

talking about tomorrow

Shaping successful local services



About CIPFA

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our members and trainees work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed.

CIPFA is grateful to Kerry Lorimer for her work in writing this report.

Contents

Foreword	3
Introduction	4
Visionary leadership	6
Financial management and resilience	9
Future value and assurance	12
Conclusion.....	15

\ foreword

Local government is at a turning point. Councils are starting to reinvent the way essential local services are delivered while grappling with spending cuts on a scale never before experienced within the public sector.

The response includes the creation of new and innovative ways of delivering services designed to meet rising demand while maintaining financial stability.

A range of new arrangements and structures are emerging, from combined authorities to integrated care partnerships. Meanwhile, the growth of higher risk investment strategies has prompted concern over whether governance and control mechanisms are robust and fit for purpose. Questions are now being asked about whether councils have the tools they need to weigh up the affordability and long-term sustainability of the options they face.

This paper is intended to trigger a debate across the sector and beyond about how councils can develop a viable vision for the future which, at a time of declining trust in public institutions, is shared by the people whose lives it will affect.

None of these issues are easy, which is why debate is so crucial. I encourage colleagues from local government, the wider public sector and beyond to join the discussion to shape the success of local services in the future.



A handwritten signature in black ink that reads "Rob Whiteman".

Rob Whiteman
CEO, CIPFA

\ introduction

A decade of austerity has forged a new public service landscape.

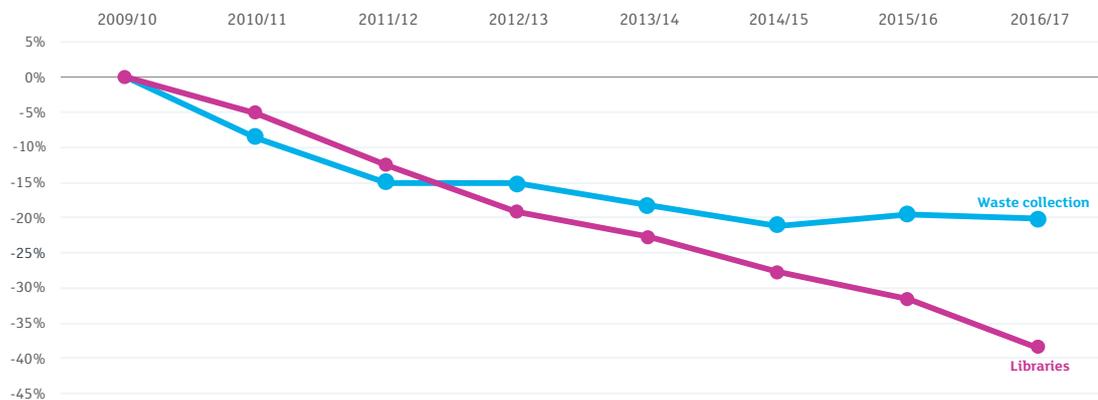
Higher expectations and demographic change are fuelling ever greater demand, while the shift from grant funding to reliance on council tax, business rates, fees and charges is nothing short of revolutionary.

Local government leaders face a conundrum. They have to ensure the continued health of local government finances and deliver statutory and other services within the parameters of their political mandate.

Councils are increasingly using their financial reserves to top up spending. Reserve levels fell by 5% between 2015/16 and 2016/17, while unplanned withdrawals rose from £114m in 2010/11 to £658m in 2016/17. The first iteration of CIPFA's Financial Resilience Index, which brings together a suite of indicators on financial reserves and budgets, showed that 10-15% of authorities are potentially at financial risk.¹

The impact on frontline services is real. Just 87 councils were providing a weekly residential waste collection in 2017/18, down from 152 in 2010/11. Library numbers have fallen by 14% and shed more than 5,000 full-time equivalent posts since 2009/10.²

The impact on frontline services 2009-2017



Source: Ministry of Housing, Communities and Local Government, *Revenue Expenditure and Financing England*, R02 and R05

1 *Measured Resilience in English Authorities*, CIPFA, November 2019, www.cipfa.org/policy-and-guidance/reports/measured-resilience-in-english-authorities

2 Figures drawn from *Performance Tracker 2018*, CIPFA/Institute for Government, www.cipfa.org/policy-and-guidance/reports/performance-tracker-2018

But alongside these substantial problems are opportunities to look afresh at how services are provided, and to do things better. The election of a new and diverse group of councillors will bring fresh eyes to local government's challenges, while the advent of new structures, such as combined authorities and integrated care partnerships, focused on place, present opportunities to reassess how the sector's creativity and talent can be refocused, while maximising effectiveness, accountability and financial sustainability.

