

# COMMISSIONERS NORTHAMPTONSHIRE

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Secretary of State  
James Brokenshire  
MHCLG

Our ref: Update 1  
Date: 13 September 2018  
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Dear Secretary of State

In May you invited us to become Commissioners for Northamptonshire County Council following your consideration of the independent inspector's report from Max Caller. As your representatives you gave us specific responsibilities for finance, governance and scrutiny which we have listed at annex A.

When accepting this role we agreed to provide you with periodic progress updates, of which this is the first.

When we arrived it was clear that the authority had not had effective leadership for some considerable time – it lacked integrity and was operating without a corporate centre. It was failing to manage its activities in accordance with the established norms of a local authority. This was most pressingly reflected in its financial situation. In order to re-instate that integrity and re-establish the norms we would expect, we have taken as our priorities:

- The recovery of the financial position;
- The re-creation of a corporate centre; and
- Engagement with partners and residents.

We have made significant progress on all of these fronts.

## **Recovery of the financial position**

While the Council was aware that it faced a challenging financial situation, it was not clear to members or officers just how challenging this was. When we arrived in May the 2017/18 draft accounts were reporting a balanced position for this year's outturn, a general fund reserve of zero and earmarked reserves totalling £8.0m. The first budget monitoring report for the current year published on 12th June affirmed that the Council had set a balanced budget but had already identified a need for additional in-year savings of £8.0m. We had no confidence in any of these assertions. The external Auditor and the Best Value inspector had

previously cast doubt upon the culture within which financial information was prepared and the quality of the information produced. Our early identification of issues around opaque or absent underpinning data, and concern over the organisational form of the finance function within the Authority reinforced this view. We believed it to be imperative that a financial position be established that we, the Council, and indeed the public, could have confidence in and which would provide a sound basis for taking potentially difficult decisions. We sought one single version of the truth.

We therefore appointed the Chartered Institute of Public Finance and Accountancy (CIPFA) to:

- Provide a review of the Council's finances and a realistic assessment of the Council's true financial position; and
- Consider the financial management arrangements in place in the Council and identify how these could be improved.

The CIPFA report in confidential draft form is attached. It cannot be finalised until the completion of the external (KPMG) audit expected towards the end of September. We have, however, based many of our initial actions on the analysis that has emerged during the CIPFA review.

The CIPFA analysis exposed the financial position to be considerably worse than the Council had anticipated. It concluded that the potential deficit for 2018/19 would be in the range £60m to £70m. This was set out in the s114 notice consequently issued with our full support on 24 July.

There are essentially two elements to this position:

1. **Projected overspend 2018/19** - The Council will incur a £30m overspend against its budget this year 2018/19 in the absence of any corrective action. This results from a combination of shortfalls in budgeted transformation spend and budgeted savings.

We are implementing a series of measures to make substantial reductions in the overall level of expenditure aimed at restoring balance to this budget as soon as possible. These measures include:

- The Finance Director issuing, in agreement with us, a notice under s114 of the Local Government Act 1999 to immediately freeze all non-essential spending.
- The agreement of the Council, at successive Extraordinary Meetings of the Council in August, to the concept of 'core services' and the principle that funding will be allocated and savings made against a hierarchy of need within each service area on the basis of these 'core services'.

- The requirement for all council service directors to identify in year savings along with plans to implement those savings in accordance with this new financial regime.
- The commissioning of an externally-sourced independent reviewer who will explore additional possibilities and provide challenge to these internally produced plans.
- The introduction of a two stage expenditure control system where all non-essential spend is challenged by finance officers. Only if the first stage is passed will it be escalated to Directors for consideration. All services and cost centres are subject to the expenditure control system. This is a direct response to the previous Chief Executive Approvals Panel failing to adequately constrain spend.
- The setting up of a transformation taskforce of officers drawn from within the Council's strategic finance team, supported by officers from neighbouring councils and other external support. This is finance led, with input from service areas. It is undertaking a rigorous examination of the Council's expenditure plans aimed at challenging and reducing spend, whilst maintaining the core services that the people of Northamptonshire need. Seventy percent of the Council's expenditure is through external contracts for service delivery and these are being reviewed on the basis of the best opportunity for efficiency. There will be an undoubted requirement for contract rationalisation, re-negotiation and, in some cases, termination. This will be managed robustly, but with due regard to the need for the Council to keep partner agencies informed and involved in any potential consequences.
- The development of a stabilisation plan by end-September which will draw together the actions above. This will be rigorously managed and progress reported monthly to Northamptonshire's Cabinet.
- The instigation of a review under the Department for Education's Partners in Practice programme which has made recommendations in respect of finance and quality improvements. The Director of Childrens Services has accepted these recommendations and is implementing them; there will be some short term savings arising from organisational efficiencies, with more significant savings over a longer time frame that will also deliver better provision such as taking steps to make increased provision for looked after children locally, rather than outside the county. This is desirable both in terms of service cohesion and of cost. This will take some time to effect in full, but is being progressed at the earliest opportunity.

