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| Report To: | Policy & Resource Committee | Date: | 7 August 2018 |
| Report By: | Chief Financial Officer | Report No: | FIN/64/18/AP/LA |
| Contact Officer: | Alan Puckrin | Contact No: | 01475 712223 |
| Subject: | Northamptonshire County Council Best Value Inspection | | |

1.0 PURPOSE

- 1.1 The purpose of this report is to highlight to Committee the recently issued Best Value inspection report for Northamptonshire County Council and to highlight relevant matters.

2.0 SUMMARY

- 2.1 The Council has a regular practice of reporting the main messages from Best Value reports in Scottish Local Authorities to the Policy & Resources Committee. This allows the Committee to consider whether there are opportunities for the Council to amend its approaches, thus demonstrating continuous improvement and self awareness.
- 2.2 Given the challenging financial situation faced by Scottish Local Authorities in recent years, the Chief Financial Officer has on a regular basis highlighted the need for the Council to set a balanced budget and give careful consideration to the use of one off sums such as Reserves when seeking to meet recurring revenue commitments. Members have on occasion quite rightly challenged whether, given the level of the Council reserves, the Council could use one off funding for a period of time in order to reduce the immediate impact of potential funding reductions.
- 2.3 Members will probably be aware of recent media coverage regarding Northamptonshire County Council and specifically the recommendation to break up the Council following an extremely critical Best Value inspection. The Corporate Management Team reviewed the Best Value inspection report for Northamptonshire County Council which is attached at Appendix 1.
- 2.4 As Members commence what is likely to be another challenging budget process, Officers would wish to highlight a real life example of what can happen to a Council if it does not have strong governance in place when setting budgets, developing and delivering savings, does not allow adequate scrutiny by Councillors and does not operate medium term financial planning.
- 2.5 Whilst it is accepted that the situation in Northamptonshire is without precedent in Local Government it is important that Members recognise the potential outcomes in the event that the current rigour is not continued.

3.0 RECOMMENDATIONS

- 3.1 It is recommended that the Committee notes the contents of the Northamptonshire Best Value Inspection report

Alan Puckrin
Chief Financial Officer

4.0 BACKGROUND

- 4.1 The Council has a regular practice of reporting the main messages from Best Value reports in Scottish Local Authorities to the Policy & Resources Committee. This allows the Committee to consider whether there are opportunities for the Council to amend its approaches, thus demonstrating continuous improvement and self-awareness.
- 4.2 Northamptonshire County Council received an extremely critical Best Value Inspection earlier in 2018 in relation to all aspects of its Budget preparation, delivery and management. The net result, as widely reported in the media at the time, was the recommendation to break up the County Council into 2 Unitary Councils.
- 4.3 As Members commence what is likely to be another challenging budget process, Officers would wish to highlight a real life example of what can happen to a Council if it does not have strong governance in place when setting budgets, developing and delivering savings, does not allow adequate scrutiny by Councillors and does not operate medium term financial planning.

5.0 MAIN CONCERNS AND INVERCLYDE COUNCIL'S POSITION

- 5.1 **Use of Reserves to meet funding gaps** - Over a 3 year period earmarked reserves reduced from £57.7m to £8.8m including reducing its "Minimum Reserves" level by £22million. Table 2 illustrates the extent of this on Page 10 of the report.

This Council has a policy of Minimum Reserves being 2 % of turnover and has only exceptionally used relatively small amounts of reserves to meet recurring costs and always in the context of a plan to balance the budget without the use of reserves.

- 5.2 **Non-Delivery of / Shortfall in savings** – Table 3 in the report shows the shortfall in savings delivered. The level of savings grew as there appeared to be little rigour at officer and member level to ensure savings were delivered or alternative savings approved where a saving could not be achieved.

In Inverclyde, the CMT and Change Boards review delivery of savings every cycle and any shortfalls are flagged up via the Committee monitoring reports. The Council has a strong record of delivering savings but as savings become more contentious this is an area which will continue to require focus.

- 5.3 **Identification of "unavoidable" service pressures** - At Northamptonshire the practice was not to rigorously challenge whether pressures were unavoidable as opposed to non management of savings/demand. Pages 23 & 24 of the report gives more detail.

Within Inverclyde there is a rigorous process at CMT level and thereafter at Member level via the MBWG prior to proposing any unavoidable budget pressures. This does not preclude the identification of recurring spend on Policy Priorities but the 2 areas must be kept apart.

- 5.4 **Lack of clarity on transformation savings/ mis-use of receipts** - The Council appeared to set a transformation target , include this in a bid to allow them to use capital receipts to meet the costs associated with the delivery of the savings , then simply used most of these receipts to plug the savings gap. The amount involved was £42million.

As has been previously reported to Members, Inverclyde operates a "ground up" approach to transformation savings and this is reported through the Delivering Differently agenda. This avoids the situation (which is not unique to Northamptonshire) where high level unsubstantiated savings targets are attributed to transformation but not delivered.

The Council has strong governance in the application, use and claiming of grant and therefore it is difficult to see how the situation outlined re the mis-use of receipts could arise here.

- 5.5 **Structure** - Northamptonshire had a complex delivery model whereby many services (including aspects of Finance) were delivered by an arm's length body (LGSS) with the Section 151 officer (Sec 95 in Scotland) having no staff supporting him directly. This made oversight difficult and clearly led to delays in budgetary matters being highlighted/managed.

Inverclyde Council centralised all Finance employees in 2010 and operates a hub & spoke model whereby each Directorate is supported by a Finance Manager who works directly to the CFO.

- 5.6 **Member Oversight** - There is a clear message coming through the report that most members did not feel they were getting the information they needed to fulfil their Governance/Scrutiny duties. The lack of challenge appeared to encourage a culture of non-compliance with basic rules of financial management and a lack of recognition of the seriousness of the situation by senior officers and senior members.

Inverclyde Council has well established scrutiny arrangements in place and from a budget perspective, this is bolstered by the MBWG. Members have access to senior officers and channels to allow concerns/questions to be raised. The Council has an open and self-aware approach on reporting inspection outcomes and this is recognised as a strength by the Council's auditors.

6.0 IMPLICATIONS

6.1 Finance

None

Financial Implications:

One off Costs

| Cost Centre | Budget Heading | Budget Years | Proposed Spend this Report £000 | Virement From | Other Comments |
|-------------|----------------|--------------|---------------------------------|---------------|----------------|
| N/A | | | | | |

Annually Recurring Costs/ (Savings)

| Cost Centre | Budget Heading | With Effect from | Annual Net Impact £000 | Virement From (If Applicable) | Other Comments |
|-------------|----------------|------------------|------------------------|-------------------------------|----------------|
| N/A | | | | | |

6.2 Legal

There are no direct legal implications arising from the report.

6.3 Human Resources

There are no HR implications arising from this report.

6.4 Equalities

Has an Equality Impact Assessment been carried out?

Yes See attached appendix

No This report does not introduce a new policy, function or strategy or recommend a change to an existing policy, function or strategy. Therefore, no Equality Impact Assessment is required.

6.5 Repopulation

There are no repopulation issues arising from this report.

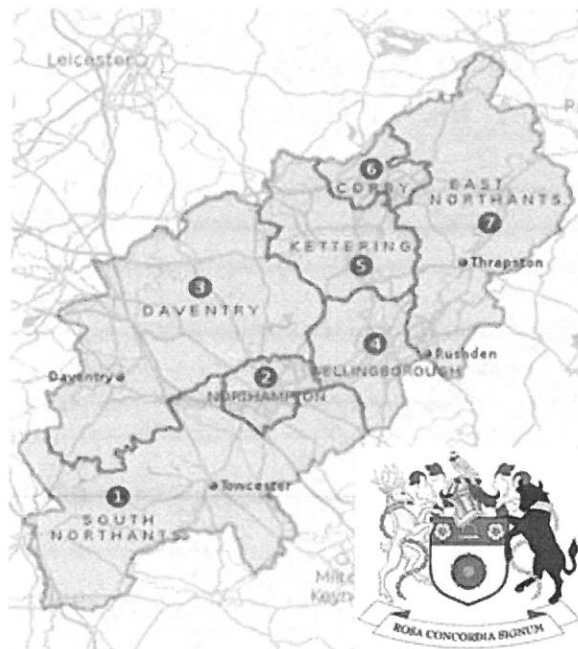
7.0 LIST OF BACKGROUND PAPERS

7.1 None

Northamptonshire County Council Best Value Inspection

January - March 2018

Max Caller CBE
Lead Inspector



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1. Executive Summary

- 1.1 Northamptonshire County Council (NCC) has failed to comply with its duty under the Local Government Act 1999 (as amended) to provide best value in the delivery of its services.

In essence, the road to failure has a simple cause.

- 1.2 Following the Ofsted inspection report published in August 2013 which resulted in an 'inadequate' judgment and the subsequent Statutory Direction, NCC lost tight budgetary control and appeared to abandon strong and effective budget setting scrutiny. Instead of taking steps to regain control, the Council was persuaded to adopt a 'Next Generation' model structure as the solution. There was not then and has never been any hard edged business plan or justification to support these proposals, yet Councillors, who might well have dismissed these proposals for lack of content and justification in their professional lives, adopted them and authorised scarce resources in terms of people, time and money to develop them. This did not and could not address the regular budget overspends which were covered by one off non-recurring funding sources.
- 1.3 When the use of capital receipts to fund transformation was introduced by central government, this was seized on as a way of supporting revenue spend by classing some expenditure as transformative. Until this budget cycle, there had been no report to full council, or anywhere else, which set out the specific transformation that was to be achieved, on a project by project basis, as required, nor has there been any report to full council which sets out the actual outcome compared to the prediction. This means the Statutory Guidance has not been complied with putting in doubt the use of capital receipts for this purpose. The first comprehensive report that addresses the requirements of the Direction and Guidance will be reported to Cabinet on 13th March 2018.
- 1.4 Appropriate advice in setting and managing budgets and the necessary control mechanisms to ensure that the Council complied with the law and good practice are only just now being introduced.
- 1.5 Even following the issue of the Section 114 notice in February 2018 and the KPMG Advisory Notice on the Budget also in February 2018, the Council still appears to struggle to take the necessary decisions at both member and officer level to control and restrain expenditure to remain within budget constraints.

- 1.6 Each one of the concerns highlighted above would require determined intervention from both members and officers. Taken together they demonstrate the failure to comply with the best value duty.
- 1.7 NCC employs many good, hardworking, dedicated staff who are trying to deliver essential services to residents who need and value what is offered and available. The problems the council faces are not their fault.
- 1.8 In Local Government there is no substitute for doing boring really well. Only when you have a solid foundation can you innovate.
- 1.9 The Inspection team believe that a new start is required for the residents of Northamptonshire which can deliver confidence and quality in the full range of Local Government services. This can best be achieved by the creation of two new Unitary Councils, one covering the area of Daventry, Northampton and South Northamptonshire and the other encompassing Corby, East Northamptonshire, Kettering and Wellingborough. These should be established following elections to be held in May 2020 and be in operation commencing at their first annual meeting.
- 1.10 In the meantime the Secretary of State should give serious consideration to whether Commissioners should take over the running of all services save planning currently provided by Northamptonshire County Council and on what basis.

2. Introduction

- 2.1 The Secretary of State for Housing, Communities and Local Government, by way of letter dated 9th January 2018, appointed Max Caller CBE as the person to undertake an Inspection of the compliance of Northamptonshire County Council (NCC) with the requirements of Part 1 of the Local Government Act 1999 (as Amended) in relation to the Authority's governance functions, particularly those functions under Section 151 of the Local Government Act 1972.
- 2.2 In making this appointment, the Secretary of State noted that he had had regard to the external auditor's (KPMG) adverse value for money opinion in the Annual ISA 260 reports relating to the 2015/16 and 2016/17 accounts, publically available budget documents and the Local Government Association's (LGA) Peer Review report dated September 2017 into the Council's financial planning and management.
- 2.3 Subsequently, at the request of the Lead Inspector, the Secretary of State appointed Julie Parker as Assistant Inspector with effect from 18th January 2018.
- 2.4 The Secretary of State provided the following Directions in relation to the undertaking of the review, requesting consideration as to whether the authority:
- Has the right culture, governance and processes in place to make robust decisions on resource allocation and to plan and manage its finances effectively,
 - Provides clear, useful and sufficiently detailed information to councillors to inform their decision making,
 - Allows for adequate scrutiny by councillors,
 - Has strong processes in place to manage services within the budget constraints – within the Council's finance department and also within service areas,
 - Has and shares appropriately the right data to support spending decisions and to support the management of services,
 - Is organised and structured appropriately to ensure value for money in delivery of its functions.
- 2.5. It was also directed that the findings of the inspection be reported by 16th March 2018.
- 2.6 The full text of the letter of appointment of the Lead Inspector can be found at Appendix 1.

