

The Council intends to fully utilise the flexibility provided by the capital dispensation which you approved in November 2019. The dispensation has been applied as follows:

- £41.5m to cover the deficit balance for 2017/18;
- £20m to create a general reserve fund for 2019/20;
- £3.7m to address legacy issues relating to aged debt and LGSS Law; and
- £4.8m to create a budget delivery reserve to deal with further legacy and or budget issues which may emerge in 2019/20.

The budget set for 2019/20 is a significant challenge, requiring a savings target of £43m to be delivered. Achieving such a level of savings would be a challenging task in a Council of this size at the best of times. It is particularly challenging where the Council has an operating base in which ingrained, often contractually bound, inefficiencies and poor systems remain built-in. We nonetheless believe it to be achievable, given constant attention and firm management of the task, while at the same time undertaking the work to transform that operating base. Even at this early stage in the financial year the pressures to the delivery of the budget are presenting themselves, very noticeably so in children's services, adult services and cross service savings. The period two (end of May) budget monitoring report estimates an over spend of £5.8m at year end. In addition there will be considerable expenditure required to deliver the as yet un-costed children's improvement plan which has recently been agreed by the Council's Cabinet. For the Council to deliver a balanced budget it will therefore need to identify further savings in-year in order to mitigate these pressures. In response to these risks we have requested:

1. An independent review of the children's budget, report expected late August;
2. An enhanced budget monitoring exercise to be completed for the end of the first quarter in July; and
3. Financial management for the whole council to be assessed and an improvement plan developed.

Taken together, these measures will put the authority in a position to identify the range of additional measures that will have to be put in place to ensure a balanced budget. Transformation and improvement will play their part, as will efficiency savings and strong expenditure control, but some service reconfiguration and

reduction may have to be considered. We will strive to keep this to a minimum, given the need for service stability and enhanced investment in some areas, in the run up to the creation of unitary authorities.

The Council has started its budget planning work for 2020/21. Early modelling of the Council's possible funding position and forecast service pressures, principally for children and adults, indicates a potentially large budget gap in that year which will have implications for the shadow authorities. We will be working closely with members and officers over the coming months to ensure a draft balanced budget is presented to Council for the next financial year.

The Council's overall financial position therefore remains stressed. While budgetary discipline is improving it is not yet consistent throughout the organisation. We expect to continue to pay considerable attention to supporting the Council in meeting its budget challenges during the remainder of this year.

Service Capability

With the governance of the Council broadly stable and finances under greater control, enabling and supporting improvements in service delivery across the full range of Council operations is our major priority for the year.

Significant and transformational change will need to be brought about in the operation of the Council's services, all of which have been buffeted by ill-thought-through change during the Council's decline. Many of these services have been run down in terms of staffing capacity and starved of investment, and some have simply been poorly managed for years. In order to enable this to change, funds have been allocated to a Transformation Unit, operating at the centre of the organisation and tasked with ensuring improvement takes place consistently across all service areas. This unit will actively coordinate and control the change programme, assisting service managers and staff in front line services in making improvement in the quality of services and reductions in their operating costs.

Making improvement in the Council's services is clearly a necessity. The expectation of everyone involved in setting up the proposed new unitaries in April 2021 is that they should be able to operate services competently from the outset. If the new Councils have to instead focus their efforts on repairing poor services, their prospects for success will be inhibited.

The concern over the level of competence of the services that the new Councils will inherit from the County Council is understandable. In his Inspection Report of March 2018, Max Caller described the problems as being '*so deep and ingrained that it is not possible to promote a recovery plan that could bring the council back to stability and safety in a reasonable timescale*'. We have also made reference in our earlier reports to the exposure to risk posed by lack of resilience and of inconsistency in service delivery, and to gaps in staffing that the council struggles to recruit to. The Council has begun the task of service recovery, and it must now accelerate the pace of it. April 2021, if not a target, is now a significant milestone in producing service

improvement, and we will seek to ensure that the Council makes as much positive change as is possible by that date.

To this end, we have explored with the Borough and District Councils the priorities that might be most usefully met through expenditure of the funds arising from the Business Rates Pilot (approximately £21m in 2019/20). There is now widespread acceptance that the most effective use of the greater part of this funding would be in bringing about the rapid transformation of services, both in the County and in the Boroughs and Districts in advance of, and in preparation for, unitary implementation. We are assisting the County in the identification of opportunities for utilising expenditure of this one-off funding to best effect.