We are confident that the sum of these measures will deliver considerable savings. We are aware of the pressing need to quantify the value of the savings and to be clear on the timescale for delivering them. Whilst the difficulties in achieving precision in this will be evident, we intend to offer a year-end estimate to the Secretary of State at the end of September. This will be updated as work progresses.

**2. Unfunded deficit incurred 2017/18** - The external auditor has estimated a £35m unfunded deficit in the financial year 2017/18 (it is currently estimated because the auditor's work is not yet completed). This is unprecedented in local government and we anticipate the external auditor will want to report fully on this and the subsequent inadequacy of the 2018/19 budget setting process when the audit is complete. As it stands, this significant legacy deficit must be carried forward into the 2018/19 financial year, and addressed within the year. Whilst we can, and will, take such action as is necessary to restore the Council's finances to an ongoing operating balance, the requirement to find further savings to the extent necessary in order to neutralise this historic deficit represents an extraordinary challenge. Considered against the concomitant need to maintain the integrity of critical public service delivery, it is a challenge that is beyond being met in a single year. We are compelled to the view that the finding of an alternative mechanism for addressing this legacy will be unavoidable. Perhaps the most obvious mechanism would be that of requiring it to be reduced over a period of years, rather than in a single year, but in light of potential reorganisation of local government in Northamptonshire this option is not available. An alternative would be to use available capital receipts to meet the Council's over-expenditure in 2018/19 and indeed in the previous year. We will consider making a capitalisation request to Government.

The current state of the Council's finances calls into question the standard of financial management practice in the Council. There has been a preparedness to compromise generally accepted accounting principles if this will present the Council's finances in a better light. This situation is as a result of a lack of credible leadership and direction over many years.

The external auditor's Interim Report 2017/18, presented to the Council's Audit Committee on 24 May stated 'It is more important than ever that those charged with governance are able to make properly informed decisions based on clear and robust information. It is unclear how finance reports currently provided to Cabinet fulfil this function'. We agree with the external auditor and are improving the quality and transparency of the monthly budget monitoring reports. Our aim is that finance monitoring reports will become examples of good practice.

There are very significant weaknesses in the integrity of the financial processes and reporting following the implementation of a new resource system by Local Government Shared Services (LGSS), a shared service arrangement with Cambridgeshire County Council and Milton Keynes Council. The Council has been unable to assure us that the financial information in the system is accurate and reliable. We have instructed that an independent review is undertaken as a matter of urgency.

The Council's strategic finance team has been positioned within LGSS. We have instructed that the team that works exclusively on Northamptonshire's finances be transferred back to Northamptonshire with immediate effect. Democratic Services has also been transferred

back to the Council. This allows the Council to start to rebuild a corporate centre. There are no financial implications in either of these transfers. We will take the opportunity to review the effectiveness of other elements of LGSS in the light of the above review and continuing experience, and we are prepared to take further transfers of activity and staff as may be proved necessary back in house, for example Human Resources and strategic information and communications technology (ICT).

We have had no confidence in the Council's current Medium Term Financial Plan (MTFP) for the reasons outlined above. Work is beginning as a matter of urgency on preparing a robust 2019/20 budget and rolling forward an effective MTFP. An updated MTFP will be presented to Cabinet in October.

Given the scale of the financial issues we have been dealing with we have procured additional and on-going independent financial support for the remainder of this financial year.

### **Re-creation of the corporate centre**

It is well documented in the Caller report that the Council's governance arrangements are weak. Sustained effort will be necessary to instil and consistently apply the principles of good governance in the work of the Council. In the first instance we are addressing the Council's decision making structure and processes, which are cumbersome, long winded and lack focus. Putting these right enables the platform upon which to develop better behaviours and enhanced ethical standards.

Revisions to operating procedures for Council meetings will be adopted at our request and the introduction of radical changes to scrutiny arrangements are being proposed to the Council in September. The new scrutiny arrangements will ensure focus on the priority task of balancing the Council's books. The basis for these changes are recommendations arising from a review undertaken by the Centre for Public Scrutiny, which we encouraged and in which we participated. This review produced a robust report that we have approved to the Council.

With new senior staff leadership, changes to operating procedures, changes to scrutiny arrangements - which will have their initial impact on improving the development of the 2019/20 budget, a rebuilding of corporate services and the reestablishment of management discipline, it is our firm belief that cultural changes are beginning.

### **Engagement**

There has been intense interest in and concern over the difficulties the Council has precipitated and what the future of local services may be. We have regarded it as important

to engage with a wide constituency of interested parties (including residents, councillors, MPs, unions, staff, health, the voluntary sector and the Police and Crime Commissioner) in order to promote understanding of our role, our anticipated outcomes and, where necessary, to secure the buy-in of those partners who may be persuaded to turn positions of quite reasonable criticism into those of giving useful practical support.

Many of these meetings have provided the opportunity for anxious and frustrated partner organisations and residents to give voice to long standing concerns which they feel have been ignored by the Council in the past. There has been a common theme of wishing to apportion blame and seek redress for culpability in the Council's failure. It is beyond our powers to take action in respect of this. It has been necessary, and we believe useful, however for us to listen to and understand these natural concerns. At the same time we can offer assurances about the changes that we intend will happen and which will restore the Council to a set of proper operating principles and behaviours which can continue into the potential new unitary organisations.

