



Oldham
Council

Report to Overview and Performance and Value for Money Scrutiny Committee.

Update on General Matters

Portfolio Holder: Cllr Abdul Jabbar MBE, Deputy Leader and Cabinet Member for Finance and Green

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Reason for Report

Members will recall that in December 2018, the Committee considered a report which, amongst other things, summarised Local Authority financial failures and challenges. The report was presented to assist this Committee in its Scrutiny Role. Following a recent similar financial failure in another local authority which resulted in the issuing of a public interest report by the External Auditor and subsequently two S114 notices by the Chief Finance Officer, this report highlights matters which are of relevance to this Committee as they link into its Scrutiny Role. There are also matters which will need to be brought to the attention of the Audit Committee.

Executive Summary

The External Auditors of another local authority have issued a public interest report which highlights the following issues it is felt appropriate to bring to the attention of this Committee. These are:

- The local authority had experienced decreasing financial resilience for a few financial years without appropriate oversight or challenge from Members.
 - The local authority in question had a low level of reserves for a number of financial years.
 - There were significant overspends in Children and Adult Services with no appropriate challenge to these overspends.
 - When the 2020/21 budget and previous years budgets were set, there was insufficient challenge to inherent risks such as the likelihood of efficiency savings being achieved. This included savings envisaged from a programme of transformation.
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- The requirement for improved oversight of the deficit of the Dedicated Schools Grant
 - The local authority had borrowed over £500M in the last three financial years to invest to generate an income stream and to invest in local authority companies. The scrutiny in both these areas had been poor and the aims of this investment were unlikely to be achieved.
 - Members could have been more challenging of officers in several operational areas.

This report will therefore provide the Committee with the opportunity to consider how it may satisfy itself that similar challenges can be avoided and having regard to the response of the Authority in question, which is now strengthening its own Scrutiny and Audit arrangements.

Recommendation

Members note the content of this report and when reviewing their workplan elsewhere on the Agenda, consider if it should be revised to incorporate increased scrutiny around financial resilience.

Overview and Performance and Value for Money Select Committee 17 December 2020

Update on General Matters

1 Background

- 1.1 Whenever there is a failing of financial governance within a local authority there is always a risk that the external auditor, under Section 24 and Schedule 7 of the Local Audit and Accountability Act 2014, will issue a public interest report. One Authority had been experiencing a reduction in financial resilience for a few financial years. Its external auditors, when publishing the Value for Money conclusion included within the Authority's accounts since the financial year 2017/18, had commented upon the reduction in financial resilience and the low value of Reserves held, thus qualifying the opinion and making recommendations which were not implemented by the Authority.
- 1.2 When the pandemic arrived, the Authority approached the Ministry of Housing, Communities and Local Government as it felt its financial position required support. This prompted an internal review of its overall financial management which has identified a systematic failing in its financial governance. It has also resulted in the public interest report. Of interest to this Committee are the issues detailed below:
- The local authority had experienced decreasing financial resilience for a few financial years without appropriate oversight or challenge from Members.
 - The local authority in question had a low level of reserves for a number of financial years.
 - There were significant overspends in Children and Adult Services with no appropriate challenge to these overspends.
 - When the 2020/21 budget and previous year budgets were set there was insufficient challenge on the inherent risks such as the likelihood of efficiency savings being achieved. This included savings from a programme of Transformational change.
 - The local authority had borrowed over £500M in the last three financial years to invest for an income stream and to invest in local authority companies. The scrutiny in both these areas had been poor and the aims of this investment were unlikely to be achieved.
 - Members could have been more challenging of officers in a few operational areas.
- 1.3 This report gives the Committee the opportunity to review its own Scrutiny around the finances and elements of Council expenditure. Balancing the budget for example is becoming more of a challenge each year and the continued use of reserves impacts on financial resilience over time. A separate report will be submitted to the Audit Committee highlighting the issues in their remit such as partnership governance and the oversight of Treasury Management.

2 Budget Scrutiny and Financial Monitoring of the agreed budget

- 2.1 A key role of this Committee is to provide challenge to and scrutiny of the Administration budget. In the local authority where the public interest report was issued it is the view of the external auditor this was not carried out effectively. For two to three years, the Council envisaged efficiency savings from redesigning how services were to be delivered and hence the savings that would flow from these changes would be achieved. These savings were not achieved in full and combined
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with the spending pressures from Children and Adult Services, the overall financial resilience of the Council was lowered. When unforeseen financial pressures from the pandemic emerged, the Council was close to issuing a Section 114 report (see Appendix 1 for explanation) and contacted the MHCLG to highlight their financial predicament. This has resulted in some challenge on how pro-active the Authority was in managing known pressures in the system. In addition, the public interest report highlights there were failings by Members of not challenging assumptions. The Chief Finance Officer of the Authority issued a S114 notice on 11 November and a further such notice on 2 December 2020.

- 2.2 The Authority in question had for three financial years, budget pressures linked into the overspends on both Children's and Adult Services. This was not subject to robust enough challenge in the organisation.
- 2.3 Whilst Oldham is in a different position to the local authority detailed in the report, there are overarching financial challenges and some issues which could impact on the Council in future years. The budget monitoring report elsewhere on the agenda highlights financial pressures and the unique challenges arising from managing the organisations response to the COVID-19 pandemic. The Committee is also aware of the significant budget reduction requirement for 2021/22 and that any gap between savings required and resources available will have to be met by reserves, thus reducing financial resilience.

3 Oversight of the Capital Programme

- 3.1 A key role of this Committee is to have oversight on the capital programme of the Council. The Council for whom the public interest report was issued had an ambitious programme and borrowed a significant amount of money over a three-year period. This included investment in assets to generate an income stream. There was an investment made in a hotel and retail park which have both now closed linked into the pandemic. As such the Council cannot rely on an income stream to cover the cost of borrowing it incurred on these transactions.
- 3.2 The Council also invested in its own housing company over a period of time with the aim of developing affordable housing to create an income stream. Despite lending this organisation a significant amount of money, it has not at present generated the returns the Council expected. As such the Council cannot rely on an income to cover the cost of borrowing it incurred on these transactions. The Overall Scrutiny of the Capital Programme in the Council could have been improved.

4 Way Forward

- 4.1 It is recommended that the Committee:
- Notes the issues identified in the public interest report
 - Considers how it wishes to respond to the issues raised in this report in the context of developing the work plan of the Committee.

5 Options/Alternatives

- 5.1 N/A

6 Preferred Option

- 6.1 N/A.
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7	Consultation
7.1	N/A
8	Financial Implications
8.1	N/A
9	Legal Services Comments
9.1	N/A.
10	Cooperative Agenda
10.1	N/A.
11	Human Resources Comments
11.1	N/A.
12	Risk Assessments
12.1	N/A.
13	IT Implications
13.1	N/A.
14	Property Implications
14.1	N/A.
15	Procurement Implications
15.1	N/A.
16	Environmental and Health & Safety Implications
16.1	N/A.
17	Equality, community cohesion and crime implications
17.1	N/A.
18	Equality Impact Assessment Completed?
18.1	None.
19	Key Decision
19.1	N/A.
20	Forward Plan Reference

20.1 N/A.

21 **Background Papers**

21.1 The following is a list of background papers on which this report is based in accordance with the requirements of Section 100(1) of the Local Government Act 1972. It does not include documents which would disclose exempt or confidential information as defined by the Act:

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December 2018 – Local Authority Financial Resilience Officer
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22 **Appendices**

22.1 Appendix 1 – Definition of a S114 Notice.