

REPORT TO	ON
Scrutiny Committee Cabinet Council	30 August 2018 12 September 2018 26 September 2018



TITLE	REPORT OF
Corporate Peer Challenge Action plan and response to Statutory Recommendation (under s24 of the Local Audit and Accountability Act 2014).	Chief Executive

Is this report confidential?	No
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## 1. PURPOSE OF THE REPORT

Members are asked to consider this report which provides an update on the progress on the recommendations from the LGA Peer review from 2017 and the recent revisit in March 2018. The report also addresses the recommendations recently made by the council's external Auditors, Grant Thornton, which was concluded within the Annual Audit of the Statement of Accounts for 2017/18. The external auditors have issued a statutory recommendation for the council to set out how it has progressed with its implementation of the LGA Findings. Under the relevant regulation, the Council is required to submit a formal response within prescribed timelines.

## 2. RECOMMENDATIONS

For Council to:

- Accept the recommendation made by the external auditor;
- Note the actions completed with regard to implementation of the recommendations made following the LGA Corporate Peer Review
- Provide a formal response to the external auditors advising that all actions recommended within the Original Peer review visit, and Actions suggested in the revisited Peer review have been actioned and are either complete, or are currently in implementation.

## 3. BACKGROUND

In March 2017, the Council invited the Local Government Association to undertake a Corporate Peer Challenge. Following this review, several issues were raised as concern to the council, which included

- Staff morale was extremely low, with little confidence in the senior management team
- The Governance arrangements were considered weak, with improvements required
- The Council's financial position was poor, with a significant medium term gap in funding which was identified within the medium term financial strategy.
- Officer member relations was considered to be poor and unhealthy
- There was limited confidence in performance management of any major projects or change programmes

Following this review, the Councils set up a cross party Improvement Reference Group (IRG) and an action plan was agreed for 2017/2018.

In July 2017, the council appointed a permanent Head of Paid Service, and in August 2017, priorities were set for the new Head of Paid Service to progress and implement the IRG Action plan

By March 2018 (within an eight month period), all of the actions within the IRG work programme had been either completed, or where in implementation mode. Some examples of progress (which are not exclusive) include:

- The Council developed , agreed and implemented a Transformation/ Organisational strategy for the 2017/18 financial year
- A 5 year Corporate plan, following a full consultation process has been adopted by the Council
- The council approved, for the first time, a 5 year medium term financial strategy.
- Governance committee set up review group and have a rolling programme of updating the Council's Constitution
- The council has carried out a cultural mapping exercise , to baseline the current position on Staff Morale
- A new officer leadership structure was approved by full council in Nov 2017, with the shared services structure having an amended approved in March 2018.
- The council has implemented a new leadership development programme.
- A new officer / member protocol has been developed and agreed
- A robust Project management framework has been put in place, and is currently being used for the implementation of all Corporate Priority projects.

In early 2018, the council invited a follow up review from the LGA Peer challenge, and a number of key recommendations were made in a letter to the Council dated the 16<sup>th</sup> March 2018.

The Peer review feedback was considered by the IRG on the 19<sup>th</sup> March and a revised work plan was considered for the Group for the 2018/19 financial year.

Through April and May of 2018, the council's political leadership changed, with a new Leader, Deputy Leader and Cabinet being elected in May.

On the 16<sup>th</sup> May, the conservative Peer, working to the IRG notified the council that he needed to step down from the position due to his commitments nationally, however, the LGA sourced a new Conservative Peer in June 2018, and on the 10<sup>th</sup> July, the council commenced with its IRG meetings with new Peers in place. On the 10<sup>th</sup> July, a revised programme of works was agreed in line with the peer revisit.

On the 26 July 2018 the Governance Committee approved the annual Statement of Accounts 2017/18 and considered the External Audit (Grant Thornton) Audit Findings Report for 2017/18. This year, the external auditors have strengthened their opinion by making a statutory recommendation under Section 24 of the Local Audit and Accountability Act 2014.

Under this regulation, the Council must consider a formal response to the recommendation and inform the external auditors of their decision.

