

READING BOROUGH COUNCIL
REPORT BY HEAD OF FINANCE

TO:	AUDIT AND GOVERNANCE COMMITTEE		
DATE:	19 APRIL 2017	AGENDA ITEM:	8
TITLE:	PROGRESS IN IMPLEMENTING EXTERNAL AUDITOR'S (SECTION 24) RECOMMENDATIONS REPORTED AT BUDGET COUNCIL		
LEAD COUNCILLOR:	COUNCILLORS LOVELOCK / PAGE	PORTFOLIO:	FINANCE
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1. EXECUTIVE SUMMARY

- 1.1 This report provides the first progress report on the implementation of actions in response to the letter issued by EY, the Council's External Auditor and reported at February Council.

2. RECOMMENDED ACTION

- 2.1 Audit & Governance Committee is asked to note the initial progress and note that the Committee will receive an update at each meeting until further notice.

3. BACKGROUND AND PROCESS

The Auditor wrote a formal letter, which was considered at Council along with our approach and responses. Below is an update on progress:

- 3.1 On 2 February the Council received a letter from Ernst & Young LLP in its capacity as appointed auditor making recommendations under Section 24 of the Local Audit and Accountability Act 2014. The law requires such letters to be considered at a Council meeting and the letter was considered as part of the budget report (as it largely related to corporate finance issues), and Council considered and endorsed an officer response.
- 3.2 In responding to EY, the Council said: "The progress of this change programme will be reported to Policy Committee and Audit and Governance, so that progress can be monitored effectively, including oversight by the

External Auditor". The format of reporting to Policy Committee has yet to be determined but the approach likely to be followed is to include an update to those Policy Committee meetings where the budget monitoring report is also received by Audit & Governance, (with the option of a more frequent update if it emerges a significant change has arisen that necessitates an earlier report).

- 3.3 The table below sets out the recommendations, the initial responses and details of the current position.

Recommended Action	Original Management Response	Current Position end of March 2017
<p>1. Funding for the 2016/17 £7.6m overspend must be identified as a matter of urgency.</p> <p>2. The unfunded savings required to balance the 2017/18 budget (£1.6m) must be identified before the budget is approved on 21 February 2017.</p> <p>3. The £10.4m identified savings in the Council's report 'Budget Proposals 2017-2020 narrow the budget gap' must in all cases be supported by detailed plans showing exactly how they will be achieved.</p>	<p>Agreed</p>	<p>Recommendations met at Budget Council February 2017 which set out in detail revised estimates of the 2016/17 "probable" position, and the 2017/18 budget and the proposals for funding both years. The position is being kept under review, with the first significant key action being to finance the actual 2016/17 overspend. The Council provided a delegation to the Director to do this.</p>
<p>4. The remaining savings required for the years 2018/19 (£3m) and 2019/20 (£3.3m) must be identified as part of the February budget review in relation to the medium term financial position and savings plan.</p>	<p>Agreed</p>	<p>The budget report identified that the estimated savings in 2018/19 were now £13.7m and £5m in 2019/20. Work is ongoing through Member and Officer workshops to validate (or change) the forecast gap and then review/develop robust and deliverable budget proposals from 2017/18 to 2019/20. The Budget Sub-Group (made up of senior elected Members) has agreed that the proposals will be presented to the Policy Committee in July 2017.</p>
<p>5. Savings included in the 2017/18 budget must be fully supported by detailed savings plans that are profiled across the financial year. One off, non-recurrent, solutions should be avoided.</p>	<p>Partly agreed: It is agreed that further work will be undertaken to review these processes and improvement made wherever necessary to the supporting plans to the 2017/18 budget by 31/3/17, but the process to ensure detailed savings plans will be put in place for the development of ongoing budget proposals.</p>	<p>As reported to Council, the then Director of Finance completed a resilience review as part of concluding the budget, which led to a £7.7m savings contingency (£2.3m of which is not specifically allocated) funded by reserves. As above, work is ongoing through Member and Officer workshops to review/develop robust and deliverable budget proposals from 2017/18 to 2019/20. The Budget Sub-Group (made up of senior elected Members) has agreed that the proposals will be presented to the Policy Committee in July 2017.</p>
<p>6. Robust budget monitoring</p>	<p>Agreed: As identified in the Budget Report</p>	<p>For the most significant savings proposals, the CMT is meeting</p>

