

Developing the Sector-Led Improvement Finance Offer

Purpose

For discussion and direction.

Summary

The current sector-led improvement offer as it relates to financial issues has evolved over a number of years. As we move forward, the importance of local councils ensuring they have strategies to maintain financial sustainability will become increasingly important, and this is happening against a background of change and increased financial risk. A review of the current approach to financial issues within the sector led improvement is underway.

This paper outlines the latest position on work to develop the Sector-Led Improvement offer with respect to financial issues for Members' comments and guidance. A similar report was considered by the Improvement & Innovation Board - as the Board with responsibility for sector-led improvement - at its meeting on the 13 October. Officers will provide a verbal update on the outcome of these discussions.

Recommendation

The Board is asked to express its views on the process and the issues raised.

Action

Officers to progress the work in accordance with the timetable, taking account of the comments of the Board.

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Background

1. Effective financial management in the public sector is about getting money to the right places and spending it in ways where it can deliver most benefit. Behind this lies a range of key activities: setting a sustainable financial strategy; planning and budgeting; and delivering and reporting results and scrutinising outcomes. Getting this approach right has never been more important to local authorities than it is now.
2. The Sector-Led Improvement offer to local government has developed over a period that has coincided with large-scale change in the way local authorities operate. A key driver for this change has been financial; the reduction in government funding, increased spending pressure and changes in the way funding from government is distributed have changed the way councils need to plan their finances. At the same time an imperative for transformation of services, innovation and partnership working demand new approaches to financial decision-making and financial risk.
3. Work with Councils has identified a demand for good practice and support to help them manage their overall finances. This can range from achieving productivity or efficiency savings through to ways of helping them engage with their local communities to prioritise how they spend resources.

The Current Offer

4. The current sector-led improvement offer as it relates to financial issues has developed over a number of years. The Corporate Peer Challenge (CPC) methodology reflects financial issues; one of the key guiding questions for each CPC is “Does the council have a financial plan in place to ensure long term viability and is there evidence that it is being implemented successfully?”
5. The current offer also includes:

Finance Health Check	An in-depth technical analysis and assessment of financial management conducted over two days by a qualified associate.
Budget Challenge	Aimed at leaders and finance leads, a facilitated discussion with a member peer on budget options and issues.
Diagnostics	Modelling and analysis of an authority’s financial position, incorporating, inter alia, the Future Funding Outlook and spidergram.
6. These offers have been developed over time, mostly originating in a period before austerity. Each of the interventions is designed for a specific purpose and to some extent for a specific audience and they do not necessarily operate together in a comprehensive way. Furthermore none of these interventions is formally tied into the CPC.
7. Local authorities now face four major financial challenges they have never faced before on the same scale.

Unprecedented reductions in resources and spending pressure	Approaches to budgeting designed for incremental, annual change are now inadequate. New approaches need to take a long term view and focus on the financial sustainability of the Council and its place.
Grant system changes- incentives replacing distribution based on needs	The distribution of any additional funding to Councils is now based on the building of new homes and business premises. Grants based on incentivisation call for solutions that focus on the local economy's capacity to sustain investment in public services, and vice versa.
Service transformation / new models of working	Pressure on resources and the change in the distribution system drives new models for delivering public services. Authorities need to ensure there is the right level of financial input to business cases and project plans and systems for driving out the financial benefits of transformation.
Cross organizational/ pan-sectoral working	Traditional approaches to governance and stewardship and the management of risk are focused on the Council's internal workings. Authorities need to devise new ways of providing accountability in an environment where the Council no longer controls all the money or makes all the day to day decisions.

8. All local authorities are affected by these changes, but they are affected in different ways. Relatively grant dependent authorities, especially those with upper tier responsibilities, are having to deal with a rapid decline in government grant income relative to spending pressures. Other authorities may not be affected by grant cuts to the same degree but do not necessarily have the capacity readily to undertake major transformational change. Authorities benefiting from incentive-based funding are not guaranteed that funding in the longer term. Each authority needs to choose a strategy for future financial sustainability based on the needs and characteristics of their place and directed by their local policies.

Impact on Sector-Led Improvement

9. All of this argues for changes in the sector-led improvement (SLI) finance offer which:
- 9.1. Enables it to be deployed flexibly in different scenarios, including urgently if necessary.
 - 9.2. Makes it flexible enough to match an authority's requirements.
 - 9.3. Creates an offer which is joined-up and consistent with the rest of the SLI offer – for example, is focused upon the needs of the authority as a whole and makes use of peers wherever possible.

- 9.4. Focuses it on how finance supports the long-term goal of financial sustainability and change processes.
- 9.5. Is therefore focused on far more than the system of financial management itself and involves more than just the finance team.

An Integrated Finance Offer

- 10. Current thinking is that the offer could be centred around a redeveloped Financial Health Check, refocused so it can be delivered and incorporating a member-oriented 'budget challenge' if necessary. A version of this offer could also be deployed at short notice using associates where appropriate. A revised Financial Health Check could be deployed as part of the preparation for a corporate peer challenge, as an action point arising from a peer challenge or as a totally stand-alone offer.
- 11. The health check would need to be focused on how the whole organisation manages its finances, not restricted to the financial management discipline, and it is suggested, could be centred around five themes:

Financial leadership	Leaders and top managers appreciate the short, medium and long term financial prospects and take ownership of financial sustainability as an issue.
Financial strategy, planning & forecasting	Strategies are in place aiming at long term financial sustainability and plans take account of local needs and strategic priorities
Decision-making	Decisions are taken based on an understanding of the financial implications, risks and options.
Financial monitoring & reporting	Financial results are monitored and acted upon and the financial benefits of projects and programmes are realised
Partnership & innovation	The authority works with partners to address financial challenges and has appropriate governance arrangements in place. Finance is seen as part of the innovation process.