This report brings together the outcomes of both reviews and provides a formal response to the auditor's statutory recommendation.

**4. CORPORATE PRIORITIES**

The report relates to the following corporate priorities:

Excellence and Financial Sustainability	X
Health and Wellbeing	
Place	

Projects relating to People in the Corporate Plan:

People	
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**5. LGA CORPORATE PEER CHALLENGE Revisit**

As detailed above, in March 2017, the LGA were invited by the Council to undertake a Corporate Peer Challenge. Peer challenge is one of the key tools to support sector led improvement and is tailored to meet individual council needs. The peer team provide feedback as critical friends and include both member and officer peers. Unlike external audit, the LGA peer review team are not formal inspectors and the review is feedback to the council.

The outcome of this review recognised the Council was in a challenging place although it concluded overall “the scale of the challenge is manageable providing capacity is addressed but will require clear leadership, good planning and a strong sense of pace”. At that time the Council officer structure was operating in the absence of a permanent head of paid service and followed a significant corporate governance failure.

A follow up visit in March 2018 reflected progress made in implementing the recommendations almost one year on which are set out within the background to this report. The follow up visit overall found the council had made good progress in taking forward a number of recommendations however, assurance was sought that the Council should progress at pace with its implementation plan.

The following recommendations were made:

- The need for political leadership and the robust implementation of officer/member protocol
- Implementing the new senior management structure
- Developing leadership potential of the new senior team
- Aligning political and officer processes to ensure decisions are implemented with no last minute changes
- Reviewing the governance committee with a view to separating the audit and general governance function
- Implementing with Chorley the agreed approach to shared services
- Improving internal communication and clarity with staff about the vision and next steps for transformation.
- Renewing the focus and commitment to the Improvement Reference Group (and agreeing a timeframe when the IRG should be stepped down).

As detailed above, the IRG considered these findings in March 2018, and have subsequently set a plan in place to ensure delivery is implemented at pace. It should be noted that the IRG meetings are held in private, but all agendas and minutes are forwarded to the Council's External Auditors, Grant Thornton.

Appendix A details the Actions captured by the Peer review, and provides an update on the current status.

It can be noted that, to date, there are no outstanding actions to address from the LGA Peer review recommendations.

## **6. STATUTORY RECOMMENDATION**

Recently, the Governance Committee 26 July 2018 approved the annual Statement of Accounts 2017/18 and considered the External Auditors (Grant Thornton) Audit Findings Report for 2017/18.

The external audit opinion consists of two elements. The first in relation to audit of the financial statements and the second in relation to the council's arrangements for securing value for money (VfM). At that meeting the Annual Audit had not been concluded although the final opinion with regard to the financial statements is expected to be unqualified. The VfM conclusion however will remain as an "except for" conclusion which has been in place since the financial year 2015/16.

This year however the external auditors have strengthened their opinion by making a statutory recommendation under Section 24 of the Local Audit and Accountability Act 2014. A copy of the statutory recommendation will also be forwarded by the external auditor to the Secretary of State.

The Statutory Recommendation as set out in the Audit Findings Report:

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### **Recommendation made under section 24 of the Local Audit and Accountability Act 2014 ("the Act").**

#### **The Council needs to:**

- Make demonstrable progress in relation to the eight recommendations that are made in the letter dated 16 March 2018 to the Chief Executive from the Local Government Association (LGA) in relation to the LGA Corporate Peer Challenge follow up visit to South Ribble Borough Council.
- In particular, the two recommendations in relation to the management structure should be implemented as a matter of urgency which are to place particular focus in the short term upon:
  - Implementing the new senior management structure
  - Developing the leadership potential of the new senior team to take forward the place, strategic finance and transformation agendas

Under this regulation, the Council must consider a formal response to the recommendation and inform the external auditors of their decision. External Audit have requested that a meeting of full Council considers its response to the following questions:

- (a) Whether the report requires the authority to take any action or whether the recommendation is to be accepted, and
- (b) What, if any, action to take in response to the report or recommendation.