2.7 Max Caller is a former London Borough Chief Executive and has, most recently, been one of the Intervention Commissioners following the imposition of Directions on the London Borough of Tower Hamlets. He was also the Chief Executive of London Borough of Hackney, the first authority to be subject to the Direction regime. Julie Parker is a former London Borough Director of Resources (Section 151 Officer) and was part of the LGA peer review team that produced the September 2017 report.

2.8 In assessing how to undertake the review the inspection team decided to segment the activity into 3 elements.

To look back to 2013/14 to see how the council had complied with its Best Value duty,

To determine whether there was a recovery plan for the future or in its absence what might that plan be, and

To determine the most appropriate configuration of political and managerial leadership that would have the best chance of delivering the required plan.

2.9 2013/14 was chosen as the starting point as from the published information it was at that point, following the Ofsted inspection, the council appeared to lose control of its budget. It was reported that the Council had abandoned its Star Chamber process for challenging and validating budget inclusions, only reinstating it in 2017 and the ability to use capital receipts from 2016/17 to support revenue spend became a favoured policy option.

2.10 The inspection has been undertaken by an extensive document review which encompassed both published documents and working papers where they existed; a programme of interviews involving councillors of all 3 parties represented on the council, both in leadership positions and on the back benches, meetings with Borough and District Council Leaders and Chief Executives, Trade Union representatives, NHS partner organisations, the Police and Crime Commissioner, senior and middle ranking council staff and former councillors. The Local Government and Health Ombudsman also sought a meeting with the inspection team and presented evidence and members of the public wrote in with their observations. The inspection team also attended Cabinet and Council meetings. Overall, the inspection team consider that there is sufficient evidence to support and underpin our findings and recommendations. The inspection team are very grateful to all those who have contacted us and met with us to share what in the vast majority of cases were very frank and honest views supported by key documents. Some of the information that was provided appeared to be outside the scope of the inspection but still required investigation. These issues were referred to External or Internal Auditors for formal investigation or to the Council's complaints process.

2.11 The legislation, noted above in the appointment letter, states:-

“A best value authority must make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. (Local Government Act 1999 Part 1 section 3(1))”

“Every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs. (Local Government Act 1972 Section 151)”

2.12 The concept of continuous improvement must mean that the best value duty must be a process. It must mean that even in the best performing authorities errors will occur, failures of policy or practice may result despite good intentions and that an instance of this would not automatically mean a failure to comply with the best value duty. However, it must mean that an authority will learn from its past performance, rectify defects and not continue along a path when failure is evident. Such events should be clearly isolated and exceptional rather than regular and repeated and should be immaterial in value or wider implications. A continued failure to comply with say, a Statutory Direction, is not an isolated matter and capable of being considered a failure to make the necessary arrangements that the legislation envisages.

2.13 Two events of significance took place during the course of this inspection:-

- The Council’s Section 151 officer issued a Section 114 notice on 2nd February 2018. (Local Government Finance Act 1988) This was because in his opinion the Council was at risk of not being able to balance its budget by the year end and, as a consequence, imposed spending controls to attempt to restore the situation pending a full Council consideration of the position and how it should be rectified.
- The Council’s external auditors, KPMG, issued an Advisory Notice (20th February 2018) under the provisions of Paragraph 2(3) Schedule 8 Local Audit and Accountability Act 2014 on the basis that they believed the Council was about to set a potentially unlawful budget.

2.14 Both of these events are extremely rare in local government and are signals of systemic failure, as neither can come about by a single isolated event, even if the event is major in size and impact. The inspection process did not direct these events nor had the power to do so, but both events followed after lines of questioning and enquiry which held a mirror up to the policies and practices of the Council.

3. Northamptonshire County Council – Context

- 3.1 NCC is one of the smaller shire counties with a population estimate of just over 733,000 (mid 2016).
- 3.2 During the period under review NCC's performance has been characterised by three elements: poor budget management, the 'Next Generation Council' and a claim that NCC was specifically and unusually disadvantaged by the funding formula (the 'Mind the Gap' lobby strategy).
- 3.3 Like all of English local government it has experienced a substantial reduction in the value of central government support. Across the whole of the country, this has resulted in individual councils taking difficult decisions but has also generated some extraordinary innovation as new ways to deliver and enhance services have been found. Whilst there have been some mistakes and false starts the sector can rightly be proud of its record.
- 3.4 NCC, in their 'Mind the Gap' lobby document, make a number of claims, the more significant of which are set out below.
- 3.5 *'NCC has been more adversely affected by the 'locking in' of flawed population data than the average authority.'*

The results conclusively show above-average growth for Northamptonshire when compared to other county councils.

In the decade after the introduction of the BRRS (2014-2024) population in Northamptonshire is predicted to grow at a significantly higher rate (8.99%) than both the average county council (6.73%) and the national average (7.51%).

NCC has the fastest growing taxbase of any county council (2013-14 to 2017-18).

During this period NCC's taxbase has grown by an impressive 10.83%. The comparable figures for England and all county councils are 7.56% and 6.98% respectively.'

Analysis of the statistics show that in percentage terms the claims for growth in population and taxbase are broadly correct although a difference in sources mean that the numbers do not quite match government statistics.

- 3.6 *'In 2017-18 our Band D council tax is an impressive £54.75 lower than the average for all county councils (including those with no Fire and Rescue Service responsibility). In 2017-18 our Band D council tax is a staggering £79.70 lower than the average for county councils with a FRS and £179.00 lower than the highest preceptor with a FRS'.*

This claim is also correct. NCC has historically had a council tax lower than the average for all county councils. NCC like most County Councils heeded the governments call to set a zero council tax increase over the period 2011/12 to 2013/14, particularly as there was central government funding to provide an element of compensation for doing. Thereafter, Council tax rises have been capped unless increased following support in a referendum. Council tax at NCC level is now substantially an arithmetic decision rather than a controllable political decision.

3.7 NCC could have benefitted from an improvement in Council tax collection rates. It is, of course, the Districts and Borough's that are the billing and collection authorities but improvements in their performance benefit the county most. A partnership arrangement which saw NCC invest in improvements at the second tier could have improved the spending ability of the county. However, the inspection team was told by second tier Leaders, that this had been ruled out as it was not the county's responsibility. Further, the council taxbase growth over the period 2014-2017 is significantly higher than the average for all shire counties, 7.38% compared to an average of 4.67% so this is an additional source of revenue not available to comparable councils.

3.8 *'We have the lowest funding per head of any county council with Fire responsibility.'*

If we were funded based on the average for all county councils we would have seen an additional £25m in funding in 2018-19.

If we had received funding based on the average for county councils with Fire responsibility we would be £44m better off in 2018-19.

If we were funded at the level of the highest ranked county council we would have received an additional £92m in 2018-19.'

This claim is an accurate calculation but is largely irrelevant. The whole point of a funding formula, however inadequate its basis, is to reflect different needs. More importantly, a more detailed analysis looking at absolute numbers rather than percentages shows that NCC is not in a significantly worse position as say two other counties, Lincolnshire and Suffolk. Taking the population over 85 as an example the increase for NCC over the period 2010-2016 is 1927 compared with 2871 for Lincolnshire and 3575 for Suffolk. There are many other examples that can be drawn out but what a fuller analysis demonstrates is that across the piece NCC is not the most disadvantaged shire county as a result of unprecedented changes.

- 3.9 In 2016/17, NCC applied for the application of the four year local government finance settlement offered by then Secretary of State, Greg Clark. NCC stated in its efficiency plan reported to Council on 24th November 2016,

“The Government’s commitment to a four year funding envelope enables the Council to plan its services effectively and with greater certainty than previously. This also enables longer term transformation projects to be planned in order to achieve savings with the least impact on service provision.”

This would indicate that NCC believed that it would be able to manage its affairs with the level of funding support set out in the four year settlement.

- 3.10 Even if there was a completely indisputable case for more funding the legal requirement to set balanced budgets year on year and live within them continues and everyone in local government understands the position.

How the council has managed its finances since 2013/14

- 3.11 Table 1 sets out the councils actual expenditure compared with its budget since 2013/14 to 2017/18 (quarter 3). The council only presents its position net in both its revenue monitoring, outturn and statement of accounts, so further analysis is needed to understand the overall position.
- 3.12 Table 1 shows that the council had a small overspend in 2013/14 on Children’s, Families and Education off-set by underspends in other services. In 2014/15 it overspent by £11.9m in Adult social care and £10.5m in Children’s, Families and Education. These two services overspent in 2015/16 (£29.4m) and 2016/17 (£33m). In 2017/18 Adult social care has continued to overspend (£12.6m) with Place (£5.4m) also overspending.
- 3.13 Since 2014/15, overspending in Adults and Children’s have mainly been offset by reported underspends in the corporate and chief executive budgets. This is where (in the main) the use of reserves and one-off corporate resources are included, so masking the extent to which the council has relied on one-off resources to support its spending position. A schedule which listed every increase and decrease of the original budgeted provision would be hugely complex to understand but is summarised in the table below which is abstracted from the statement of accounts.
- 3.14 For 2017/18 the figures relate to Q3 monitoring which was reported to Cabinet on 16th January 2018, since that meeting the position has worsened to a £21.1m overspend and a Section 114 report has been issued by the Section 151 officer. This is covered elsewhere in the report.

| | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 Q3 |
|---|----------|----------|----------|------------|---------------|
| | £000 | £000 | £000 | £000 | £000 |
| Adult social care and First for Wellbeing | 614 | 11,870 | 8,525 | 25,626 | 12,648 |
| Children, Families and Education | 2,583 | 10,484 | 20,882 | 7,385 | 327 |
| Environment, Development and Transport / Place | 127 | (2,649) | 3,322 | (4,382) | 5,413 |
| Public Health and Well being | (325) | (1,833) | (1,156) | (2,367) | (3) |
| Chief Executive / NCC group | (177) | (487) | (154) | (25,975) | (8,124) |
| Corporate | (1,375) | (16,605) | (30,412) | | |
| Budgets managed by LGSS | (1,447) | (780) | (1,007) | | |
| | | | | | |
| Total Net Expenditure (after use of reserves and one offs) | 0 | 0 | 0 | 287 | 10,261 |

Use of one off resources to support the budget

- 3.15 The council has made extensive use of one off resources to support its on-going revenue expenditure since 2013/14, both in terms of general use and for service specific purposes. In 2013/14 earmarked reserves stood at £57.7m, by 1st April 2017 they stood at £8.8m. This is a dramatic reduction.
- 3.16 Table 2 sets out the main sources of one off resources. These have been increasing each year to 2016/17. The position for 2017/18 is an estimated position at Q3, it does not reflect the current increased projected overspend.
- 3.17 During 2014/15 NCC, like many councils', reviewed its minimum revenue provision (MRP) and received a one off retrospective benefit of £22m, of which it initially used £6.9m to support the budget, the remaining £15.1m was put into earmarked reserves and applied in later years. The MRP review also gave on-going benefits in excess of that budgeted for (£7m in 2014/15 and a further £3m in 2015/16).
- 3.18 In addition to the one off application of specific resources detailed in Table 2 services have made one off alternative in-year savings to offset overspends, earmarked reserves had been applied for particular services and provisions reduced. All of which provide one-off benefit. In addition, the inspection team heard concerns that the grant from Public Health England was not being applied to the appropriate services. It was understood that this was under investigation and the team concluded that this should be left to the external auditors and Public Health England to investigate.

| Table 2 – Use of one off resources to support the revenue account | | | | | |
|---|-------------|--------------|-------------|-------------|---------------|
| | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 Q3 |
| | £m | £m | £m | £m | £m |
| | | | | | Note 1 |
| Earmarked Reserves (general) Note 2 | 13.1 | 14.45 | 16.5 | 12.5 | 5.3 |
| Review of Minimum revenue provision - - one off in 2014/15 (Part of £22m) - additional one off in 2015/16 - additional one off in 2016/17 | | 6.9 | 6.1 | 3.6 | |
| Flexible use of capital receipts for transformation | | | | 21 | 21.5 |
| Section 106 | | | | 9 | 4.5 |
| Better Care Fund and Improved Better Care Fund | | | | | 4.5 |
| Total | 13.1 | 21.35 | 22.6 | 46.1 | 35.8 |
| | | | | | |

Note 1 – This is before the 2017/18 net overspend of £10.261m is taken into account.