In the coming year CIPFA will be facilitating a sector-wide conversation involving councillors, officers and citizens to address the challenges of effective service delivery.

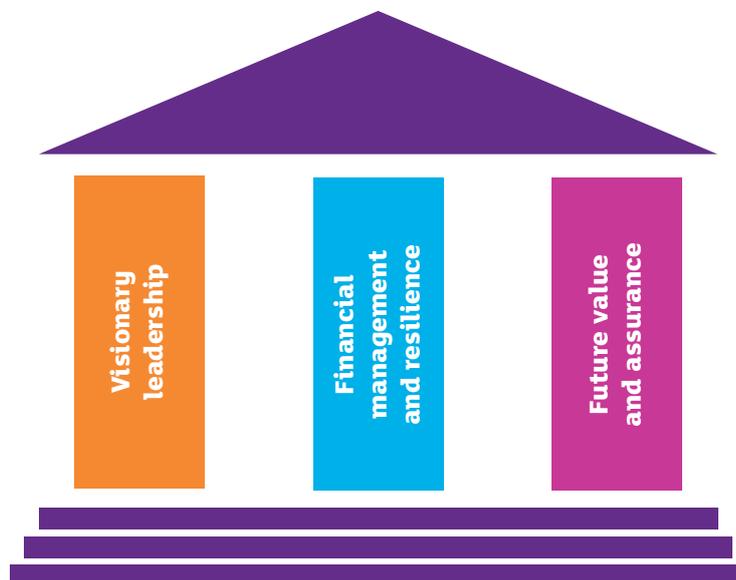
This conversation will explore what great service innovation looks like and what's needed to deliver it. What types of leadership, people and processes are required? And how can all of us in the sector collaborate to deliver? How do we interrogate performance challenges and measure success?

Our goal will be to identify a set of recommendations built from input provided by the whole sector.

This paper is intended to kick off that conversation, setting out three components and associated questions that CIPFA sees as key to shaping successful local services.

These are:

1. **Visionary leadership** – defining a vision and securing buy in
2. **Financial management and resilience** – delivering this agenda sustainably
3. **Future value and assurance** – scrutinising progress and quality



visionary leadership



Places need a plan. Political leaders must be able to craft a vision of a successful and sustainable place, and secure support from local communities.

The relationship between officers and elected members is key to delivering a strong and viable vision over which the authority as a whole can have ownership. To be successful councils have a genuine culture of communication, collaboration and ownership across their political and managerial leadership.

The best value inspection that followed the high profile collapse of Northamptonshire County Council in 2018 made clear that internal communication at the authority was weak.³ A culture had taken hold in which backbenchers had very little access to information and challenge was actively discouraged.

Official warnings were not heeded. In 2015, the then Section 151 officer advised the council was in the throes of a significant financial crisis but “was not taken seriously”, and overspending continued unabated.

The importance of timely and effective engagement between officers and members was one of the principal insights from an inaugural conference for councillors hosted jointly last year by CIPFA and the Centre for Public Scrutiny.⁴

Scoping an effective vision means listening to all members, not just portfolio holders, at the earliest possible stage. The emerging vision for a place must be one that is genuinely shared and endorsed by the council as a whole.

Making hard decisions

Developing and delivering a successful vision requires the courage and expertise to make difficult decisions.

Relationships become crucial. Members must have clear guidance on the impact of different options on services and communities and the trade-offs involved, while officials must have authority and influence.

Concern is mounting that the status of the Section 151 officer is weakening. A National Audit Office (NAO) survey found those who do not report directly to the chief executive feel less able to give unfettered advice and to provide challenging information to elected members and the senior leadership team than their peers who are represented at board level.⁵ It is therefore worrying that LGC research recently found that 22% of section 151 officers do not report directly to the chief executive.⁶

3 *Northamptonshire County Council best value inspection*, January – March 2018

4 *Successfully balancing council budgets is not just about the cash*, Public Finance, September 2018

5 *Local authority governance*, National Audit Office, January 2019

6 Fifth of lead finance officers not at top table, LGC 14.6.19 www.lgcplus.com/finance/revealed-fifth-of-lead-finance-officers-not-at-top-table/7029199.article?blocktitle=Top-stories&contentID=20100

It is also of concern that CIPFA's 2018 ethics survey highlights that 57% of accountants working in the public sector have felt under pressure to act unethically by, for example, being asked to support over-optimistic budget forecasts, bypass policies and regulations and downplay risks.⁷

As councils come under increasing pressure to make difficult decisions, sound governance arrangements are vital to make sure the organisation's objectives are met. Leadership training can help senior managers and elected members embrace their new responsibilities and drive their organisations forward.

