

## **Sector-led improvement: finance support for councils**

### **Purpose**

As government austerity measures continue, financial pressures bearing upon councils are becoming more acute and there is an increasing need for councils to take difficult decisions in order to achieve a financially sustainable future.

At its meeting last October, the Improvement and Innovation Board considered a paper on work to develop the sector-led improvement offer with respect to financial issues. This paper reports back to members on the progress of this work and the proposed finance offer.

The Board's comments and guidance are requested.

### **Summary**

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. Last year the Board recognised the need for the current financial offer to councils, which had evolved over a number of years, to be reviewed and supplemented.

The report sets out the achievements of the review and the support that is now being delivered to councils and reflects on some of the issues raised.

### **Recommendation**

The Board is invited to comment on the issues raised and agree the shape of the financial support programme moving forward.

### **Action**

Officers to progress the work taking account of the comments of the Board.

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## **Sector-led improvement: finance support for councils**

### **Background**

1. Effective financial management has never been more important to local authorities than it is now. 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 is distributed have changed the way councils need to think about their finances. An imperative to transform services, innovate and work in partnership demands new approaches to financial decision-making and the management of financial risk.
2. 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.

### **Issues**

#### **3. Review of Financial Support**

- 3.1 Recognising that financial sustainability and resilience had moved to the top of the agenda for most authorities, officers, with Board support, have been working to review and supplement the support available to the sector.
- 3.2 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?" However, with limited time on site and a wide range of other issues to challenge and consider, and normally without finance specialists as part of the team, CPC peer teams are not in a position to delve into financial issues to the extent that councils need.

#### **4. Financial Review**

- 4.1 We have therefore devised a specialist form of peer challenge called the Financial Review, which has now been piloted in three authorities and is now available to go 'live'. The Financial Review broadly follows the format of other peer challenges and involves:

- 4.1.1 pre-review preparation to frame the review with the council and to undertake desktop research on the council's financial position
- 4.1.2 typically two days on-site at the council for peers to meet with a wide range of people including officers, councillors and others connected with the council with formal feedback to an audience of the council's choosing.
- 4.2 Report and follow-up comprise a feedback report prepared for the authority, which it will be encouraged to publish. The review includes the option of follow up activity.
- 4.3 The Review covers five areas as a minimum as set out in the following table:

<b>Financial leadership</b>	Does the authority have plans for its long-term financial sustainability, which are owned by its members and officer leaders?
<b>Financial strategy, planning &amp; forecasting</b>	Does the authority understand its short and long term financial prospects?
<b>Decision-making</b>	Are key decisions taken in the understanding of the financial implications, risks and options?
<b>Financial outcomes</b>	Are financial results (including those of the Council's investments and transformation projects) monitored and acted upon so as to realise the authority's intentions?
<b>Partnership &amp; innovation</b>	Is finance at the cutting edge of what the authority is working to achieve , working with partners and seeking innovative approaches?

- 4.4 The Financial Review does not primarily focus on stewardship (the system of controls and accountabilities), which is covered by statutory audit, or on financial management, which can be assessed through existing commercial products such as the CIPFA Financial Management Model. The focus is, instead, 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.

- 4.5 Inevitably there will be a cross-over between Financial Reviews and CPCs. A Financial Review cannot replace a CPC and should not be considered as an alternative but it may frequently be deployed alongside a CPC to provide extra capacity to the CPC review where financial issues are considered to be key.
- 4.6 The three pilot Financial Reviews have been well received by the councils concerned. It is too soon, on the basis of just three reviews, to discern a pattern but the issues raised have included:
  - 4.6.1 how financial management information can be used to improve decision-making by councils
  - 4.6.2 how longer term financial planning can help councils identify risks and shape a strategic vision
  - 4.6.3 the need for finance to be an integral part of the performance management and savings delivery systems of the council.
- 4.7 As with the CPC, the Financial Review offer will be free to councils and will be resourced from Revenue Support Grant in 2015/16. Subject to demand, it is hoped that 20-25 Reviews will be undertaken in a full financial year.