Note 2 – 2013/14 includes application for services;
2016/17 includes balance sheet review.

3.19 Over the period from 2013/14 to date, the council's general balance has moved from £12.8m to £11.7m as at 1st April 2017; this is not significant to the overall funding position of the council.

Progress in delivering planned savings

- 3.20 Table 3 shows the extent to which the council has delivered its planned savings each year since 2013/14.
- 3.21 This shows that the councils saving requirement doubled in 2015/16 from the previous year and has remained at that higher level. The council has fallen well short on achieving its planned savings since 2014/15.
- 3.22 Where planned savings have not been achieved the in-year mitigation has included alternative in-year savings, use of one off resources or a reported service overspend.
- 3.23 Savings that have not been achieved in the year planned have either been added back into the next year's budget i.e. abandoned or left in, so increasing the level of savings required by the services.

- 3.24 The council does not detail in summary form the extent to which it has added back unachievable savings, but the outturn report and statement of accounts provide details of some of these at the service level.

| Table 3 - Delivery of Planned Savings | | | | | | |
|---|---------|----------|-----------|----------------------|-------|--|
| | Planned | Actual | Shortfall | Added back into MTFP | Other | Comment |
| | £m | £m | £m | £m | £m | |
| 2013/14 | 33.6 | 26.5 | 7.1 | 5.4 | 1.7 | Cabinet reports delivery of £33.6m achieved, but the detail shows non achievement of £7.1. The £1.7m that was not achieved has been identified as being allocated to services in future years. |
| 2014/15 | 33.4 | 27.1 | 6.3 | 4 | 2.3 | £2.3m is reported as having slipped. |
| 2015/16 | 68 | 46.8 (B) | 21.2 | 16.8 | | Details of the number of abandoned planned savings added back into the MTFP is not reported to cabinet, but at least £16.8m have been. |
| 2016/17 | 65.1 | 43.5 (B) | 21.6 | note A | | |
| 2017/18 to Q3 | 58 | 30.9 | 27.1 | note A | | As at Q3 £27.1m are reported as not expecting to be delivered |
| Note A - for the 2017/18 and the 2018/19 MTFP the council added structural budget deficits back into the budget as unavoidable service pressures these were a combination of non- delivery of savings and budget pressures from previous years with an on-going impact. | | | | | | |
| Note B - actual figure of savings not delivered is not reported to cabinet | | | | | | |

3.25 Appendix 2 sets out the history of a failed saving proposal by NCC, an attempt by the boroughs and districts to provide an alternative and a withdrawal by NCC from partnership rather than working together to find a solution in the waste collection activity which would provide an opportunity for real savings to be delivered.

Increasing service demands and budget pressures

3.26 Since 2014/15 the council has set a budget with an increasing amount of “unavoidable service pressures” being included, this is described as demographic changes, demand pressures, service investment (particularly in Children’s service in response to the Ofsted Safeguarding inspection), the on-going effect of in-year budget pressures and the non-delivery of previously planned savings.

3.27 As the level of pressures added in has increased so too has the saving requirement. Table 4 shows both unavoidable service pressures and the savings requirement on an annual basis. As detailed in Table 3 the savings have not been fully delivered.

| | Table 4 | |
|---------|--------------------------------------|---------------------|
| | Service Pressures (one year only) | Savings (annual) |
| | £m | £m |
| 2013/14 | 20.0 | 33.0 |
| 2014/15 | 24.0 | 31.6 |
| 2015/16 | 52.5 | 68.0 |
| 2016/17 | 80.8 | 65.1 |
| 2017/18 | 62.9 | 57.8 |

Balancing the budget using capital receipts

3.28 The main way in which NCC has sought to balance its budget since 2016/17 is to make use of the flexibility allowed by government to use capital receipts for transformation purposes. In general capital receipts are not allowed to support revenue spend as they are one off amounts whilst revenue is continuing unless action is taken to change spending levels. The rules for the flexible use are set out in Statutory Guidance on the Flexible Use of Capital Receipts last updated and published in March 2016 and the Secretary of

State has recently extended the provisions for a further three years. (Flexible Use of Capital Receipts Direction: Local Authorities)

- 3.29 The key criteria to use in deciding whether expenditure can be funded from this flexibility is that it is forecast to generate on-going savings for either this council or another public body (para 8).
- 3.30 To qualify a local authority is required to prepare at least one strategy document which needs to contain, as a minimum, a list of every project setting out the details of the expected savings or service transformation. Subsequently, future annual updates are required to specify details of projects approved in earlier years and including a commentary on whether the planned savings or transformation has been delivered compared to the original analysis. These documents/reports are required to be reported to full Council in some form (Section 5).
- 3.31 Although there have been reports which set out at high level NCC intentions, there has been no report which complies with the Statutory Guidance. This is confirmed by KPMG both, in their Statement of Reasons (para 13 reproduced below) which accompanied their Advisory Notice published on 20th February 2018 and in their ISA 260 report for 2016/17 which records their audit finding. The starting point is therefore the direction and what expenditure the direction applies to – if expenditure is outside the scope of the direction it cannot be capitalised in reliance on the direction. The next thing to look at is the statutory guidance (particularly paragraph 4.1) – has the authority followed the guidance and if not, did they have good reason for that? The authority has already confirmed to the inspection team that a schedule which details the projects on which the capital receipts are to be applied and the transformation that they are designed to effect was not prepared and reported in 2016/17 and this means that the necessary legal basis for the use of capital receipts to support transformational spend was questionable.
- 3.32 Councillors were certainly neither clear nor briefed on the rules and application of this funding source. The Cabinet Member for Resources set out what appeared to be the NCC common understanding when he stated at the Council meeting held on 22nd February 2018 that he made no apology for the use of substantial sums of in-year capital receipts to support revenue spend.
- 3.33 As an illustration of how another council has addressed this, Birmingham City Council has presented a schedule as part of its budget setting council papers which sets out original investment, revised plans and the planned savings.

- 3.34 The first time that any attempt at a schedule purporting to comply with the Statutory Guidance has been produced is in the first set of Cabinet and Council papers for the 13th and 22nd of February 2018. In its Advisory Notice Statement of Reasons, KPMG has stated:

“12. The Authority has published its list of proposed savings plans for 2018/19, but has not established whether any of these savings will be a result of the, currently unidentified, transformational projects for 2017/18.

13. The Authority has also yet to undertake and publish within its Strategy a full review of transformational projects approved in previous years, as required by the Statutory Guidance, including a commentary on whether the planned savings or service transformation have been or are being realised in line with its initial analysis. KPMG doubt that the Authority will be able to justify the level of qualifying transformational expenditure which it is relying upon for 2017/18.”

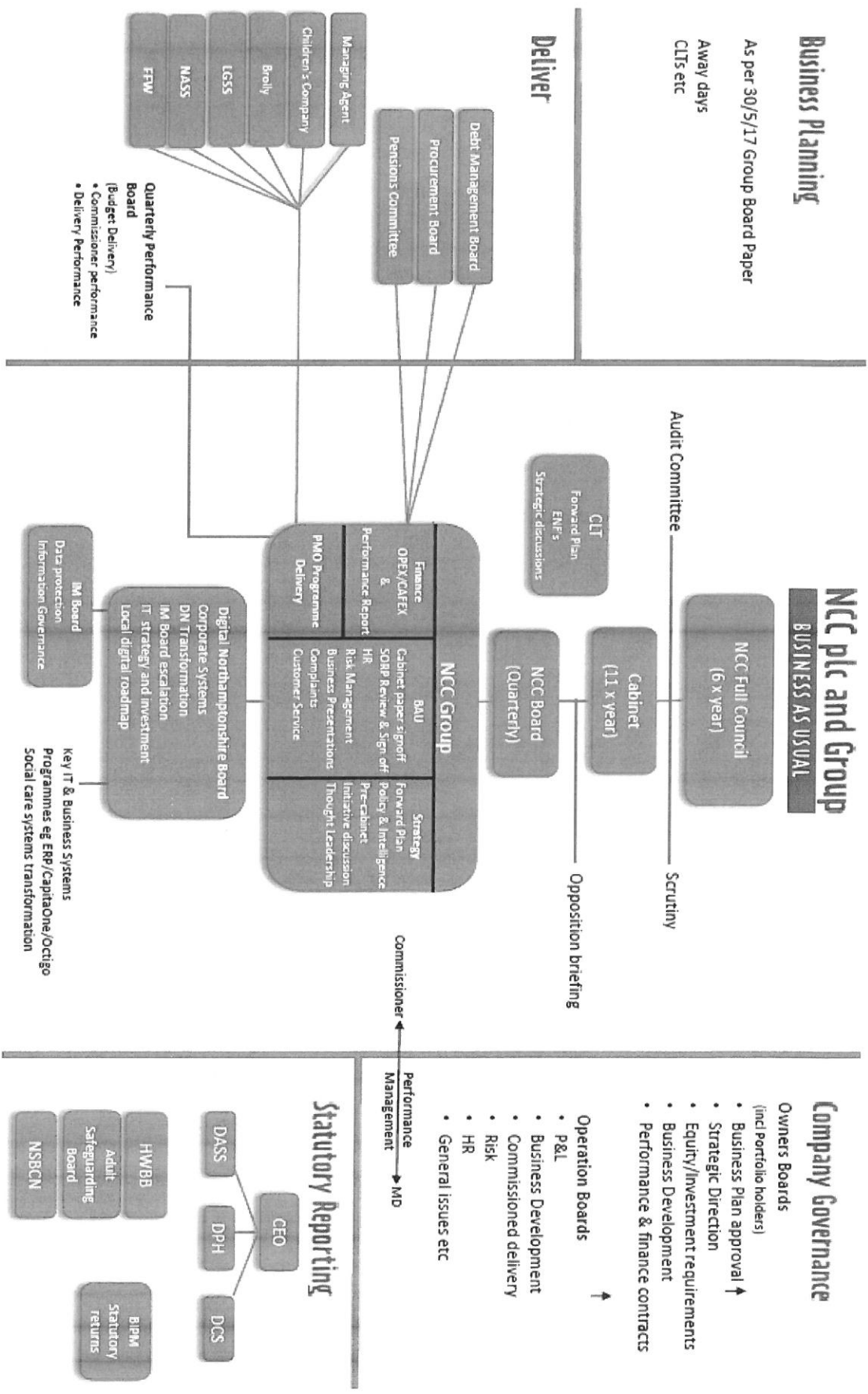
- 3.35 KPMG have advised us that they did pursue the documentation to support NCC compliance with the Direction in March to June 2017 as part of their audit processes. It was necessary to examine a range of source documentation as NCC did not at that time have a comprehensive list which would have been capable of being considered by Cabinet and full Council. As a consequence, KPMG raised a recommendation to ensure compliance. As previously noted, the reports to Cabinet and Council on the 2018/19 budget contain some information in an attempt to meet this recommendation. Only in the papers recently published to be considered by Cabinet on 13th March and Council on 22nd March (for the first time) is there a more comprehensive set of information which looks forwards and backwards.