Engaging local communities

Councils must engage with local people to secure buy-in for the decisions that affect them. But first, councils must understand the diverse needs of their communities and how to communicate with them effectively.

Statutory consultations are required, and are tried and tested, but should not be relied on as the most effective way of connecting with individuals and groups and often fail to engage beyond the 'usual suspects'.

Local leaders must explore new ways of connecting with citizens and strengthening accountability and international examples such as participatory budgeting and citizen assemblies could provide useful models.

A culture of openness should be an integral part of how councils do business. That involves sharing information with those affected by council decisions and services, but more importantly, making it timely, relevant and meaningful.

Organisations with a good track record of transparency and engagement are more likely to gain support for difficult decisions, as people are better placed to understand why a particular choice has been made – even if they disagree with it.

Council meetings are held in public and decisions subjected to scrutiny, and local authorities are bound by a transparency code which sets out the minimum requirements for open data to be published in a timely way. But these are minimum standards. How can local authorities do more than just tick the box?



A culture of openness should be an integral part of how councils do business 

⁷ *Do the right thing*, Public Finance, September 2018

Talking points

How can relationships between members and officers be improved to create a genuine sense of ownership over tough decisions?

Is there a place for participatory budgeting and citizen assemblies?

What can organisations do to ensure residents are more closely involved both in difficult post-austerity spending decisions and the design of the services of the future?

financial management and resilience



Councils face the challenge of reshaping the services of the future within an increasingly testing financial environment.

This is not news. A wealth of data has accumulated over the years to show how much of the government's cuts programme has been soaked up by councils.

Institute for Fiscal Studies research, supported by CIPFA, identified a 22% cut in non-education services between 2009/10 and 2016/17. Poorer, grant-dependent councils with smaller and weaker council tax bases bore the greater brunt of cuts. More recently, the NAO highlighted that the financial position of local government has "worsened markedly" over the last three years, particularly for authorities with social care duties. With signs of financial pressure showing some non-social-care services have been affected. For example there has been a 33% reduction in the number of households receiving a weekly bin collection service between 2010/11 and 2016/17 and a 10.3% reduction in the library service points.⁸

CIPFA's Financial Resilience Index provides some insight into English authorities' financial stability and a future risk read out. While most are currently stable, up to 15% are showing signs of potential strain, which should be a call to action for the sector as a whole.

Later this year CIPFA will launch the Financial Management Code, designed to support good practice in financial management and help local authorities demonstrate financial sustainability. The code represents the first set of financial management standards for local authorities in the UK.

Based on principles rather than prescription, the code aims to help councils manage their finances over the short, medium and long term, increase financial resilience and cope with unexpected shocks to financial circumstances.

It builds on a substantial existing framework of statutory rules, including the Prudential Code for borrowing, which is being updated to reflect ongoing change in the sector.



**Sound judgments require relevant, objective
and reliable data, setting out available
options and expected consequences** ”

⁸ *Financial sustainability of local authorities 2018*, National Audit Office, March 2018

Making financial choices

Local authorities need to assess their income levels, deliver services, meet rising demand and decide how and with who to fund projects, while maintaining financial sustainability. This means making tough choices.

For elected members to make sound judgments, they need relevant, objective and reliable data, so they can set out available options and expected consequences backed up by solid evidence.

For their part, finance officers must have the skills and experience to perform their role effectively. Chief finance officers must have the confidence not only to hold the financial reins of the organisation but the ability to build strong and robust relationships with members and provide rigorous analysis and challenge.

Managing risk

Councils are increasingly turning to borrowing for commercial investment as a response to cuts in government funding – but it is a course of action that may store up risk for the future and divert authorities away from their core mission.

Borrowing from the Public Works Loan Board hit a seven-year high in 2017/18, with the value of loans advanced to local authorities increasing by 42% over the year. A total of 780 loans with a value of £5.2bn were agreed in 2017/18, up from 622 loans worth £3.6bn the previous year.⁹

In response to this CIPFA is tightening the Prudential Code, which helps to ensure borrowing is safe and affordable, to curb the acceleration of out-of-borough commercial property investment which has heightened concern over the level of risk to which some councils may be exposed.¹⁰

We are urging councils to consider the risks implicit in dependence on commercial income, and warn that if commercial activity is undertaken purely to raise income, an extra degree of governance and transparency is needed, with independent advice required to ensure deals are sound.