These sessions have been generally and genuinely welcomed. It will take some time for the very real anger felt in some quarters to dissipate, but we have established a route for concerns to be raised and addressed. This facility, together with the sincere efforts being made by the Council itself to become an engaged and active partner, is already bearing fruit. District councils, health commissioners and trusts and the Police and Crime Commissioner are all involved in a range of activities that will secure better use of resources and better outcomes for local people as a result of this engagement.

Community organisations, particularly those that have lost funding or have found demand for their services increasing as a result of the decisions made by the Council, face particular challenges. We have indicated to the Council that there is value in providing a portion of savings achieved as investment to the voluntary sector where it can be demonstrated that this investment will result in a lessening of demand for services.

## **Council services**

Our priority as Commissioners is to ensure the actions taken provide for efficient, effective and sustainable services for the people of Northamptonshire.

The dysfunction which has characterised the Council for some time has resulted in some Council services lacking resilience. 'Silo' working has produced a lack of corporate understanding and of consistency in delivery. Core professional performance is generally good but the lack of corporate direction, grip and adherence to good management principles in significant parts of the organisation leaves the Council exposed to risk. This has led to critical observations by the Local Government Ombudsman, and to an abnormally high volume of complaints against the authority. Morale amongst staff, who have been long suffering, is poor and there are gaps in staffing which are having to be left unfilled or which

are filled by agency staff. Concerns over the future of employment opportunities resulting from the need to find financial savings and uncertainty over the staffing requirements of the potential new unitaries are limiting the Council's ability to retain and recruit.

All of these issues are being addressed by the Councils' senior managers, many of whom are new, but there are no simple answers. Active, engaged and capable leadership is paramount in carrying the Council through these difficulties and we have chosen to involve ourselves in senior appointments beyond the statutory posts (e.g. Director of Childrens Services and Director of Transformation) in order to ensure that the Council can attract, enthuse and appoint officers capable of offering this leadership.

We are encouraged that the Council has responded positively to the need to focus on the essential priority actions. Other reasonable ambitions for the area are held, but it is accepted that progress on the delivery of these is dependent upon the success of delivering the priorities.

### **Statutory Officer Appointments**

We have appointed a new Chief Executive and are pleased to have attracted a candidate with considerable experience and a strong track record. We are advertising for a new Director of Finance (inc. s151) and expect to appoint in late-September.

### **Other areas of activity**

Some areas that we have spent considerable time resolving have taken disproportionate effort because of previously poor and tense relationships. These include libraries provision and the transfer of the Fire and Rescue Service to the Police and Crime Commissioner. The catalyst for these poor relationships appears to be an arrogance and unwillingness to engage or compromise. These characteristics have become commonly associated with the Council but we have seen change beginning and we will be encouraging further change.

There has been a considerable level of media attention locally, nationally and internationally. We are conscious of the need to send clear and consistent messages and have actively participated in media engagement accordingly.

### **Next Steps**

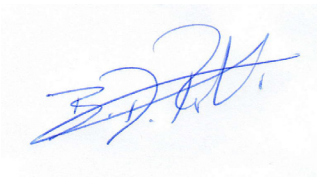
During the next stage of our work we will be:

- Focusing on embedding the changes that we have introduced to the financial organisation and planning regimes of the Council, leading to a significantly improved outturn for 2018/19 and the production of a budget for 2019/20;

- Ensuring that changes to the governance arrangements, particularly in respect of scrutiny, add value to that work and to the wider work and performance of the council;
- Focusing our engagement activity on preparations for the 2019/20 budget; and
- Ensuring that the Council's arrangements for investigating complaints are fit for purpose.

Lastly, we would like to put on record our thanks particularly to partner organisations including CIPFA, the Local Government Association, East Midlands Councils, CfPS, neighbouring councils and officials within MHCLG who have offered both advice and support, all of which has been gratefully received.

Yours sincerely



Brian Roberts  
Finance Commissioner



Tony McArdle  
Lead Commissioner



### **Functions assigned to commissioners**

1. All functions associated with the governance and scrutiny of strategic decision making by the Authority;
2. All functions associated with the strategic financial management of the Authority, this includes:
  - (a) providing advice and challenge to the Authority in the setting of annual budgets;
  - (b) scrutiny of all in-year amendments to annual budgets; and
  - (c) the power to amend budgets where Commissioners consider that those budgets constitute a risk to the Authority's ability to fulfil its best value duty
3. All non-executive functions relating to the appointment and dismissal of persons to positions the holders of which are to be designated as statutory officers, this includes:
  - a) the functions of designating a person as a statutory officer and removing a person from a statutory office;
  - b) the functions under section 112 of the Local Government Act 1972 of:
    - i. appointing and determining the terms and conditions of employment of an officer of the Authority, insofar as those functions are exercised for the purpose of appointing a person as an officer of the Authority principally in order for that person to be designated as a statutory officer; and
    - ii. dismissing any person who has been designated as a statutory officer from his or her position as an officer of the Authority.