NCC Officer Structure and Leadership

- 3.36 NCC promoted itself as having a small commissioning core surrounded by a mix of delivery vehicles supposedly able to take advantage of being outside council control to generate revenue that would otherwise not be available to support mainstream council services.
- 3.37 The original component of this was LGSS which was set up as a joint arrangement between Northamptonshire and Cambridgeshire County Councils in 2010. This was not a separate company but was controlled as a non-statutory joint committee. In structural terms there are no particular benefits or savings from doing this and, in practice, it appears that staff working on NCC projects are employees of NCC and staff working on Cambridgeshire projects are CCC employees. When Milton Keynes came on board in 2016 their employees remained as Milton Keynes employees.

- 3.38 It appears that, as a consequence, staff are not deployed flexibly to meet need nor are they working to common standards. LGSS is just a collection mechanism with a top layer of management working across all 3 authorities and winning a number of smaller contracts.
- 3.39 LGSS claims to have delivered significant savings over its period of operation but it is very hard to see what additional saving has been produced by the structural grouping and what could have been generated by normal management action. Further, much of the reported saving is not more for less but routine service reductions.
- 3.40 NCC's Council Plan 2014 approved in December 2013 presaged the start of the journey to a different model as this is the first reference to 'Next Generation working'.
- 3.41 The next iteration of the Council Plan, first reported in December 2014 records that the traditional model for the council and local service delivery can no longer work. It is unsustainable and outdated. It then asserts that as income for services can no longer match demand for services and citizens demand greater choice, control and real time interaction this requires Next Generation Northamptonshire.
- "In essence Northamptonshire County Council will see a small retained organisation called 'NCC Group' which will rightsource Safeguarding and Wellbeing outcomes through a federation of newly formed bodies, be they Mutuels, Community Interest Companies, Social Enterprises, public:public; public:private or private businesses which will have 'spun out' from direct council control."
- 3.42 Subsequent year's iterations of the Council Plan charts the progress with, for example, First for Wellbeing being established in 2016 as a social enterprise owned by NCC, the National Health Foundation Trust and the University of Northampton.
- 3.43 There are no reports or working papers which set out the line of sight between this articulated vision, the Medium Term Financial plan requirements and the detailed design of each of the Next Generation elements. This is highlighted in the KPMG value for money study report dated January 2017. The findings from this report just reinforce the adverse Value for Money opinion reported in KPMG's ISA 260 reports in September 2016 and August 2017.
- 3.44 Appendix 3 sets out the Olympus Care Services journey from Next Generation pathfinder to reincorporation into the Council.
- 3.45 In essence, no effective work had been done by NCC to turn a radical vision of a future operating model for a County Council into a practical system which recognised the need to join up services and ensure effective controls for the

use of public money. Instead the approach adopted made it very difficult for any backbench councillor to establish what was going on and the absence of effective controls made the job of budget management an exercise of hope rather than expectation. Indeed, the inspection team received evidence that the control environment was not something that was considered as an intrinsic part of the design, it could come along later. The complexity of the structure is best illustrated by the following diagram produced in mid-2017.



- 3.46 For this whole approach to work required a level of commissioning expertise in the retained structure; a reporting structure on both finance and performance which was clear, accountable and based on a single system; and the engendering of a culture and way of working which valued cooperation and sharing.

No attempt to put this in place has been evidenced.

- 3.47 Over the past 5 years there has been significant change in the personnel at the top of the officer structure in NCC. All the Executive Directors have been replaced, in some posts more than once, and the officer group is now headed by an interim Chief Executive who has stepped up from being the interim Group Director of Finance with Section 151 responsibilities in his second stint as a chief officer at NCC. (From 2008 to 2011, he was Assistant Chief Executive with Section 151 responsibilities.) However, it appeared to the Inspection team that there was no sense that the group worked together as a team, seeking to share and jointly solve the Council's problems. The impression the inspection team got from the lower managerial tiers is that working together to understand the impact that decisions taken in one area have on another and addressing the conflicts is not encouraged. The inspection team heard from councillors, officers and partner organisations that NCC works in silos and does not communicate well internally or share common objectives. This is not a recent phenomenon.

- 3.48 It is worth quoting from the then Section 151 Officer's letter dated 29th October 2015 to Paul Blantern, then Chief Executive, signalling the intention to issue a Section 114 report,

'We are experiencing a significant financial crisis but there is avoidance of the term and a lack of action appropriate for the situation we find ourselves in. At the heart of this is the corrosion of our financial management arrangements over the past eighteen months; there has been a change of culture and behaviour where overspending is acceptable and there are no sanctions for failure.'

- 3.49 Of course, the Section 114 report was not subsequently issued and there was no change to the approach; overspending without compensating action to recover the position continued. The then Section 151 Officer moved in mid-2016 to work exclusively as the Finance Director of LGSS; his warning was not taken seriously.
- 3.50 Even when the LGA was invited to undertake a peer review of the financial situation, at a time convenient to the authority, the Chief Executive did not think it important enough to be in the country for the whole of the review period or the feedback session. Even now not much has changed at NCC.

- 3.51 During the period of this inspection the Interim Chief Executive was abroad for a time during a period which also coincided with the issue of a Section 114 report late on Friday, 2nd February by the newly in-post Section 151 Officer, a report that had been signalled to the inspection team and the external auditors (and presumably the other statutory officers) before he left the country. This left the leadership of the organisation in something of a limbo during the first crucial days following imposition of expenditure controls. It would have been expected that councillors and staff would have wanted explanation and reassurance about the implications for themselves their jobs and services. However the first staff session was held on Tuesday the 6th following.
- 3.52 Service Directors clearly lead their professional areas with dedication but there did not appear to be a corporate sense of leadership or even urgency to address the financial situation. Only the issue of KPMG's Advisory Notice provoked real action and even then the budget setting was not accompanied by a sense of direction to staff about what lay ahead.

Budgetary Control

- 3.53 The council has weak budgetary control, as repeatedly, services overspend and savings fail to be delivered. The council may know how much it is spending but it is not able to control spending. The structures that the council put in place as a result of the Next Generation Council approach have not helped this, as they are diffuse.
- 3.54 The expectation was that services in the devolved units would manage within an approved budget with limited reporting to the centre. This has made oversight difficult. There was a real impression that units could do their own thing (within an allocated resource) and not be accountable to the centre. The federated model approach is not transparent.
- 3.55 Budgetary control and financial grip is not assisted by the way the finance support is structured. The Executive Director of Resources (Section 151 officer) has no staff supporting him in the delivery of the financial management for the council. All the staff work within LGSS, this includes the Strategic Finance Budget Managers who are the key staff that support Service Directors, while also being the most senior finance officers that the Section 151 officer would rely on to provide strategic insight on the financial position of the council. One of these Strategic Finance Budget Managers is also the Deputy Section 151 Officer.
- 3.56 The reporting lines are blurred as LGSS also has a Director of Finance. The Strategic Finance Budget Managers have a dotted reporting line to the council's Section 151 officer, in practice that does not appear to be the case with the line described as "more like" solid by those it applied to. There

appears to be no one officer who has clear responsibility for setting professional standards for finance staff.

- 3.57 The inspection team was advised of difficulties in the Adults Service budget with the senior managers not being confident that the financial data they were using was a comprehensive picture of their spending commitments. Some of this was down to how the service was restructuring its budgets, but having LGSS at a distance from the service does not assist accountability.

Section 114 Notice

- 3.58 It is not a surprise that the council has received a Section 114 notice.

As noted in paragraph 3.48 a Section 114 notice could well have been issued in October 2015. The letter signalling an intention to issue a Section 114 report was sent to the Chief Executive, with copies to the Monitoring Officer, External Auditor, Leader and Lead Member for Finance.

The inspection team find it difficult to see why action was not taken by the management team and leading members at that point, given the stark warning. The inspection team has been unable to find any record of more effective budgetary control following that correspondence. Services continued to overspend and failed to deliver planned savings in 2015/16.

- 3.59 By the time the 2016/17 budget was set the Government had announced the Capital Receipt flexibilities and the council proceeded to use capital receipts to support its revenue budget without the compliance with the guidance referred to in paragraph 3.31. Overspending also continued and more capital receipts were applied to fill the gap in direct response to the overspend rather than identifying additional transformation costs or projects. Paragraph 5.7 of the Statutory Guidance recognises that the Flexible Use of Capital Receipts strategy would be replaced at intervals through the year if significant changes occur.
- 3.60 Staff changes occurred and the then Section 151 Officer moved into a role solely in LGSS and an Interim Group Finance Director (and Section 151 Officer) was appointed mid 2016.
- 3.61 By the middle of 2017/18 it was known that the Adults Social Care budget was overspending. This was reported to the Northamptonshire Adults Social Services (NASS) owners' board but the information was delayed in being reported to Cabinet. The owners' board (which at this meeting was attended by the Service Director, Director of Finance and lead member, although normally the Monitoring Officer and Chief Executive would also attend) were aware of the overspending but the report to Cabinet only highlighted risks, saying that the federated vehicle was managing its pressures within its overall

resources envelope. The service director expressed her dissatisfaction formally to the Chief Executive, Director of Finance and lead member with the way the position was reported. The inspection team concluded that the owners' board structure and the way it is reported into Cabinet inhibited proper scrutiny.

- 3.62 The 2018/19 budget includes a service pressure in Children's services of £7.7m (called a structural budget deficit from 2017/18), £7.1m of this was identified as early as May 2017 less than 3 months after the budget was agreed. Further illustration that the council does not have the processes in place to control budgets and ensure they are delivered.
- 3.63 The Section 114 notice issued on 2nd February 2018 appears to be the first attempt that has been made to exercise proper budgetary control. Slightly before the issuing of the section 114 notice, the current Section 151 officer (who has been in post only since December 2017), told the inspection team that he has started to put in place a budgetary control and monitoring framework which includes:
- "Rewrite of Finance Regulations (approved by full council in September 2017 to be implemented in line with new ERP system on April 2018);
 - SORPS guidance and recent mandatory budget holder training;
 - Finance Business Partner support to Budget Holders on risk based assessment;
 - Live and flexible internal audit plan to support and challenge controls high risk areas;
 - Budget holder responsibility for every budget line;
 - Independent monthly finance review of budget holder self-service, and monthly actual transactions on risk based approach;
 - Monthly management reports provided to all levels of service management teams, eventually signed off by respective director including actuals to date, forecasts, budget delivery, risk review;
 - Monthly NCC Group monitoring report signed off by all directors, Section 151 and CEX and Portfolio holder for finance;
 - Monthly finance briefing with director and portfolio holder of finance position and issues;
 - Quarterly Finance Cabinet report approved by Cabinet."

These are basic processes and procedures that support financial management.

3.64 In implementing the section 114 notice an emergency expenditure control protocol has been established and a Chief Executive Approval Panel set up. The inspection team were provided with copies of the material considered at some of the first panel meetings and the minutes of the meetings. In the inspection team's judgment, the material was of a poor quality and the process in operation cannot be considered an effective control mechanism.

Information on Spending

3.65 The council has repeatedly under assessed the level of spending pressures it will experience across the years within its medium term financial plan. That under assessment has been most dramatic since 2015/16 as Table 5 shows. In 2015/16 the council had estimated in February 2014 that it would have service pressures of £13.3m for 2015/16, but when it actually set the budget for 2015/16 it provided for £52.5m of what is described as 'unavoidable pressures'. This pattern has continued.

| Table 5 Provision across each year for service pressures | | | | | | | | | |
|--|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | 13/14 | 14/15 | 15/16 | 16/17 | 17/18 | 18/19 | 19/20 | 20/21 | 21/22 |
| Month MTFS set | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| Feb 13/14 | 20.0 | 10.5 | 10.6 | | | | | | |
| Feb 14/15 | | 24.0 | 13.3 | 12.7 | 10.0 | 9.2 | | | |
| Feb 15/16 | | | 52.5 | 17.4 | 11.2 | 11.4 | 12.5 | | |
| Feb 16/17 | | | | 80.8 | 18.2 | 18.0 | 21.7 | | |
| Feb 17/18 | | | | | 62.9 | 21.0 | 21.5 | 19.4 | |
| Feb 18/19 | | | | | | 72.1 | 26.0 | 23.8 | 22.0 |

The term 'unavoidable pressures' is a poor classification of the items as for example in 2015/16 they included:

- Demographic pressures – with little detail of how the projection has been made.
- Demand pressure – described as the full year effect of the previous year's demand pressure, with little explanation as to why it is needed.