If a council borrows purely to fund commercial activity, its investment strategy should explain why statutory guidance has been disregarded, how the money will be used, and what procedures are in place if the expected investment yield does not materialise.

Value of loans from the Public Works Loan Board

42% 
increase over year



⁹ PWLB annual report, 2017-18, www.dmo.gov.uk/media/15575/pwlbrep2018.pdf

¹⁰ The publication Prudential Property Investment will be issued later in 2019 – www.cipfa.org/publications

Talking points

Do councils have the right skills at their disposal to assess and scrutinise the risks involved in new financial models to ensure best value is obtained?

How can the sector secure best value and minimise the risk of contract failure and service disruption?

Are existing rules strong enough to address the risks inherent in the financial choices being made by councils, particularly the growth in commercial investments?

future value and assurance



The services of the future will be delivered within an increasingly complex public sector architecture involving pooled budgets, shared services, outsourcing and commercial services.

New delivery arrangements mean effective governance is more critical than ever. Without robust arrangements, local authorities are at risk of financial collapse and failure to meet statutory obligations. Against that backdrop, the role of those working in finance, internal audit and governance roles is all the more important – but these functions are themselves being pared back to save scarce resources, with potentially serious implications. CIPFA believes that rather than being seen as a costly overhead that should be cut actually this is exactly the time you need robust governance in place.

Internal and external controls are essential to ensure decisions taken are the right ones and help change direction if they are not. However, serious questions are being asked about what public audit is there to achieve, and whether existing arrangements are fit for purpose.¹¹

Internal controls

Members and officers

Members have a duty to secure best value and are obliged to maintain a system of internal control. They may sit on audit committees to offer oversight of the authority's finances, or provide challenge through overview and scrutiny functions.

Officers with statutory roles, including the Section 151 officer, are responsible for ensuring decision-making complies with relevant codes and legal requirements. Employment protections allow officers to 'speak truth to power' and discharge their duties in a political environment.

Audit committees

Audit committees provide high-level focus on assurance, governance arrangements, risk management, control, and financial and non-financial performance reporting.

Although not statutory, audit committees form part of proper arrangements for financial management, with an important role in overseeing internal and external audit.

However, their effectiveness is a concern. Only 71% of external auditors felt the committee fulfilled its core function of providing independent assurance on the authority's governance arrangements, according to an NAO survey. Training for audit committee members and their ability to monitor value for money arrangements were a particular worry.¹²

¹¹ *Local authority governance*, National Audit Office, January 2019

¹² *Ibid.*

Independent voices are also lacking. CIPFA recommends audit committees include at least one independent member, but fewer than one in three do so.

Overview and scrutiny

Overview and scrutiny functions allow members to challenge policy decisions and the strategic direction of the authority.

However, these are at risk of being politicised and marginalised. Funding for scrutiny support staff has been cut back while the status and respect in which scrutiny functions are held is dwindling.¹³

Elected members need to feel confident that they can challenge. Councillors who attended the CIPFA/Centre for Public Scrutiny conference were candid about what they saw as gaps in their knowledge of financial governance, overview and scrutiny, and the fear they could fall foul of statutory and regulatory requirements as a result.

Interest in the idea of local public accounts committees is developing. These would take an area-wide view of spending, services and outcomes, helping bolster democratic accountability and improving scrutiny.¹⁴

External controls

External audit

Separate arrangements for public audit exist across the UK, with independent assurance on council spending provided by Audit Scotland, the Wales Audit Office, and the Northern Ireland Audit Office.

The closure of the Audit Commission in 2015 ushered in a reformed landscape for external audit in England. Public Sector Audit Appointments Ltd (PSAA), now appoints auditors for 98% of local authorities, setting fees and overseeing audit delivery by private firms who bid for contracts.

But warnings are being voiced about the soundness of the local audit regime particularly across England. In his independent review of the Financial Reporting Council, Sir John Kingman noted that PSAA arrangements were prioritising cost reduction over audit quality. This is especially concerning at a time of extreme financial pressure and rising speculative investment by councils.¹⁵

Meanwhile, the NAO has noted that while auditors are increasingly highlighting weaknesses, these are often met with inadequate or complacent responses and that auditors are not using the full range of additional reporting powers at their disposal.¹⁶



Internal and external controls are essential to ensure decisions taken are the right ones and help change direction if they are not 

13 Ibid.

14 *Local Public Accounts Committees*, discussion paper, Centre for Public Scrutiny, February 2018

15 Independent Review of the Financial Reporting Council, FRC, December 2018, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/767387/frc-independent-review-final-report.pdf

16 *Local auditor reporting in England 2018*, National Audit Office, January 2019

We need to ask whether external audit is effective in its current form. Are auditors looking at the right things and what other changes might be required to ensure audit has impact? The NAO's recent consultation on the Code of Audit Practice provides a timely opportunity to explore these issues.