Children's Services

In an earlier report we reflected the challenges around Children's Services. In response to these, your colleague the Secretary of State for Education appointed a Children's Commissioner with responsibility for identifying improvement priorities in this area, and for recommending any alternative delivery vehicle that he believed would more readily secure safe and sustainable Children's Services in the county.

In respect of the latter, the decision to establish a Children's Trust by July 2020 was issued on 10 June 2019. We will continue to work with the Children's Commissioner in order to bring this about as quickly and efficiently as possible.

With respect to making improvement in Children's Services, we identified in the considerations on budget monitoring set out above some of the emerging challenges. The Children's Commissioner made comprehensively clear the extent of the problem in his report to you and to your colleague, the Secretary of State for Education in May – *'Optimum delivery and governance arrangements; children's services in Northamptonshire'*. The Council will need additional financial support to deliver the Improvement Plan and also to meet further demand pressures that the Service is identifying. Quantifying the extent of that support will form part of the overall assessment of the children's budget that we have put in hand for completion in August.

We have not waited for the detail, however. In April, in order to facilitate speedy improvements in Children's Services, we made an additional £2m available to the service for immediate application, in advance of any business plan, to avoid delay in making progress.

Together with the Children's Commissioner, we will continue to support necessary improvements in Children's Services without undue destabilisation of the Council's wider expenditure plans.

Shared Service Arrangements

With respect to the issues posed by the Council's shared back-office arrangement – LGSS, CIPFA has been commissioned to provide a business case with a full financial model for consideration by the three authorities involved (Northamptonshire CC, Cambridgeshire CC and Milton Keynes Council). This will include a revised operating structure and an enhanced governance structure, and will set out how specific services fit into the revised arrangements. The current services provided by LGSS will likely fall into one of two categories: a Lead Authority model, where the service will be led by one authority and provided to other authorities and customers e.g. payroll; or a full repatriation where services will be de-constructed and repatriated to each partner e.g. finance business partnering approach. This business case will be completed by July 2019.

Work is also taking place on resolving the outstanding debt issue with LGSS Law, a separate shared service company delivering the Council's legal support. This will also require discussion with other shareholders (Cambridgeshire CC and Central Bedfordshire Council) about a more equitable approach to financial risk sharing. Shareholders are discussing the company's business plan as we write this update.

Local Government Reorganisation

We continue to be involved in supporting the Council in preparing for the establishment of the two proposed new unitary authorities. It is clear that the Council will need to play a considerable part in this project in order to ensure the success of the exercise, though its capacity to do so is limited. In particular, much of the senior management resource of the Council could sensibly be deployed on the project, if it were not for the fact that they are necessarily engaged on the tasks of recovering financial balance and restoring service capability. The challenge is considerable, but we have worked with the Council and the Borough and District Councils in order to align these separate exercises and to make available the required resources of the Council on unitarisation planning. Indeed, we have been happy to support the appointment of the Council's Chief Executive as the Accountable Officer for the unitary project, and have agreed that extra senior staff resources can be sought to support her in this work and her other duties. We are hopeful that this resource will be funded through the business rates pilot.

As noted above, we have also helped facilitate the agreement between the Council and the Boroughs and Districts on how to spend the Business Rates Pilot funding. This will be utilised to improve service organisation and performance across the eight Councils as part of their preparations for unitarisation.

We have supported the use of the Council's Transformation Unit, created at our requirement for the purposes of driving service improvement in the Council, for managing the unitary project. In this role it can continue to ensure that the improvements made in Council services are made in such a manner as to best be deployed in the proposed new unitary configuration.

We engage regularly with District and Borough Council Leaders and Chief Executives on a one-to-one basis and in the formal Joint Committees that have now been established. This engagement has been a positive experience, enabling us to assist in re-establishing a good working relationship between the two tiers. This is proving to be beneficial in day to day operations as well as in easing the task of planning for the future.

Public involvement

From mid-January to early March we hosted surgeries throughout Northamptonshire for residents – 8 surgeries in total for 2-3 hours in each district. The objective was to give local residents the opportunity to express their views directly to us about Northamptonshire County Council's intervention on an individual, confidential basis.