- Social care workforce pressure – again no metrics as to what it was covering and why it was needed, other than the investment in safeguarding had increased the cost of the workforce.
 - Looked after children’s agency placement pressure - the increased cost of care packages with no further details.
 - Pay inflation – which is locally negotiated, so there is a choice for the council, yet it was presented as if there was no choice.
 - Investments in certain services – for which there could be a choice not to make the investment.
 - Adding back savings from the previous year that have not been made.
 - Reinstating grants to particular services that have been used elsewhere in previous years – this is a choice.
 - Winter gritting, library staffing and continuing to fund a service where the government grant has ceased – all of these are choices.
 - Highway maintenance being added back in, as it had previously been funded by capital – this is a choice.
- 3.66 The council’s approach comes across as sloppy, lacking in rigour and without challenge. It is particularly concerning to see this approach in all subsequent years. There does not seem to be any understanding of the difference between a budget pressure (that needs to be managed), contingency sums, spending where there is a choice and what is truly inescapable.
- 3.67 The non-delivery of savings has been mentioned elsewhere in the report and here the lack of accountability for that non-delivery is manifested with budgets being reinstated without any attempt to explain why the saving was not achieved. The same applies to budget overspends, which seem to be classified as ‘pressures’ and then just added into the budget the following year with limited challenge.
- 3.68 While the council has made some attempts to forecast demographic growth beyond the first year of each MTFP for adults (and more recently for children’s) these are not sophisticated projections in the opinion of the inspection team.
- 3.69 In 2013/14, 2014/15 (for adults) and 2015/16 the outturn reports at cabinet included caseload details for children’s and adults setting out how the council actually performed against the plan with details of the overspend that the increased caseload has caused. That stopped being included in 2016/17,

making it difficult to appreciate the implications of the caseload changes the council was experiencing. At the very time when the council's financial spending position was worsening key data that would assist members in understanding and challenging financial performance reduced.

- 3.70 The inspection team heard from a number of individuals, including partners that the Council approaches matters from the financial perspective first, rather than the service.

An example is the Fire and Rescue service where the councils MTFP had set a savings target of £2.315m over the period of 2016/17 to 2019/20 to come from a fundamental review of the service and be part of the Integrated Risk Management Plan (now called the Community Protection Plan). That review reported to Cabinet in November 2016 (after the savings target for 2016/17 had been set). This comes across as making the service fit the financial target. The Chief Fire Officer is not a member of the senior management team (although appearing to have a dotted reporting line to the Chief Executive), the post holder reports to the Director of Place.

- 3.71 Where the council does produce business plans alongside the budget there is a lack of realism. For example, the council plan for 2018-2022 which was considered at the council meeting on 28th February 2018 has set the following Outcomes for Children's services:

All Children Are Safe:

All Children Can Achieve and Are Ready For Work:

All Children Have Good Health and Life Chances

These are extremely ambitious goals, but it is not clear how the budget that has been approved alongside the plan will support these goals. There is a lack of measurable outcomes for the year ahead and period of the plan.

- 3.72 During our discussions at the council there was a lack of clarity about what has happened to the Next Generation Council approach. It would appear to have been abandoned but that is not clear. The council plan that has just been approved is silent on the topic. In any event, the council plan no longer reflects the budget which has just been set and provides no guidance as to how the council's finances will be deployed to meet the council's financial envelope.

Response to Advisory Notice

- 3.73 On 20th February 2018, KPMG issued an Advisory Notice in accordance with Section 29 and Schedule 8 of the Local Audit and Accountability Act 2014 accompanied by the formal Statement of Reasons. This is the first time that this power has been used and had the impact of preventing NCC from setting its budget until it had further considered the issues raised.

- 3.74 The Statement of Reasons highlighted 4 key areas where the Auditors believed that continuation of the current course of action would lead to unlawful expenditure namely:
- Flexible use of capital receipts;
 - Reliance on one-off use of resources;
 - Failure to deliver savings plans;
 - Ensuring sustainable financial decisions are taken.
- The notice therefore reprised the themes that have been examined in this inspection.
- 3.75 To meet the statutory deadline to set a precept meant that NCC had a very short period of time to re-evaluate the proposed budget, serve the required notice under the legislation on KPMG to allow the council to proceed and hold the necessary council meeting.
- 3.76 The budget set as a consequence of this reconsideration did not contain any significant new ideas. It removed the provision for pay awards, made a small saving in members allowances and reinstated the major reductions in spend proposed at the start of the budget process, that had been rejected following consultation. The total additional reduction in spend was of the order of £10m.
- 3.77 At the meeting it was clear that the Council did not want to support these reductions but a majority of members voted them through on the basis of the legal advice requiring them to set a precept. However, despite the vote, there was no real support for the budget strategy and the Leader of the Council gave a commitment that work would start immediately to review the make up of the budget before it came into effect. None of this really addressed the points made by KPMG but it did reduce the risk of overspending.

Scrutiny

- 3.78 Effective scrutiny by councillors is not just about the holding of overview and scrutiny meetings, it is also about ensuring that individual councillor's right to know is understood by both senior members and officers.
- 3.79 The inspection team was struck by the number of councillors who told us that they had been refused information when they sought to ask questions. Members told us that they had been informed that 'you can only ask that at scrutiny meetings and not outside a meeting' that 'I need to get permission from the Cabinet member to discuss this with you' or just not getting a response. Councillors told us that they felt if they asked difficult questions at Audit Committee or scrutiny meetings they would be replaced and there was

some evidence to support this. Perhaps the clearest demonstration of this unnecessary secrecy during the inspection took place at the Cabinet meeting on 13th February 2018.

- 3.80 Agenda item 11 was titled Capital Asset Exploitation. This was in fact a proposal to sell and lease back the recently completed HQ building at One Angel Square. This disposal is a potential £50m in value so it would be reasonable to expect a full options appraisal and some clear professional valuation advice as to the likely quantum of proceeds and the ways in which a disposal might be handled to best achieve a best value result. It is likely that much of this information would be exempt information so that there would be a confidential paper appended to the agenda. If that information was not available then it could only be on the basis that it was not being relied on in taking a decision.
- 3.81 At the meeting a number of questions were raised on these very matters and Cabinet members stated that they were privy to confidential information which supported their recommendation but that it was not available to other members.
- 3.82 Even if there was a concern about the publishing of confidential information most authorities have protocols and practices which make it possible for key information to be shared and protect the authority. To refuse it outright is just wrong.
- 3.83 It was also reported that the proposal had been subject to scrutiny although there was no report from scrutiny to cover this and the Chair of Overview and Scrutiny did not speak to it. Subsequent investigation revealed that there had not been a scrutiny committee/panel session but that a specially convened workshop of the Environment, Development and Transport Scrutiny Committee held on 30th January 2018. Members of the Finance and Resources Scrutiny Committee were also invited to participate. There is no minute of this workshop but it was recorded that a majority of those present supported the recommendation to Cabinet.
- 3.84 The Inspection team challenged the scrutiny process and noted that there had been no attempt to review either successful or unsuccessful budget inclusions in past years to learn lessons as to why things went well or failed to be delivered. The inspection team noted that this year's draft budget had been subject to scrutiny albeit to a very compressed timetable and that this had resulted in the removal of a number of items as they were still red rated or unachievable. Given that the budget process in NCC starts in the autumn it would have been possible to release some topics for examination much earlier which might have resulted in better proposals which could have been deliverable.

- 3.85 As noted earlier in this report, for two successive years the council's external auditor, KPMG, has recorded an adverse opinion on NCC's arrangements for value for money. Adverse opinions by external auditors are infrequent in local government, particularly the same point in two successive years. They normally produce a significant reaction by the authority concerned. Neither of these reports seemed to trouble NCC. Initially, the judgment for 2015/16 was reported to the Audit Committee as is normal, but did not result in an officer report setting out a reaction. The minutes of the Audit Committee were reported to full Council and the externally appointed Chair of the Committee spoke to the minutes but no action appeared to follow, scrutiny did not pick this up nor did Cabinet consider the matter.
- 3.86 There is no evidence that the second adverse best value judgement for 2016/17 reported at the August 2017 Audit Committee was escalated to the Full Council.

Evidence from the Local Government and Social Care Ombudsman

- 3.87 Most unusually, the Local Government and Social Care Ombudsman contacted the inspection team to provide evidence. Michael King provided the following statistical information relation to the last two years performance on complaints referred to him. He noted that NCC was one of the most difficult authorities the Ombudsman had engaged with both in terms of the time taken to respond in the course of investigations but also in the authority's approach to complaint handling, learning from mistakes and remedying injustice.

Best Value Inspection of Northamptonshire County Council, January – March 2018

Local Government & Social Care Ombudsman: Complaint Data 2015/16 & 2016/17

Local Authority Report: Northamptonshire County Council
For the Period Ending: 31/03/2016

For further information on how to interpret our statistics, please visit our website:
<http://www.lgo.org.uk/information-centre/reports/annual-review-reports/interpreting-local-authority-statistics>

Complaints and enquiries received

| Adult Care Services | Benefits and Tax | Corporate and Other Services | Education and Children's Services | Environment Services | Highways and Transport | Housing | Planning and Development | Other | Total |
|---------------------|------------------|------------------------------|-----------------------------------|----------------------|------------------------|---------|--------------------------|-------|-------|
| 23 | 0 | 4 | 73 | 2 | 13 | 1 | 1 | 0 | 117 |

Decisions made

| | | | | Detailed Investigations | | | Total |
|-----------------------|--------------|------------------------------------|--------------------------------|-------------------------|--------|-------------|-------|
| Incomplete or Invalid | Advice Given | Referred back for Local Resolution | Closed After Initial Enquiries | Not Upheld | Upheld | Uphold Rate | |
| 4 | 1 | 52 | 23 | 10 | 17 | 63% | 107 |

Notes

Our uphold rate is calculated in relation to the total number of detailed investigations.

The number of remedied complaints may not equal the number of upheld complaints. This is because, while we may uphold a complaint because we find fault, we may not always find grounds to say that fault caused injustice that ought to be remedied.

The compliance rate is the proportion of remedied complaints where our recommendations are believed to have been implemented.

Complaints Remedied

| by LGO | Satisfactorily by Authority before LGO Involvement | Compliance Rate |
|--------|--|-----------------|
| 17 | 0 | 100% |

Local Authority Report: Northamptonshire County Council
For the Period Ending: 31/03/2017

For further information on how to interpret our statistics, please visit our website:
<http://www.lgo.org.uk/information-centre/reports/annual-review-reports/interpreting-local-authority-statistics>

Complaints and enquiries received

| Adult Care Services | Benefits and Tax | Corporate and Other Services | Education and Children's Services | Environment Services | Highways and Transport | Housing | Planning and Development | Other | Total |
|---------------------|------------------|------------------------------|-----------------------------------|----------------------|------------------------|---------|--------------------------|-------|-------|
| 35 | 0 | 3 | 53 | 0 | 11 | 0 | 2 | 1 | 105 |

Decisions made

| | | | | Detailed Investigations | | | Total |
|-----------------------|--------------|------------------------------------|--------------------------------|-------------------------|--------|-------------|-------|
| Incomplete or Invalid | Advice Given | Referred back for Local Resolution | Closed After Initial Enquiries | Not Upheld | Upheld | Uphold Rate | |
| 8 | 3 | 40 | 22 | 12 | 35 | 74% | 120 |

Notes

Our uphold rate is calculated in relation to the total number of detailed investigations.

The number of remedied complaints may not equal the number of upheld complaints. This is because, while we may uphold a complaint because we find fault, we may not always find grounds to say that fault caused injustice that ought to be remedied.