National oversight

Central government is ultimately responsible for the effectiveness of local governance and the Ministry of Housing, Communities and Local Government (MHCLG) has power to intervene formally or informally in cases of failure.

In practice, however, this oversight is fragmented and can lack transparency. The NAO has identified a lack of clear and active leadership driving coordinated change across the local governance system.¹⁷

Debate is needed over how national oversight works in practice, and how information is best shared across the sector to spot trends and identify risks.

We might need to shift oversight in a more proactive direction so it works to prevent failure instead of responding after the event.

Talking points

How can councils overcome the barriers to effective challenge by increasing the robustness of their audit and scrutiny functions, and in particular the role of audit committees?

Is there potential to explore new models of public scrutiny, for example through the piloting of local public accounts committees?

How can the impact of external audit be maximised, and its findings made more transparent?

¹⁷ *Local authority governance*, National Audit Office, January 2019

\ conclusion

Ten years of bruising funding cuts, rising demand and rapidly changing expectations have transformed the local authority landscape. Survival depends on a blend of courage, expertise and innovation.

Leaders need the vision to create successful places and the boldness to make tough financial choices, backed by an effective system of checks and balances to make sure decisions taken are the right ones.

The Section 151 officer is a critical safeguard in ensuring the authority's financial sustainability. Those who hold this post must have the freedom and professional status required to provide unfettered advice.

Elected members have a vital role to play in developing a sustainable vision for their local area, reflecting the needs and priorities of those they represent. As well as shaping service design, they need the tools to provide effective oversight and scrutiny: training, resources and access to key data.

As public services evolve into more complex and fragmented forms, citizens must become more involved in the decisions that affect them. Councils have made great progress in promoting open decision making, but more work is needed to give communities voice and influence.

Over the next 12 months, we will convene a vigorous debate on how these issues should be addressed.

In particular, we want to explore how relationships between senior officers and all local authority members can be strengthened, and how residents can become active and informed participants in local decision making.

We will ask whether councils have the skills they need to assess the risks inherent in new financial models, and whether existing rules need to be strengthened to reflect the growth of commercial investments.

Finally, the conversation will look at barriers to effective internal and external challenge and how these can be dismantled, and in particular, the potential of audit committees to provide high level assurance over an authority's governance, risk management and performance.

We look forward to you joining us in this conversation as we discuss the challenges of tomorrow and consider how we shape successful local services.

how CIPFA can help

CIPFA (The Chartered Institute of Public Finance & Accountancy) is the world's only professional accountancy body to specialise in public services.

Our purpose is as focused and unique as the members we represent. In the UK, against a backdrop of major funding cuts, we are encouraging greater appreciation of finance professionals who are equipped to deal with the shifts of democratic decision making as well as market forces. Internationally, we are experiencing a surge of interest in our services as more governments seek to offer their citizens a sustainable and effective public sector.

CIPFA members work across all public services. They manage the largest budgets under the greatest scrutiny – that's why the CPFA designation is widely recognised as the benchmark qualification for public service finance.

In addition to our professional qualification, we champion high performance across the public sector through information and guidance, courses and conferences, property and asset management solutions, advisory and recruitment services for a range of clients.

Against a backdrop of substantial budget cuts, delivering services and balancing budgets will continue to be a major challenge for local authorities. CIPFA supports and works with local authorities to help them strive to be not only financially resilient – but also better serve their communities and reinvent the way local services are delivered.

Guidance | Information | Data | Networks | Learning | Advisory | Standards

Contact us to discuss how we can help you and your local authority:

T: 020 7543 5600 | E: customerservices@cipfa.org | www.cipfa.org

CIPFA \ The Chartered Institute of
Public Finance & Accountancy

Registered office:

77 Mansell Street, London E1 8AN

T: +44 (0)20 7543 5600 F: +44 (0)20 7543 5700

www.cipfa.org

The Chartered Institute of Public Finance and Accountancy, registered with the Charity Commissioners of England and Wales No. 231060 and with the Office of the Scottish Charity Regulator No.SCO37963 © CIPFA 2019.