

	<p><b>Audit Committee</b></p> <p><b>17 July 2018</b></p>
<p style="text-align: center;"><b>Title</b></p>	<p style="text-align: center;"><b>Report of Chief Executive</b></p>
<p style="text-align: center;"><b>Report of</b></p>	<p>Chief Executive</p>
<p style="text-align: center;"><b>Wards</b></p>	<p>All</p>
<p style="text-align: center;"><b>Status</b></p>	<p>Public (Except Appendix 1 which is exempt under paragraph 3, Part I, Schedule 12A Local Government Act 1972)</p>
<p style="text-align: center;"><b>Urgent</b></p>	<p>Yes</p>
<p style="text-align: center;"><b>Key</b></p>	<p>Yes</p>
<p style="text-align: center;"><b>Enclosures</b></p>	<p>Appendix 1 – Draft report by Grant Thornton “Review of the financial management of regeneration projects” (Exempt)</p>
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<p><b>Summary</b></p>
<p>The Audit Committee agenda includes the Annual Governance Statement and the Head of Internal Audit Opinion. Both reports set out a number of concerns and matters which require a comprehensive response from the Council.</p> <p>This reports from the Chief Executive sets out the priority areas for response, as follows:</p> <ol style="list-style-type: none"> <li>1. Children’s Improvement;</li> <li>2. Improvements to Financial Controls;</li> <li>3. Review of CSG and RE Contracts;</li> <li>4. Budgetary Control and Financial Planning;</li> <li>5. Council Management Structure; and</li> <li>6. Review of Governance.</li> </ol>

## **Officers Recommendation**

**That the Committee note and comment on the report, which will be updated at the next Audit Committee.**

### **1. WHY THIS REPORT IS NEEDED**

#### **Context**

- 1.1 Barnet Council, along with most Councils across the country, is facing significant challenges in terms of reduced funding from central government, along with increasing demand for services, particularly in respect of adults and children's social care, and the costs of temporary accommodation.
- 1.2 These challenges have led to unprecedented pressure on budgets, and challenges in terms of effective service delivery. The Council's approach has been to plan ahead for these challenges, setting out a future financial strategy based around growth in income from development, driving efficiency, and managing demand across high cost services.
- 1.3 This approach has been successful over recent years, with back office costs significantly reduced, costs of office accommodation reduced, significant growth in the Council Tax base through growth and development, while efforts to promote independence across social care services has, for example, seen a reduction in the numbers of people in residential settings, with increased numbers of people enabled to be independent.
- 1.4 However, the Council's approach clearly needs to evolve into the future. The Annual Governance Statement and Head of Internal Audit Opinion highlight a number of weaknesses that must be addressed. They include the Ofsted inspection into Children's Services in Barnet, weaknesses in terms of financial controls, and concerns around roles, responsibilities and accountability between commissioning and delivery functions. Alongside this, the current medium term financial strategy for the period 2015-20 is coming to a conclusion and needs to be reset for the years ahead.

#### **The Council's Response**

- 1.6 This section sets out the key actions that Chief Officers are undertaking, and the outcomes that need to be in place to ensure that the response is effective. This forms the basis of the Council's officer management team agenda and priorities for the year. Members will be able to regularly scrutinise progress against these actions at the relevant Committees throughout the year.

## **Children's Services Improvement**

- 1.7 An inspection into Children's Services in Barnet published in July 2017 found services to be inadequate. This was known to senior managers in the Council following the Director of Children's Services appointment and his work on highlighting the poor quality of services for children in the borough. However, insufficient improvement had taken place by the time the inspection took place.
- 1.8 An independently chaired improvement board is in place to drive improvement across services for children and this board is attended by Members, officers and partner organisations (health, police, schools). Ofsted have undertaken three monitoring visits since the original inspection and have found that the pace of improvement is of a satisfactory level. The Children and Education Committee are receiving regular update reports into improvement and the quality of service delivery.
- 1.9 The Council has now received a new direction from the Secretary of State. The changes embedded in the Direction indicate an increased confidence in the Council's consolidated improvement in the service. The Council is no longer required to have a Commissioner and the relationship with Essex County Council has changed. Essex had been directing improvement activity and are now undertaking a role of improvement partner for the Council.
- 1.10 Improving services for children is a top priority for the Council, and the clear aim is for these services to be rated as "good" as quickly as possible. Significant investment has gone into improvement and sufficient resource, oversight and attention will need to be given to ensure this continues.