Complaints Remedied

| by LGO | Satisfactorily by Authority before LGO Involvement |
|--------|--|
| 32 | 0 |

- 3.88 Coincidentally, during the inspection NCC's Cabinet on 13th February 2018 considered a public report from the Ombudsman about a decision to uphold a complaint from Mr. X about a failure in 2016 to properly deal with a social care assessment. Cabinet refused to accept one recommendation from the Ombudsman to remedy an injustice caused by the failure to meet the assessed daytime support needs by refunding the sum paid to source care privately on the basis that invoices, receipts and timesheets were not available to justify the sum despite the Ombudsman making a clear finding and recommendation.
- 3.89 The overall impression that the Inspection team gained from all the interviews they undertook on scrutiny was that challenge and criticism was to be discouraged as senior members and officers knew best.

Audit Committee

- 3.90 Scrutiny by the Audit Committee is not effective. While the Chair of the committee and the committee members gave us the impression that they had tried to challenge, it is clear that they have been repeatedly thwarted. Matters that the Committee have wanted reports on have taken many months and much persistence for the reports to be prepared and brought to the committee. For example, the Highways Service Contract Review, this was a limited assurance report for compliance and highlighted significant weaknesses, including deliberately holding and concealing balances which should have been properly returned to the centre, as a way of trying to bypass budgetary constraints.
- 3.91 Whilst the chair of the Audit Committee presents twice yearly to Council, this is a consideration of certain Audit Committee minutes together with a verbal presentation. The process is neither systematic nor comprehensive and relies on the choice made by the Chair and the emphasis that he puts on it.

LGA Peer Review

- 3.92 LGA Peer Reviews are undertaken at the request of a council and involve a small team of local government officers and councillors (assembled by the LGA with the endorsement of the council) spending time at the council as peers to provide challenge and share learning. They are a tool for improvement. They are not inspections.
- 3.93 The process involves engaging with a wide range of people connected with the council and the findings are delivered immediately at the end of the onsite work (usually 3-4 consecutive days) followed up by a feedback report to the council. It is for the Council to decide what to do with the report and what

action it takes in response to the report. The LGA strongly encourages councils to publish the results of the report along with any improvement actions the council has agreed to.

- 3.94 The LGA does offer further activity to support a council after a peer review, in the form of additional support, advice and guidance on areas for development and improvement. It will be up to the council to discuss with the LGA Principal Adviser for the region what support it requires from the LGA, if any, after a peer review.
- 3.95 The LGA expects that the Council will commit to a follow up visit within two years after a peer review. The purpose of the visit is to help the council assess and demonstrate the impact of the peer review and the progress made against the areas of improvement and development identified by the peer team.
- 3.96 NCC's LGA Finance Peer Review took place in September 2017 but it does not appear that the authority has followed it up in any strategic way having only produced a tactical action plan. The LGA report is direct and explicit regarding the council's financial situation; the Council's Interim Chief Executive has described it as blunt.
- 3.97 As this hard hitting LGA report came after two adverse value for money audit judgements, it is hard to understand why the LGA report did not provoke a reaction of anguish within the Council and galvanise the management team and cabinet into a fundamental reappraisal of the way in which they manage their finances.
- 3.98 Instead, the LGA report was presented to the Audit Committee in November 2017 without a covering officer report. There was a short letter from the Interim Chief Executive in response to the report on the council's web site together with an action plan. In the inspection team's judgment, the action plan is poor and does not address the recommendations explicitly, the actions have no timescales, the action owners are in many case generic teams and the inspection team was advised that in at least one case the named officer had not been consulted prior to being allocated an action. It is hard to see how the accountability for the delivery of the actions will be achieved. Neither of these two documents has been considered by Cabinet or Scrutiny.
- 3.99 There has been no report to members telling them what the LGA report means for the council.
- 3.100 The LGA offered a range of developmental and support activities but there does not appear to have been a longer term commitment to change after the initial tranche of basic training.

Fire and Rescue Services

- 3.101 The inspection team took evidence from the Chief Fire and Rescue officer and his responsible Cabinet member and the Police and Crime Commissioner (PCC). The evidence showed that the Fire and Rescue Service (FRS) sought to deliver services based on the budget allocation that was provided and reset their strategies to cope rather than being involved in the budget setting process. They bore a suitable share of the NCC central overhead even though most of the centrally provided services were not applicable to the FRS. For example, the roll-out of ERP Gold, the main resource control system now being introduced does not take account of the arrangements for fire staff.
- 3.102 A proposal and business case has been submitted to the Home Office seeking to transfer responsibility from NCC to the PCC. This would not be totally financially neutral costing NCC about £0.3m.
- 3.103 The Police and Crime Commissioner assured us that if the proposal went ahead he would not increase the size of his central core by appointing a Deputy PCC to take responsibility for this service but would assume personal responsibility.
- 3.104 Having considered the matter, the inspection team believe there is no reason to express a view on the proposition to transfer responsibility for the FRS and that Home Office Ministers should deal with the submission on its merits without regard to the wider NCC issues.

LGSS

- 3.105 Elsewhere in this report the inspection team has referred to LGSS and although it is a delivery unit for NCC the way the council has structured its relationship with LGSS is pertinent to the council's delivery of its support services.
- 3.106 There are a number of areas where the relationship with LGSS at best confuses accountability and at worst prevents it.
- 3.107 There appears to be little strategic capacity for strategic thinking on support service within the council with the expectation that is it discharged by staff in LGSS. That could work if the council had strong commissioning, but that is not apparent.
- 3.108 The inspection team has mentioned the lack of directly employed staff by the Executive Director of Resources for strategic finance matters, for Human Resources and Organisational Development (OD) this is far starker. The council does not have a lead senior officer for HR, as that role is undertaken by the HR Director of LGSS, but only on activity he is commissioned for. It

was noticeable that there was no obvious OD strategy to support the development of the Next Generation Council, something that required large scale change in the skills and capability of staff and it was left to individual Directorates to commission their own support.

- 3.109 Risk Management at the Council has been poor, with the Audit Committee struggling to get any traction on it being taken seriously in the Council. It is hardly surprising as the inspection team were give the impression that some people considered it was the responsibility of an officer in LGSS, rather than senior staff at the council.
- 3.110 Internal audit suffers from the way LGSS arranges its activity with limited scope to deploy staff flexibly across the member councils. While legal services are delivered by LGSS Law Ltd, the lack of an appreciable client role for legal services has not assisted the council in controlling its legal costs.
- 3.111 The inspection team received evidence expressing concern at the way in which a senior officer of the council employed in LGSS was made redundant and within 48 hours started work through a personal service company in LGSS. The inspection team referred this to the external auditors and it is understood that there will be a specific report on this matter to the council commenting on the appropriateness of this action.
- 3.112 The inspection team feel there would be benefit in reviewing the relationship between NCC and LGSS to ensure there was clearer accountability and the Council had strategic capacity close to its decision makers. This is particularly pertinent, as it appears that LGSS is no longer generating surpluses which can be applied to reduce the overall costs to the constituent councils.

4. Conclusion

- 4.1. Northamptonshire County Council has failed to comply with its duty under the Local Government Act 1999 (as amended) to secure best value in the delivery of its services over a prolonged period.
- 4.2. The Mind the Gap analysis does not demonstrate that NCC has been particularly badly treated by the funding formula. Local government as a whole can make a reasonable case that the quantum of funding available to support the services that they deliver has been squeezed hard during the austerity years but that is very different from concluding that the distribution of the available resource has been particularly unfair to NCC.
- 4.3. The Next Generation approach does not have any documented underpinning which sets out how it was expected to deliver the efficiencies and savings necessary to justify the investment and has served to obscure and prevent effective member oversight and budgetary control.
- 4.4. For a number of years, NCC has failed to manage its budget and has not taken effective steps to introduce and maintain budgetary control. Instead it has pursued an organisational structure and operating concept which made it difficult to ensure a line of sight over costs and operational activity. It did not accompany this structure with an articulated set of financial and managerial controls. This made it impossible for the council, as a whole; to have any clarity or understanding as to what was going on. NCC has relied on one-off items, allocation of balances, windfalls and laterally the use of capital receipts to balance the numbers at the year's end. This is not budget management.
- 4.5. The council did not respond well, or in many cases even react, to external and internal criticism. Individual councillors appear to have been denied answers to questions that were entirely legitimate to ask and scrutiny arrangements were constrained by what was felt the executive would allow. When external agencies reported adverse findings these were not reported with an analysis of the issues and either a justification or an action led response to a relevant decision taking body. At its most extreme, the two KPMG ISA 260 reports, stating an adverse opinion on Value For Money matters were just reported to the Audit Committee without comment and the unprecedented KPMG Advisory Notice issued under the 2014 Act was reported to full council without any officer covering report giving advice on what the response was recommended to be.
- 4.6. It would have been reasonable to expect that the council should have been sufficiently concerned about the adverse audit opinions to call for an analysis and an action plan to rectify the position but there was no action.

- 4.7 A financial peer review was commissioned from the LGA which reported in the strongest possible terms but this did not result in anything other than a tactical action plan which was not quantified or timelined. The whole report has never been formally reported to councillors with an officer overview.
- 4.8 The Local Government and Social Care Ombudsman sought out the inspection team to give evidence which shows a high level of complaints but little learning.
- 4.9 Budgets appear to have been set almost by fiat. Savings targets were imposed without understanding of demand, need or deliverability and it is clear that some Chief Officers did not consider that they were in any way accountable for the delivery of savings that they had promoted. Even after the Section 114 notice was issued it appeared to be difficult to ensure that all new spending was controlled and authorised by the Section 151 officer. Living within budget constraints is not part of the culture of NCC.
- 4.10 In year use of capital receipts were used to support revenue spend without documentary evidence demonstrating compliance with the Statutory Guidance and Direction. Prior to February 2018, there was no report to full council, as required, setting out on a project by project basis what the transformation proposed was and no summary record of the achievements, cost saving or service improvements delivered.
- 4.11 It is not possible to establish what action the corporate management team took in the face of all these issues as those meetings that took place were not minuted.
- 4.12 This report, that the inspection team has produced, can only detail a part of the supporting evidence that the inspection team have evaluated to reach our conclusions.
- 4.13 It is therefore possible to demonstrate significant and continued failure against each of the six bullet points contained within the instructions to the Lead Inspector.
- 4.14 Equally importantly, Borough, District and NHS partners substantially believe that it is not possible to ensure honest and effective partnership working with the County Council and there is a significant level of distrust that NCC will ever be able to commit to and deliver against its promises and undertakings.
- 4.15 NCC employs many good, hardworking, dedicated staff who are trying to deliver essential services to residents who need and value what is offered and available. The problems the council faces are not their fault.

A Way Forward

- 4.16 The problems faced by NCC are now 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. Had the Section 151 officer felt strong enough in October 2015 to issue the Section 114 report he presaged and the council had treated it as the wake-up call it needed to change its behaviour the road to stability and normality, though difficult, might have been possible. Since that time, more reserves have been expended and more capital receipts squandered, without any appreciable change.
- 4.17 To change the culture and organisational ethos and to restore balance, would, in the judgement of the inspection team, take of the order of 5 years and require a substantial one off cash injection. Effectively, it would be a reward for failure. Even under a Directions regime, it is not considered likely that councillors and officers would have the strength of purpose to carry through such a long running programme of recovery potentially crossing two electoral cycles. In the meantime, it would be the people of the county who would suffer.
- A way forward with a clean sheet, leaving all the history behind, is required.
- 4.18 Moving to a unitary form of local government has been discussed in the county for some time. There has been no meeting of minds between the two tiers of local government, not surprisingly given the relationships. The county has promoted a single county unitary, with effectively them in control, whilst the second tier have either wished to remain as the status quo or looked at a 2 or 3 unitary model.
- 4.19 In meeting the inspection team, Borough and District Leaders recognised that whilst their individual councils might prefer a status quo option what matters is what delivers the best result for the people of the county starting from where we are and that some model of unitary local government is now the only viable option.
- 4.20 There is now plenty of evidence on how to move to a successful unitary outcome and also how to fail. Those who have succeeded start from the position that the new Council is not a takeover or an amalgam but required thinking from first principles as to how to best deliver local government services on a joined up basis in their area. They build on good practice and are led by shadow authorities so that there is clear elected member direction and involvement.
- 4.21 Given the likely sizes of any successor unitaries and the evidence from previous studies the options appear to be as follows:

- A single county unitary

This would have the size to be an effective unitary but such a proposal would have no credibility from this starting point. It would not be likely to gain any support from the second tier and would not achieve the clean break from the past required. This cannot be recommended.