## **5. Other elements of the finance offer**

- 5.1 Elements of the existing offer that have been in place for some years will also continue. These include:

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
Diagnostic tools	modelling and analysis of an authority's financial position, incorporating, inter alia, the Future Funding Outlook and Spidergram. Additional detail on how these are being developed and utilised is set out below.

## **6. Diagnostic tools**

- 6.1 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. At the time of writing, the 2015 iteration of the Future Funding Outlook is due to be

released to member authorities following the Chancellor's July Budget so as to reflect the latest available information on the government's spending plans.

- 6.2 The 2014 Financial Spidergram was released in November that year and included 16 new measures of financial resilience reflecting the financial opportunities and risks that councils may wish to consider. The Spidergram also provided information on the council's direction of travel, showing how its relative position had changed since the 2013 release, and it is felt that in time this feature will be particularly useful to councils. A revised Spidergram will be released this autumn.
- 6.3 With the final closure of the Audit Commission in March 2015, the responsibility for the Value for Money indicators has transferred to Public Sector Audit Appointments (PSAA - a company created by the LGA under the IDeA company structure), and the intention is that over time, the relevant indicators will also be added to future iterations of LG Inform and also to diagnostic reports used by CPC and Financial Review teams.

## **7. Bespoke Support**

- 7.1 Whilst the formal support offers provide a framework that can be used to deliver support at scale across the sector, the ability to tailor support to councils' individual needs is a vital part of the offer. The recruitment of more expertise to the pool of associate and peers increases our capacity to do this at relatively short notice. It is a role of the Principal Adviser (Finance) to support our teams in the regions to help them devise and resource tailored packages of support, which frequently also involves support from the Productivity Team in helping councils identify strategic options for making savings and generating income. The Principal Adviser (Finance) has also been able to provide direct support to councils where necessary through the regional support network.

## **8. Highlighting Political Leadership**

- 8.1 Alongside the work described above, a Leadership Essentials programme on finance ran successfully at Warwick as a pilot on 30-31 October 2014, attracting highly favourable comments from those who attended. This will now run again twice during the current year - at Roffey Park on 29-30 September and at Warwick on 14-15 October.

## **9. Resourcing the offer - peers and associates**

- 9.1 In order to deliver a Financial Review offer to a larger number of authorities, it will be necessary to recruit more financially qualified peers and associates. Finance peers are also often required for CPCs. As at July 2014 there were 27 peers on our database who were recorded as having a CIPFA qualification and this has now increased to 52, in addition to which, ten freelance associate peers have been recruited. It is thought that realistically around 75-80 peers will be required

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when the programme is in full swing, allowing for the need to match peers to individual authorities according to their skills and expertise. The next step will be to undertake a further recruitment process to identify more peers, and a tendering exercise to supplement these with expert associates. The support of other stakeholders such as CIPFA will be enlisted to publicise the benefits of being a peer to a wider group of potential peers.

## **10. Good Practice**

- 10.1 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. There are a number of areas where good practice would seem particularly important and opportune; for example, authorities are increasingly moving away from incremental approaches to budgeting towards outcome-based or programme-based approaches that are widely considered to more effective in periods of rapid change. Through our support for councils we can help to capture best practice in implementing new budget approaches.
- 10.2 Good practice will need to be captured from ongoing conversations with authorities and by revisiting previous peer challenges. It will take time to collect good practice specifically on financial management but work will initially focus on analysing good practice collected from other sources, in particular the CPCs. Good practice will be reflected in our new online innovation database.

## **Next Steps**

11. The main next steps that officers will pursue over the next few months are to:

- 11.1. rollout the Financial Review to more authorities beginning in the autumn
- 11.2. continue to build the pool of finance peers and associates to deliver a greater number of reviews and build our bespoke offer
- 11.3. work with other stakeholders in public finance to understand best practice and the financial state of the sector and reflect that back to councils.

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

## **Financial Implications**

13. The costs of the financial support offer will be met from within agreed sector-led improvement budgets.