***OUTCOME: Improved services for children in Barnet and services that are considered "requires improvement" by 2019 and "good" by 2020.***

## **Financial Control and Risk of Fraud**

- 1.11 A referral was received by the Corporate Anti Fraud Team (CAFT) in December 2017 alleging that a substantial amount of money had been paid into an account belonging to a member of Re staff. A criminal and financial investigation was immediately initiated by CAFT which subsequently identified that 62 allegedly fraudulent transactions, between July 2016 to December 2017, amounting to the total sum of £2,063,972.00, had been paid into various bank accounts controlled by the individual. The individual is no longer working for Re. The individual has been charged with two counts of fraud by abuse of position under the Fraud Act 2006. The case is currently listed for hearing in Harrow Crown Court. The sum has been repaid to the Council by Re and Capita has confirmed that it has underwritten this loss.
- 1.12 Following this discovery, the Council immediately took action to tighten financial controls and initiated an independent report into the wider financial control environment across the organisation.

- 1.15 The Council immediately put into place a new system of approving CHAPs payments. As these “on the day” payments are approved outside of Integra or any feeder systems that interface with the financial ledger, such as the Social Care system, approval for payments take place. The new systems went live during December. The system introduced six stringent effective new controls.
- 1.16 A dual authorisation process was also introduced for the release of payments from Bankline, the application through which CHAPs payments are made, so that in addition to a CSG employee, a Barnet Council employee must sign off each payment release in the system.
- 1.17 The Council subsequently employed Grant Thornton UK LLP (GT) in January 2018 to undertake a detailed review to fully understand and document the fraud itself through a forensic review, identify the reasons that the alleged fraud could occur, including weaknesses in the control environment and to identify lessons learned. The Council engaged an external provider as this ensured that the circumstances around the alleged fraud were the subject of an independent review, as well as adding capacity.
- 1.18 The Grant Thornton report is attached at Appendix 1. It is currently in draft form to allow Capita a period of time to review and comment on its accuracy. As the report contains financial and business information about Re and Capita and Capita has not yet had an opportunity to provide comments on its contents, it is not in the public interest to publish it at this stage. This report and further reporting information from the Grant Thornton review will be finalised over the next few weeks and months and it is intended that these will be presented to Audit Committee and any other relevant Council committee in the Autumn 2018.
- 1.19 The Internal Audit programme has been focused on internal financial controls for 2018/19. This will ensure that sufficient scrutiny and external challenge is applied to the robustness of the control environment.

***OUTCOME: A tightened financial control environment and reasonable or substantial assurance on internal financial control audit reports throughout 2018/19.***

### **Review of CSG and Re Contracts**

- 1.20 A report has been published which will go to Policy and Resources Committee on 19 July which proposes a review of the CSG and Re contracts, with the option of bringing a number of services in house, while continuing with and building on the success of a number of other services within the contracts. Subject to Policy and Resources Committee’s decision, a Full Business Case will be prepared to allow a final decision to be made later this year.
- 1.21 The contracts have delivered significant financial savings since their commencement in 2013, as well as efficiencies and improvements across a range of services.