- A two unitary model

This could be configured as a doughnut, Northampton alone and the others, or as a West (Daventry, Northampton and South Northants) and a North (Corby, East Northants, Kettering and Wellingborough). The doughnut model suffers from a range of defects including a lack of cohesion in the outer ring, a too tightly bounded centre and financial viability issues.

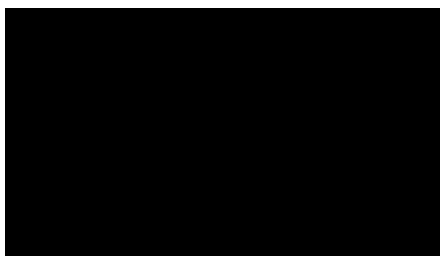
The alternative model better reflects the established economic drivers of the area and are each of a size which would make them viable. It would be necessary to establish a council size which complied with the Local Government Boundary Commission for England's guidance but in the experience of the inspection team 45 members each would be appropriate.

- A three unitary model

This just subtracts Northampton from the West configuration and would result in non-viable unitaries.

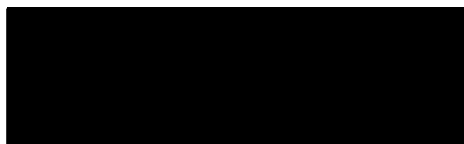
- 4.22 It is understood that the Boroughs and Districts have commissioned Deloitte's to report on prospects for unitary models and that report is imminent.
- 4.23 It is the inspection team's clear view and recommendation that in the particular circumstances that the county finds itself in the 2 unitary (West and North) model is the preferred way forward.
- 4.24 The power for the Secretary of State to direct the formation of new unitary councils without local proposals coming forward no longer exists. Nevertheless, the inspection team consider that the configuration most likely to deliver the optimum result for the people of the county starting from the current position is the 2 unitary model discussed above. Setting up such a system does not preclude more innovative ways of delivering on the ground services but any such proposal needs to be fully worked through to justify further consideration. It would be for the shadow authorities to consider and develop such initiatives. On this basis the inspection team strongly recommend that the Secretary of State invites a local proposition for a two unitary model as a matter of urgency. Following the receipt of an acceptable proposal it would be possible to proceed under current legislative powers.

- 4.25 This would require the Secretary of State making the necessary orders requiring the establishment of shadow authorities, commissioning the Local Government Boundary Commission for England (LGBCE) to undertake the necessary electoral review with a view to the first elections for the new authorities taking place in May 2020 who would come into effect at their first annual meeting. This may require some transitional funding to ensure the effective establishment of the new authorities and also the postponement of any local elections due in May 2019.
- 4.26 In the meantime, given the significant challenges that the council and its officers face, the Secretary of State should give serious consideration to NCC services, with the exception of planning, being run in some configuration by Commissioners with the full powers of the council to maintain the position in a safe, lawful and value for money way whilst the shadow authorities work to establish the proposed new unitary councils.



Max Caller CBE

Lead Inspector



Julie Parker FCPFA

Assistant Inspector

March 2018

Appendix 1: Appointment Letter of Lead Inspector



Alex Powell
Deputy Director, Local Government
Stewardship
Ministry of Housing, Communities
and Local Government
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Mr Max Caller CBE

Via email:
Max.Caller@btinternet.com

Tel: 0303 444 4375
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www.gov.uk/mhclg

9 January 2018

Dear Max,

APPOINTMENT UNDER SECTION 10 OF THE LOCAL GOVERNMENT ACT 1999

For some time there have been concerns about financial management and governance at Northamptonshire County Council. In recent months a number of reports have been brought to the Secretary of State's attention, which have caused him to question whether the authority is failing to comply with its best value duty. On the basis of the evidence available to him the Secretary of State has decided to proceed with a best value inspection to better understand the situation in Northamptonshire.

I am writing to inform you that the Secretary of State, in exercise of his powers under section 10 of the Local Government Act 1999, as amended by the Local Audit and Accountability Act 2014 (the 1999 Act), hereby appoints you as the person to carry out an inspection of the compliance of Northamptonshire County Council with the requirements of Part 1 of the 1999 Act in relation to the authority's governance functions, particularly the authority's functions under section 151 of the Local Government Act 1972.

In making this appointment and the directions set out below, the Secretary of State has had regard to the external auditor's (KPMG) "adverse" value for money opinion in relation to the 2015/16 and 2016/17 accounts, publically available budget documents, and the September 2017 Local Government Association peer review into the council's financial planning and management.

The Secretary of State also, in exercise of his powers under section 10(4)(b) of the 1999 Act, gives you the following directions in relation to your undertaking the inspection.

Best Value Inspection of Northamptonshire County Council, January – March 2018

First, in undertaking the inspection in relation to the authority's functions specified above, and without prejudice to the scope of this inspection, you are directed to consider, in the exercise of those specified functions, whether the authority:

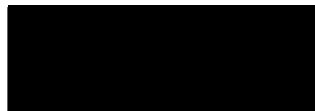
- has the right culture, governance and processes in place to make robust decisions on resource allocation and to plan and manage its finances effectively,
- provides clear, useful and sufficiently detailed information to councillors to inform their decision making,
- allows for adequate scrutiny by councillors,
- has strong processes in place to manage services within the budget constraints – within the council's finance department and also within service areas,
- has and shares appropriately the right data to support spending decisions and to support the management of services,
- is organised and structured appropriately to ensure value for money in delivery of its functions.

Second, you are directed to report the findings of the inspection to the Secretary of State by 16th March 2018, or such later date as you may agree with the Secretary of State. The Secretary of State may, following receipt of your report or otherwise, issue further directions to you.

Section 12 of the Local Government Act 1999 provides that the authority to be inspected must pay the Inspector's reasonable fees for carrying out the inspection.

As to practicalities of your appointment as inspector, we will provide you with an appropriate administrative team to support you in your role as inspector, and any assistant inspectors whom the Secretary of State may appoint at your request.

Yours sincerely,



Alex Powell
Deputy Director, Local Government Stewardship

Appendix 2: Budget Case Study - Waste

- 5.1 In the 2015/16 Draft Budget, NCC proposed to explore how the county could better collaborate with the district and borough councils on the delivery of waste and recycling services. Given the scale of the service, NCC felt “significant savings (could) be made” by harmonising waste and recycling services and opened discussions with the borough and district councils in December 2014 to examine a range of savings initiatives. This appeared in the Budget as a £7 million savings proposal under the heading “collaboration on collection and disposal of waste and recycling” (reference: 13-006-08). While it is unclear where this exact number originated, the inspection team received evidence that one of the proposed savings measures was withholding payment of recycling credits to the districts and boroughs. Section 52 of the Environmental Protection Act 1990 prohibits such a course of action unless the waste collection authority has agreed to such a proposal, an arrangement which was not in place in the county.
- 5.2 The Draft Budget and Council Plan proposals were agreed by Cabinet on the 9th December for a period of six weeks consultation. Of all the draft budget proposals, the harmonizing of waste and recycling services proposal was one of two identified by NCC’s partners as containing significant risks. While the seven chief finance officers of Northamptonshire’s districts and boroughs understood the financial pressures NCC was facing, they were clear about wanting assurance any altering of the current arrangement would “bring mutual benefit to all partners to find these savings.” And, as one of the finance officers warned NCC, mutual benefit did not extend to denying the boroughs and districts recycling credits: “payment of recycling credits is a legal requirement from which the County Council [sic] only release is by either agreement with the waste collection’ authorities or by the County Council setting up its own recycling arrangements.” Further questions were also raised as to whether this specific savings proposal was deliverable for 2015/16. Despite these warnings, the £7m savings proposal was scrutinised by the Budget Scrutiny Review and made it into the Final Budget for 2015/16.
- 5.3 Over the course of the year, a series of meetings were held with the district and borough councils to consider specific savings proposals. Little headway was made in these meetings and, by the spring NCC was already acknowledging the need to “unlock stalled discussions” with district and borough officers. Recognising the £7 million was potentially undeliverable; NCC officers presented an alternative plan on 2nd July 2015 to find these savings elsewhere, namely the Environment, Development and Transport Directorate (including the Fire and Rescue Service). This plan was ultimately rejected on the grounds that it would have “serious implications” for service delivery. By 28th July NCC was forced to conclude “the £7m target [sic] saving for 2015-16 will NOT be met.” Despite this, county officials were still pursuing

the “stopping of payment of recycling credits in their entirety” to the districts and boroughs. Discussions were held externally over the feasibility of this, with NCC resigned to “deal(ing) with the ramifications” of going against the will of the district and borough councils. This plan was eventually abandoned when its illegality became clear to NCC.

- 5.4 The following year, a savings proposal of £500,000 was put into the Final Budget for 2016/17 for waste disposal (reference: 15-006-40). Despite the county’s heavy-handed approach of the previous year, officers from all seven of Northamptonshire’s district and borough councils took it upon themselves to explore alternative ways of helping NCC meet its budgeted savings proposal. At the June 2016 meeting of the county, district and borough Chief Executives, it was agreed the Northamptonshire Waste Partnership (NWP) would “look at harmonisation of waste and recycling collection services in Northamptonshire in order to identify potential financial savings.” Using funds set aside by the Waste Action Resources Programme (WRAP) to promote consistency in refuse and recycling, NWP’s Harmonisation and Collaborative Working Steering Group commissioned a study in September 2016 to explore future waste service arrangements for the county.
- 5.5 At the NWP Board meeting of 7th March 2017, the results of this study were presented to NCC. In a presentation entitled ‘Collaborative Working and Green Waste Update,’ the district and borough councils committed to “consider any cost savings or income generating opportunities” with the aim of “achiev(ing) (a) £500k saving for NCC.” In so doing, they would work collaboratively in the best interests of the residents of Northamptonshire, while avoiding “poor relationships between district/boroughs and the County Council.” This led to a range of proposals whereby the district and borough councils pledged to redesign their waste services to reduce residual waste (and, thus, costs to NCC), in exchange for recycling credit certainty and a “sufficient share of the savings.” Using WRAP’s analysis, these savings could range anywhere from £600,879 to £2,281,036 for the county and would not require any upfront funding from NCC. As an added benefit, the proposals would boost the county’s recycling rate.
- 5.6 These proposals were formally delivered to NCC in a joint letter on 18th May 2017. Signed by all 7 of the district and borough Leaders, the letter committed the district and borough councils to make capital investments to deliver the proposals (subject to further approval), in exchange for a term of at least 20 years to enable this investment to be made. Should NCC respond positively to the proposals, the Leaders agreed to draw up heads of terms defining the proposals more exactly, and take the scheme for formal approval by their respective cabinets or appropriate decision-making bodies. The fundamental goal of this exercise, according to the letter, was to “make it in (the district and borough councils) interests to help NCC reduce its costs, whilst enabling the

districts and borough councils to make investments which support this and enable them to control their costs.”

- 5.7 On 4th September 2017, NCC’s Chief Executive, Paul Blantern, responded: the county did not wish to pursue the package proposals, “primarily because the details of the proposal are likely to require significant discussion and negotiation in order to reach agreement.” Details on such aspects as savings “would require all parties to agree a baseline, a sharing percentage and a mechanism” and, despite the shared initiative, Paul Blantern felt “progress with collaborative working to date has been slower than I think we’d all hope for.” Concluding “the authority is not confident that agreement would be reached on the detail of these proposals within a reasonable timescale,” NCC declared its “immediate focus and for the foreseeable future will be the development of alternative arrangements for the treatment of residual waste.” With all this noted, Paul Blantern was quick to assure the district and borough councils NCC was not abandoning its partnerships. “I would like to clarify that NCC’s conclusion and response to the waste proposals does not in any way infer that NCC does not want to work on other service ventures that are in the interests of our mutual tax payers and citizens and I will always welcome open discussions on other matters for our and their mutual benefit.”
- 5.8 The very next day, 5th September 2017, NCC resigned from the NWP. Despite their assurances of the previous day, in a letter signed by Councillor Heather Smith (Leader) and Councillor Ian Morris (Cabinet Member for Transport, Highways and Environment), NCC declared it “no longer believes it has the same priorities as the other partners” and “is heading in a different direction to the Districts and Boroughs. This has been clear for some time, and has been crystallised since receipt of the proposal signed by Leaders and dated May 2017.” Despite the willingness of the districts and boroughs to align themselves with the county in considering more cost-effective ways of delivering the best value for money for residents, any hope of a positive working relationship between the two bodies was effectively terminated with NCC’s vow to “focus on its own priorities”. No documentation has been provided by NCC attesting to the package proposals being put to councilors for consideration, nor is there a public document referring to these documents at either Cabinet or full council.