Other minor matters have been raised by external audit as part of their Audit Findings Report. With regard to the presentation of monitoring reports, members will see in the coming weeks a refreshed approach to the presentation of budget monitoring with a focus on service financial performance with greater accountability by budget holders as recommended by the LGA.

Finally, concerns were raised with regard to developing detailed project plans for the schemes highlighted in the medium term financial strategy. The council does have a new Project management system and framework in place, which captures all major projects. This will be reported through our Performance management programme throughout the year to Members.

## **7. CONTEXT OF EXTERNAL AUDIT OPINION**

in forming their professional opinion, external audit assess activity over the financial year up to 31 March 2018 which is concurrent with the findings of the follow up peer review. It is common practice for External Audit to also take a forward view, to fully assess the 2017/18 position. This year, it is disappointing to note that the Auditors have chosen to forward look at the council's S151 position, but not forward look as to the significant progress being made on the Management restructure. Officers are also concerned that the Auditor has raised issues of strategic capacity with regards financial matters, however, the Council financial position during 2017/18 has significantly strengthened. There appears to be no recognition that this council has moved from a deficit position to a positive position, and that for the first time, the Council has an approved 5 year medium term financial strategy.

Notwithstanding the above, if we take the audit as a position statement for 2017/18, it can be demonstrated that the March position has been significantly progressed, with actions now completed, and in progress of implementation.

## **8. CONSULTATION CARRIED OUT AND OUTCOME OF CONSULTATION**

Discussions have taken place with Grant Thornton as part of the finalisation of the Statement of Accounts 2017/18 and also with the LGA through the IRG.

## **9. FINANCIAL IMPLICATIONS**

The overall financial health of the council is intrinsic within the report, there are no additional financial pressures arising from this report.

## **10. LEGAL IMPLICATIONS**

The report is submitted to full Council in accordance with the Section 24 of the Local Audit and Accountability Act 2014.

## **11. COMMENTS OF THE STATUTORY FINANCE OFFICER**

- 11.1 *This section is to be completed by the Chief Finance Officer (s151) (or by the Deputy Section 151 Officer if not available) as it must also comment on the impact on all aspects of the total organisational budget.*

11.2 The actions still in progress with regard to the Section 24 recommendation will be monitored by the Council's Internal Audit Service to provide the necessary assurances to External Audit in respect of their timely implementation.

## 12. COMMENTS OF THE MONITORING OFFICER

12.1 As is referred to above the council's External Auditors have decided – with regard to the Value for Money assessment – to make a recommendation pursuant to the provisions of Section 24 of the Local Audit and Accountability Act 2014. As we know the Value of Money assessment has been a qualified one since the financial year 2015/2016. However, by making a formal recommendation this year the External auditors have decided to strengthen the expression of their concerns. In accordance with the relevant statutory provisions it is necessary for this council to formally consider this recommendation, decide whether it accepts it and decide what, if any action it will take. This is a task for full Council to perform.

12.2 Whilst it is true to say that the audit carried out was an assessment of where the council was for the year ending 31<sup>st</sup> of March 2018 and that progress has been made since then to implement the relevant recommendations emerging from the LGA Peer Challenge nevertheless it is strongly advisable that we take on board the recommendation from External Audit and commit ourselves to completing all outstanding actions as soon as possible.

## 13. OTHER IMPLICATIONS:

▶ <b>HR &amp; Organisational Development</b>	<i>Relevant comment to added here</i>
▶ <b>ICT / Technology</b>	<i>Relevant comment to added here</i>
▶ <b>Property &amp; Asset Management</b>	<i>Relevant comment to added here</i>
▶ <b>Risk</b>	<i>Relevant comment to added here</i>
▶ <b>Equality &amp; Diversity</b>	<i>Relevant comment to added here</i>
<i>Add any other implications which you consider particularly relevant</i>	

## 14. BACKGROUND DOCUMENTS (or There are no background papers to this report)

Audit Findings report 2017/18

## 15. APPENDICES

Action Plan

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