<p>arrangements need to be put in place to ensure that any adverse variance is identified in sufficient time to allow remedial action to be taken.</p>	<p>Appendix 4, the need for strengthening monitoring arrangements has been identified. An improved process will be established by 31/3/17 to ensure enhanced and robust monitoring is in place for the full year 2017/18 and beyond. This revised process will include ownership by the Corporate Management Team and further Member governance. Some initial improvements are due to be presented to CMT before the end of February. {This is mainly about compliance with the full agreed system and ensuring full CMT awareness of information that is available}.</p>	<p>as the Corporate Programme Delivery Group, which then reports to the (member) Budget Sub-Group. The CPDG will, each fortnight, review progress against delivery of the savings programme and deal with challenges accordingly.</p> <p>In addition, each Head of Service is required to prepare (with assistance from their service accountant) a monthly monitoring report. The detailed report is considered by Directorate Management Teams for each Directorate and the Corporate Management Team via budget reports. Lead Councillors are being regularly briefed on the budget position in their area.</p> <p>In accordance with the timetable monitoring information is then presented to Policy Committee three times a year and to Audit & Governance Committee. The use of a reporting template at Officer level has been enforced more strongly since February, with the intention of improving monitoring in all service areas.</p>
<p>7. The budget monitoring arrangements should be detailed and include for example the allocation of plans to specific individuals and directors, individual plans should be risk assessed with high value and high risk savings plans subject to more frequent scrutiny. Trends in income, expenditure and activity should also be reviewed to ensure that potential problems are identified sooner rather than later.</p>	<p>Agreed in principle: When budget savings are agreed at Council / Policy Committee, they are incorporated in budgets (as well as savings to be delivered being captured in the processes outlined above). We will strengthen this process to ensure that budget monitoring and RAG savings reviews are consistently reporting the same information.</p>	<p>Between Finance and the Delivery Unit (which supports the CPDG) there is in place a process for managing both the management actions necessary and the delivery of agreed budget savings (described above). Some savings recently agreed took some time to bring into the monitoring arrangements, but they are now there, and are reported alongside budget monitoring.</p>
<p>8. Regular reports on savings achieved against profile should be produced to enable trends to be identified.</p>	<p>Agreed in principle: When budget savings are agreed at Council / Policy Committee, they are incorporated in budgets (as well as savings to be delivered being captured in the processes outlined above). We will</p>	<p>Covered by 7</p>

	strengthen this process to ensure that budget monitoring and RAG savings reviews are consistently reporting the same information.	
9. The Council should monitor the completion of control account reconciliations to ensure they are timely, completed satisfactorily and reviewed. A centrally held list of reconciliations should be kept to evidence this monitoring and enable any issues or delays to be identified and addressed.	Agreed	A central list of reconciliations has now been created and is being managed, with completion of all-year reconciliations by end of May 2017.
10. The bank account reconciliation should be brought up to date and completed on a monthly basis with brought forward unreconciled items cleared.	Agreed	Significant progress has been made on these reconciliations. It is intended to complete the end-January reconciliation by the end of April, with the all-year reconciliation before the final accounts are prepared (around end May 2017).
11. Children's Services - It is vital for the successful completion of the Red rated actions in the Improvement Plan that the Council's financial position becomes sustainable and that the Council decides on and delivers the appropriate level of resources to be allocated to this service in February 2017. The Council must ensure there are processes in place to monitor the resource allocated to the service and the achievement of the service improvements required.	There has been a considerable amount of work undertaken between Finance and Children's Services, to establish the appropriate level of budget for 2017/18. Significant additional monies to address the known budget pressures and to provide contingency against budget proposals previously agreed by Policy Committee which are now considered to be at high risk of delivery in 2017/18, have been fully provided for within the budget setting process. This means the 2017/18 baseline is higher than the actual spend in 2016/17, as this is currently deemed to be the necessary level of resource required to ensure Children's Services can meet the necessary improvement plan, and is	At the time of producing the "original management response" it was believed that the 2017/18 baseline would be higher than the actual spend in 2016/17. However, it is now known that the actual spend in 2016/17 is slightly greater than the base budget for 2017/18. It is anticipated that the gap will be reduced as permanent staff are recruited instead of agency workers. At the time of preparing the budget for 2017/18, the necessary resources to address the then current improvement plan were in place. However, since then some new requirements have been identified by OfSTED and the financial consequences of these are being assessed.

	<p>recognised to be significantly higher than our statistical neighbours. It is expected that Children's Services will need to redesign services to ensure maximum efficiency, with which corporate support will assist and therefore we would expect the required resources from 2018/19 to reduce so we become more aligned to statistical neighbours. However further work is required to achieve this through the Change Programme which is due to launch in March 2017.</p>	
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3.4 Other than the first three recommendations where the response was dealt with at the budget council the remaining actions are “work in progress” and on a RAG basis are Amber.

4. Contribution to Strategic Aims

4.1 Progressing the recommendations will support the financial sustainability strategic aim.

5. Community Engagement and Information and Legal Implications

5.1 None directly from this report.

6. Financial Implications

6.1 As indicated above.

7. Background Papers

7.1 S24 letter and response (in February Council Report)