Appendix 3: Budget Case Study - Next Generation: Olympus Care Services

- 6.1 Olympus Care Services Limited (OCS) commenced trading on 1st April 2012 as a local authority trading company. Another incorporated company, Northamptonshire Trading Limited (NTL), was established alongside OCS, with NCC owning 100% of the share capital of NTL and NTL, in turn, owing 100% of the share capital of OCS. This gives NCC effective control of OCS, a fact emphasised in OCS' articles of association (NCC maintains "control over the operation and strategic direction of OCS").
- 6.2 A key early pillar of NCC's "Next Generation Council" model, OCS was formed by transferring the staff and services from what was the service arm of Northamptonshire Adult Social Services (NASS) directly to OCS.
- 6.3 The need to move to a federated model was seen as necessary to remaining "efficient, responsive, flexible and 'commercial'" so as to "accommodate the requirements of a rapidly changing market place and demographic pressures." Underpinning this rationale was the expectation that establishing OCS would incrementally reduce the cost to NCC of providing the services transferred to OCS. By 2015, it was already recognised that the council's tight financial control over OCS was stifling the commercial flexibility of OCS and failing to provide value for money for the council.
- 6.4 The services provided by OCS were initially subject to block contracts with NCC. At the company's founding, these were put in place so as to allow OCS to establish itself as a viable trading entity. However, according to an independently commissioned review from December 2015, the "intense financial pressure" facing NCC soon began to take its toll on OCS. OCS' reliance on its block contracts with NCC meant that the council quickly became "the main customer of OCS services," a consequence of which was "OCS focusing upon the Council as a customer rather than the citizens actually or potentially using its services." With NCC needing to make cashable savings, OCS' dependence on "underspending on its block contract income to generate the surplus (profit) necessary for investment in innovation and new services" bred discontent on both sides. OCS was being asked to find ways of maximizing profit so as to deliver a dividend for NCC, rather than being free to focus on service delivery. A culture of distrust between the two entities prevailed with "frustration" mounting from NCC over the services not being under direct council control. In the review's opinion, for OCS to be able to function effectively, NCC needed to begin treating its trading company as a "trusted provider" and "relax the controls on (OCS') decision making."
- 6.5 In an internal review of the Adult Social Care Services NCC was commissioning in June 2016, the county acknowledged it was not receiving value for money from OCS. The block contracts with OCS were found to be

“under-utilised and expensive compared to the alternative provision, for every type of service and client group.” For NCC to attain value for money, the contracts would either need to be utilized better / differently or removed altogether. One example of such inefficiency was in the providing of residential services for clients in OCS’ residential homes. According to data received from CareFirst, NCC could be paying £2.3 million less by placing these clients in spot placements at the average rate of a spot residential place. The review concluded these particular block contracts were “not as efficient as they should be” and led to “high numbers of free beds” not being utilised. Furthermore, NCC’s separation from OCS meant the council “had little control or sight of the workflow coming to (OCS).”

- 6.6 By November 2017, NCC was openly acknowledging the proposed savings of forming a self-sustaining company had failed to materialise. In 2016/17, OCS was showing a loss of £944,000, requiring NCC to provide an indemnity or reduction in the savings target to “remain a going concern.” In NCC’s opinion, it no longer made financial sense to keep OCS a going concern and the proposal was put forward to bring OCS back into NASS. By bringing all NASS services under a single heading, the council could move away from OCS’ focus on “securing its ongoing NCC income above other activities” and realign NASS’ social care priorities to “create effective and efficient service delivery.”

Appendix 4: List of People and Organisations Interviewed

| | |
|-----------------------------|---|
| Mark Ashton | Director of Business Services, Systems & Change, LGSS |
| Ruth Barnett | Strategic Finance Business Partner |
| Councillor Tom Beattie | Leader of Corby Borough Council |
| Ian Boll | Assistant Director of Assets and Capital, NCC |
| Peter Bone MP | Member of Parliament (MP) for Wellingborough |
| Peter Borley-Cox | Head of Business Systems and Change |
| Simon Bovey | Interim Chief Executive, Northampton Borough Council |
| Elizabeth Bowen | County Councillor for Nene Valley (Cabinet Member for Adult Social Care) |
| Matt Bowmer | Director of Finance, LGSS |
| Amy Brock | Assistant Director of Specialist and Complex Working Age Adult Services, NCC |
| Adam Brown | County Councillor for Bugbrooke |
| Robin Brown | County Councillor for Woodford & Weedon (Cabinet Member for Finance) |
| Andrew Cardoza | Director, KPMG |
| Michael Clarke | County Councillor for Hackleton & Grange Park |
| Martin Cox | Director of Human Resources, LGSS |
| Julie Davenport | County Councillor for Delapre & Rushmere |
| Carole Dehghani | Chief Executive, Corby Clinical Commissioning Group Accountable Officer, Nene Clinical Commissioning Group |
| Darren Dovey | Chief Fire Officer, Northamptonshire Fire & Rescue Service |
| Anna Earnshaw | Executive Director of Adults, Community and Wellbeing |
| Mark Edgell | Principal Adviser (East Midlands, North East, Yorkshire and the Humber), Local Government Association (LGA) |
| Jonathan Ekins | County Councillor for Brickhill & Queensway |
| Liz Elliott | Managing Director, Wellingborough Borough Council |
| Michael Ellis MP | Member of Parliament (MP) for Northampton North |
| Matthew Golby | County Councillor for Duston West & St. Crispin (Deputy Leader and Cabinet Member for Children's Services) |
| André Gonzalez de Savage | County Councillor for East Hunsbury & Shelfleys (Cabinet Member for Public Protection and Education) |
| Councillor Martin Griffiths | Leader of Wellingborough Borough Council County Councillor for Irchester |
| Lesley Hagger | Executive Director of Children's Services, Families and Education (DCS) |
| James Hakewill | County Councillor for Rothwell & Mawsley Chair of Finances and Resources Scrutiny Committee |
| Daniel Hayward | Senior Manager, KPMG |
| Chris Heaton-Harris MP | Member of Parliament (MP) for Daventry |
| Dave Hewitt | Caseworker, GMB |
| Angela Hillery | Chief Executive, Northamptonshire Healthcare Foundation Trust (NHFT) |
| Philip Hollobone MP | Member of Parliament (MP) for Kettering |
| Dudley Hughes | County Councillor for Raunds Chairman of the County Council |
| Sylvia Hughes | County Councillor for Irthlingborough (Cabinet Member for Public Health and Wellbeing) |
| Mark Irvine | Regional Organiser, UNISON |
| Cécile Irving-Swift | County Councillor for Brixworth |
| Iain Jenkins | Strategic Finance Business Partner |
| Bill Jessup | Independent Chair of the Audit Committee, NCC |

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| John Kane | Managing Director, LGSS |
| Michael King | Local Government and Social Care Ombudsman |
| Councillor Phil Larratt | Deputy Leader of Northampton Borough Council Former County Councillor |
| Damon Lawrenson | (Interim) Chief Executive, NCC |
| Andrew Lewer MBE MP | Member of Parliament (MP) for Northampton South |
| Malcolm Longley | County Councillor for Braunston & Crick (Cabinet Member for Commercial Development) |
| Councillor Ian McCord | Leader of South Northamptonshire Council |
| Mark McLaughlin | Executive Director of Resources (Section 151 Officer) |
| Councillor Chris Millar | Leader of Daventry District Council |
| Stephen Mold | Police and Crime Commissioner, Northamptonshire |
| Ian Morris | County Councillor for Silverstone (Cabinet Member for Transport, Highways and Environment) |
| Luiza Morris-Warren | Director of Business Intelligence and Project Management |
| Sharon Muldoon | Assistant Director of Quality and Performance |
| Andy Mercer | County Councillor for Rushden South |
| Councillor Steven North | Leader of East Northamptonshire Council |
| Councillor Jonathan Nunn | Leader of Northampton Borough Council |
| David Oliver | Chief Executive, East Northamptonshire Council |
| Rosemary Pallot | Strategic Finance Business Partner |
| Bill Parker | County Councillor for Clover Hill (Cabinet Member for Local Government Reform) |
| Victoria Perry | County Councillor for Ise |
| Tom Pursglove MP | Member of Parliament (MP) for Corby |
| Andrew Quincey | Executive Director for Commercial, Place and Public Health |
| Yvonne Rees | Chief Executive of South Northamptonshire Council |
| Councillor Russell Roberts | Leader of Kettering Borough Council |
| Sam Rumens | County Councillor for Kingsthorpe North |
| Bob Scott | County Councillor for Lloyds |
| Mick Scrimshaw | County Councillor for Northall |
| Joseph Seliong | Manager, KPMG |
| Judith Shephard | County Councillor for Moulton |
| Heather Smith | County Councillor for Oundle (Leader of Northamptonshire County Council) |
| James Smith | Deputy Section 151 Officer / Strategic Finance Business Partner |
| Lorna Smith | Assistant Branch Secretary and Education Officer, UNISON |
| Penny Smith | Branch Secretary and Staff Side Secretary, UNISON |
| Graham Soulsby | Managing Director, Kettering Borough Council |
| Chris Stanbra | County Councillor for Oakley |
| Norman Stronach | Chief Executive of Corby Borough Council |
| Michael Tye | County Councillor for Rushden Pemberton West |
| Ian Vincent | Chief Executive of Daventry District Council |
| Allen Walker | County Councillor for Deanshanger |
| David Watson | Former Independent Chair of the Audit Committee |
| Lucy Westley | Service Manager, The Sunflower Centre |
| Lucy Wightman | Director of Public Health |
| Duncan Wilkinson | Chief Internal Auditor, LGSS |
| Susan Zeiss | General Counsel / Monitoring Officer |
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The inspection team also received written submissions from a number of members of the public and the Northampton Association of Local Councils (NALC). Some of the interviewees also chose to submit written documentation to support what they had said.

Appendix 5: Hyperlinked Documents

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| (pg. 3) | KPMG – External Audit Report 2015/16 (ISA 260): Northamptonshire County Council KPMG – External Audit Report 2016/17 (ISA 260): Northamptonshire County Council LGA – Financial Peer Review: Northamptonshire County Council (September 2017) |
| (pg. 5) | NCC – Agenda Item No. 6 – Section 114 Notice (Council Meeting: 22 nd February 2018) KPMG – Advisory Notice (20 th February 2018) |
| (pg. 13) | DCLG – Statutory Guidance on the Flexible Use of Capital Receipts (updated) |
| (pg. 14) | MHCLG – Flexible Use of Capital Receipts Direction: Local Authorities (6 th February 2018) KPMG – Advisory Notice: Statement of Reasons (20 th February 2018) Birmingham City Council – Council Plan and Budget 2018+ |
| (pg. 16) | NCC – The Council Plan: 2014 to 2019 (December 2013) NCC – The Council Plan: 2015-16 to 2019-20 (February 2015) |
| (pg. 30) | LGSS – Internal Audit Report: Northamptonshire Highways Service Contract Review |

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The inspection team would like to thank Adam Harnischfeger for his hard work and unfailing good humour in supporting us through a very tight and intense programme of activity.

We would also like to thank Sharan Sehmi and Luiza Morris-Warren, who acted as the main points of contact for us with NCC and worked hard to ensure all our information requests were promptly and accurately complied with.

Thursday, 15th March 2018
MMC/JAP/ACH - Final

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