

**READING BOROUGH COUNCIL**  
**REPORT BY DIRECTOR OF FINANCE**

<b>TO:</b>	<b>AUDIT &amp; GOVERNANCE COMMITTEE</b>		
<b>DATE:</b>	<b>18 JULY 2017</b>	<b>AGENDA ITEM:</b>	<b>11</b>
<b>TITLE:</b>	<b>PROGRESS IN IMPLEMENTING EXTERNAL AUDITOR'S (SECTION 24) RECOMMENDATIONS REPORTED AT BUDGET COUNCIL</b>		
<b>LEAD COUNCILLOR:</b>	<b>COUNCILLORS LOVELOCK/ PAGE</b>	<b>PORTFOLIO:</b>	<b>FINANCE</b>
<b>SERVICE:</b>	<b>FINANCIAL</b>	<b>WARDS:</b>	<b>BOROUGHWIDE</b>
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## **1. EXECUTIVE SUMMARY**

- 1.1 This report provides a further 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 A&G Committee is asked to note progress to date in implementing the S24 recommendations made by the External Auditor in February 2017.

## **3. BACKGROUND & PROCESS**

- 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 level issues), and Council considered and endorsed an officer response.
- 3.2 In responding to EY, we 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". We have yet to report to Policy Committee explicitly on progress though some reports to that Committee (on the Medium Term Financial Strategy for example) have contributed to the implementation as indicated below.
- 3.3 The table below sets out the recommendation, the current response and details of the current position.

<b>Recommended Action</b>	<b>Original Management Response</b>	<b>Current Position end of March 2017</b>
<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>	Agreed	<p>Recommendations met at Budget Council in 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. Draft 2016/17 accounts have been produced which used £12.6m reserves and £1.5m capital receipts (indirectly). An updated MTFS is to be presented to Policy Committee (17 July) with a reduced (from £11m) call on reserves or other one off measures of £4.5m in 2017/18. Detailed plans are in place for 2017/18 savings and for monitoring them, so these three actions have now been completed.</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>	Agreed	<p>The budget report in February identified that the estimated savings in 2018/19 were then £13.7m and £5m in 2019/20. Following the Administration member and officer workshops, reported in April, an updated MTFS will be presented to Policy Committee on 17 July. Work is to be on-going to develop further robust &amp; deliverable budget proposals principally for the 2019/20 year where a £5.3m budget gap remains. The commitment to bring forward deliverable proposals by quarter 2 has been met, though the work over three years is on-going.</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 Interim 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 part of the work above, the 2017/18 budget has been reviewed, and through the tightening of assumptions, updating for the 2016/17 outturn, the budget gap being funded by reserves has been reduced from £11.1m to £4.5m, and more robust monitoring put in place. The</p>

		focus is now on the delivery of the revised budget, including correcting adverse budget variances identified in monitoring, and actions arising directly from the recommendation are now complete.
6. Robust budget monitoring 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.	Agreed: As identified in the Budget Report 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.	As reported last time, for the most significant savings proposals, the CMT is meeting as the Corporate Programme Delivery Group, each fortnight, to review progress against delivery of the savings programme and deal with challenges accordingly. 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. 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.
7. Regular reports on savings achieved against profile should be produced to enable trends to be identified.	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.	As reported in April there is now a process in place (described above) to monitor the delivery of savings. In summary the output is included in the budget monitoring report. We need to ensure that these arrangements continue to be delivered throughout the financial year.
8. Regular reports on savings achieved against profile should be produced to enable trends to be identified.	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	Covered by 7 above

	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.	
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	An initial central list of reconciliations has now been created and some monitoring has begun. We continue to make progress and . expect this process to be fully in place by the September A&G meeting.
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 this reconciliation for 2016/17. This work has identified the need for a significantly revised process for 2017/18, on which work has recently begun.
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 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	The Children's Services Action Plan is reported through to ACE Committee, where it is robustly monitored, hence it is not replicated here .  Finance support to Children's Services has been strengthened.

	aligned to statistical neighbours. However further work is required to achieve this through the Change Programme which is due to launch in March 2017.	
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- 3.4 In summary, the actions in response the first five recommendations are complete, the "process design" work on the sixth to eight is complete, but to be fully delivered the process needs to occur throughout the year, and the last three recommendations are "work in progress".

#### **4 Contribution to Strategic Aims**

- 4.1 Progressing the recommendations will principally support the financial sustainability strategic aim as well as addressing the qualified value for money opinion that was issued by EY on 2016 for 2015/16.

#### **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 & response (in February Council Report)  
7.2 MTFS & Budget Monitoring Reports to July Policy Committee