- 12. This approach will not primarily focus on stewardship (the system of controls and accountabilities), which is covered by statutory audit or on financial systems, which can be assessed through existing commercial products such as the CIPFA Financial Management Model. The focus is more likely to be on the support that finance offers to enable financial sustainability and change and, it is felt, will focus around the relationships and processes that enable financial management and financial decision-making to be successfully part of developing and implementing council policy, the corporate vision and strategy.

Resourcing the offer: Peers and Associates

13. In order to deliver a revised financial health check offer to a larger number of authorities, it will be necessary to recruit more financially-qualified peers and associates. Finance peers are also more often required for Corporate Peer Challenges. As at July 2014 there were 27 peers on the database who were recorded as having a CIPFA qualification. The aim need to be to get this up initially to around 50 and then to 80-100. However this is a substantial proportion of the pool of people currently working in senior finance roles in local government and progress has so far been slow. It is hoped to enlist the support of other stakeholders such as CIPFA in publicising the benefits of being a peer to a wider group of potential peers.
14. It should also be the aim to recruit twenty or more associates with senior financial backgrounds from all parts of the country.

Diagnostics

15. The ability to reflect back to authorities' data and analysis on their current financial position is vital to the sector-led improvement offer. The Future Funding Outlook modelling has been updated for each authority as well as nationally for 2014 and will need to be revisited on an annual basis.
16. In addition work is currently being carried out by the Finance team on updating and extending the spidergram analysis in two ways:
 - 16.1. Adding more financial indicators to reflect financial pressures and opportunities; and
 - 16.2. Demonstrating pace and direction of travel by analysing data between years.
17. Further ways will be sought to take on board and adapt the work currently undertaken by the Audit Commission on authorities' financial position and performance when the Commission ceases to exist next year.

Good Practice

18. In order to support authorities fully in their journey towards financial sustainability, it will also be necessary to identify good practice and make it available both as part of the feedback from financial health checks and peer challenges and more widely to the sector as a whole.
19. Good practice will need to be captured from ongoing conversations with authorities and by revisiting previous peer challenges. It can be assumed that where good practice has already been identified – for example the successful implementation of a shared services approach – this is very likely to have included some good practice financial work.
20. For a more or less standing start, it will take time to collect good practice specifically on financial management but initially work will focus on analysing good practice collected from other sources, in particular the Corporate Peer Challenges.

Highlighting Political Leadership

21. Alongside the work described above, a Leadership Essentials programme on finance has been developed for leaders and finance portfolio holders. This will run for the first time at Warwick as a pilot on 30-31 October 2014 and if successful it is intended to run it again early in 2015.

Next Steps

22. A timetable for the review process is attached at **Appendix A**.

23. To ensure that the offer that is developed meets the needs of the sector and individual authorities, a wide-ranging fact-finding and consultation exercise is underway and this will take up most of the Autumn period.

24. A wide range of relevant stakeholder has been identified, including:

24.1. Members, Chief Executives and Corporate Finance Offices from local authorities, particularly those who have assisted the sector-led improvement in the past or have a background in financial development or innovation.

24.2. Regional and special interest groups from the sector, such as the District Councils Network (DCN), County Councils Network (CCN) and Special Interest groups of Municipal Authorities (SIGOMA).

24.3. The Department of Communities and Local Government (DCLG), as the department with oversight of sector-led improvement.

24.4. Existing peers and associates.

24.5. Relevant LGA officers, including those currently responsible for sector-led improvement, and the group offices.

24.6. The finance profession – represented by CIPFA and the treasurers societies.

24.7. Others – such as auditors, consultants and support services providers.

25. Of these it is considered that the finance profession will be absolutely key both to positioning the offer so that it complements existing arrangements and to getting professional buy-in to an offer that needs to fit neatly around the Section 151 role and existing fiduciary arrangements within which treasurers operate.

26. Key stakeholders already consulted include DCLG, CIPFA and existing officer and member peers and workshops with groups of local authority treasurers are being undertaken during October.

27. The Board's views and comments on the approach outlined are invited.

Financial Implications

28. There will be a cost involved in deploying peers and associates into authorities at greater scale than is currently achieved. The costs will be a matter for consideration by the Improvement & Innovation Board in the first instance.

Design	Review of current offer Set design principles for new offer	Consultations and workshops with key stakeholders	September/ October 2014
Diagnostics	Spidergram update and enhancement	Finance & Policy Team	September 2014
Peer recruitment	Recruitment of more financially qualified peers	LGA team	July 2014 and ongoing
1 st report	Approval of design principles and initial resource implications	SLT I&I Board Resources Board	Early October 2014 October 2014
Build	Creation of detailed documentation and tools	LGA team Professional advisers	October/ November 2014
Pilots	Prototype offer to be piloted with volunteer authorities	Peer support team	December 2014/ January 2015
2 nd report	Formal adoption/ launch	I&I Board Resources Board	January/ February 2015