We recognised that with 750,000 residents we would be seeing just a small fraction of the population but nonetheless this would give us valuable insight into their views. We operated our surgeries as MPs host their surgeries; no appointments and a first come first served principle on the assumption that those that felt strongly would take the opportunity to make their opinions, assessments and ideas known.

Our surgeries were held at different times throughout the day – morning, afternoon, late afternoon and evening. Approximately 60 residents attended. The subjects raised covered county as well as district and borough services and local government reorganisation.

Three issues were raised frequently:

- The payments system with regard to adult and children's services provision – both the lack of accuracy and the time taken to make payments.
- The treatment of children with special educational needs (SEN), especially where they were also looked after children (LAC); Several residents at different surgeries recounted their experience of the Council's social services as parents of looked after children.
- The Council complaints process in respect of SEN and LAC.

We have discussed our findings with senior officers who are addressing the issues raised, where they are relevant to the Council. We intend to repeat the exercise in the autumn.

Separately, we met with the Local Government Ombudsman. The Ombudsman had made a point of involving himself in the Best Value Review conducted by Max Caller, and we wanted to get an up to date assessment from him of the council's complaint profile and its handling of complaints. He reported modest improvement, and we agreed a series of actions around training of members and staff of the Authority and enhancements to process that should result in further improvement.

Adult Social Care / Health

A service area that has made progress despite the difficulties facing the Council is Adult Social Care. The service is well led and is out-performing national and regional performance targets.

The Council is pursuing a plan for health and social care integration with local health partners. The local NHS is challenged in many respects, and integration holds out the prospect of significant cost and performance improvement. This plan has been presented to the county's MPs who have encouraged the partners to build on the ambition and work up detailed proposals for the organisation and leadership of the new approach. It will then be presented to Ministers in the Department of Health and Social Care and will require some invest-to-save funding.

We are supportive of the plan in principle since it will improve social care outcomes and reduce cost in this area of the County Council's work. Much now depends on the creation of a strong delivery model and of securing the investment necessary to effect the transformation of the existing operations.

Next Steps

If, in our first year, the Council's progress was characterised by fast-paced, high-level redirection and change, the second is by contrast likely to be one of incremental improvement brought about through hard graft.

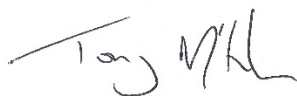
We will report to you on improvements and we aim to support the Council so that we see, in particular:

1. Improved financial management and the establishment of an improved finance function.
2. Better value for money across the board (which itself will also improve financial resilience).
3. A financially sustainable children's service – this will be the hardest nut to crack. For at least the past 6 years the Council has thrown money that it could not afford, and ultimately did not have, at Children's services. That activity, divorced as it was from any plan to spend that money wisely, has contributed to a large extent to the mess the service is in. It is significantly high cost and significantly low performing. The establishment of a Trust will provide a new platform for improvement, but it will take time to deliver the changes in structure, resource, operating practice and performance that are necessary. The resources that the Council(s) will have to provide to the Trust to make these changes happen will have to be negotiated for the short and medium term. Achieving a financial plan that works for the Trust (and the Councils) will be a crucial task to get right.

4. Scrutiny that is effective, following the changes made – we expect to observe improved behaviours from councillors; and through the regular incorporation of recommendations from the Overview and Scrutiny group into council policy.
5. Governance that delivers sound and transparent decision making, following the changes made, and provides a sound basis upon which the new unitary authorities can build.
6. An improved culture with better staff morale. The importance of this to the new unitaries' inheritance cannot be overstated. We will seek opportunities to ensure that the Council energises the staff of the authority. It seems unlikely that a pay rise will be affordable in the current circumstances. This is a factor in the Council's ability to recruit and retain that is increasingly troublesome. The Council is notably uncompetitive compared to surrounding authorities in respect of many crucial roles. If it cannot easily compete on financial grounds, it must at least offer a good work experience, with prospects. The unitary changes must form part of that package.
7. Improved service delivery across the board as the Council heads towards local government restructuring.

We remain confident that the changes we have made, and have plans for, represent an appropriate balance of speed and sustainability in making improvements to the governance, financial management and operation of the County Council.

Yours sincerely



Tony McArdle



Brian Roberts