- 1.22 However, there are other services where performance improvement is needed. In relation to the Customer Support Group contract, these have included issues with financial controls and reporting, pensions administration, estates and user satisfaction with back office services.
- 1.23 In relation to the Re contract, issues have been raised on financial controls and the operation of the Highways service. A number of these performance concerns were also highlighted in the contract reviews that were carried out in 2016 and 2017 of the CSG and Re contracts respectively.
- 1.24 This review is significant, as it would also enable the Council to address a number of issues raised within the Annual Governance Statement and Head of Internal Audit Opinion. For example, data quality arrangements across many Council services are strong. However, there are a number of weaknesses highlighted in areas such as human resources and estates. Bringing the strategic HR function and the estates team into the Council would enable the strong data quality and information management arrangements that exist in many services to be extended to HR and estates.
- 1.25 The direct control of the finance service by the Council's Chief Finance Officer would enable tighter financial control to be exerted across the whole organisation.
- 1.26 Furthermore, accountability and clarity of roles and responsibilities can be strengthened. Currently, responsibility for addressing audit weaknesses in respect of finance, human resources, highways and estates sits with CSG and Re managers, while overall accountability still rests with senior Council officers. The proposed changes to service delivery would allow decisive and effective intervention by Council officers and also provide much greater clarity on roles, responsibilities and accountability.
- 1.27 The services under consideration for bringing into the Council are as follows:
- Finance
  - Strategic HR
  - Estates
  - Health and Safety
  - Insight
  - Regeneration
  - Highways
  - Strategic Planning
  - Economic Development
  - Cemetery and Crematorium

***OUTCOME: A successful renegotiation of the CSG and RE contracts that can be implemented by April 2019.***

## **Budgetary Control and Financial Planning**

- 1.28 The Chief Executive and Chief Finance Officer (CFO) have strengthened budgetary control arrangements across the organisation, and all senior officers are engaged in work to ensure the Council's budget is balanced in 2018/19 and that the Medium Term Financial Strategy (MTFS) is reset during the year.
- 1.29 Monthly budget forecasting has always existed across the Council, but much greater scrutiny is being applied to this process. This is reviewed regularly by the Chief Officers and Members. All service areas have recovery plans in place to ensure that the Council can balance its budget for 2018/19. Progress on these will be reported regularly to the Financial Performance and Contracts Committee throughout the year. In addition, the Committee will also receive a new CFO report on the financial health of the organisation on a quarterly basis.
- 1.30 Committee Chairs and Chief Officers are also developing medium term financial plans for the period 2019-24. The current MTFS runs from 2015 to 2020 and it was always envisaged that following local elections, this will be reset to cover the period beyond 2020. These will come to Committees in the autumn in advance of the budget and financial strategy being set in March 2019.
- 1.31 The Capital Programme has been subject to a detailed review to ensure that the whole programme is affordable in the context of an increasingly challenging financial position.
- 1.32 Control of agency and recruitment spend is being controlled at a Chief Officer level across the Council. An agency and recruitment panel has been in place since May 2018 to review all existing agency assignments and approve all new agency and recruitment requests.
- 1.33 All project requests are subject to sign off by the Chief Executive and Chief Finance Officer.

***OUTCOME: A balanced budget for 2018/19.***

***OUTCOME: A sustainable and affordable capital programme.***

***OUTCOME: A sustainable reserves position.***

## **Council Management Structure**

- 1.34 A review of the Council's senior management structure has been initiated and will come to Committee in the autumn. This will take into account the proposed changes to the Capita contracts and address matters in respect of roles, responsibilities and accountabilities which are highlighted in the Annual Governance Statement and Head of Internal Audit Opinion.

- 1.35 It is important that senior management roles and accountabilities are regularly controlled and this review will need to take into account the changes that are being proposed in the Policy and Resources Committee report on the Council's contracts with Capita.
- 1.36 This review will come to Constitution and General Purposes Committee in October 2018 and will be implemented by April 2019.

***OUTCOME: A new senior management structure in place for 2019.***

### **Governance Review**

- 1.37 Alongside the actions noted above, the Council's governance needs to be effective to ensure that sufficient scrutiny and oversight is in place, and that partner organisations are involved in agendas that cut across public agencies in the borough.
- 1.38 Following the Local Government Elections in May 2018, the Council's governance arrangements have been reviewed to ensure that they are fit for purpose for the next four years. This has focused on the following:
- Changes to Committee Governance
  - Review of Family Services Governance
  - Partnership Governance Arrangements

### **Changes to Committee Governance**

- 1.39 A number of changes have been made to Committee Governance to enable each Committee to have sufficient focus on quality and outcomes. For example, the role of the Performance and Contract Management (PCM) Committee has changed. An overall report on Council performance is now considered by Policy and Resources (P&R) Committee. Performance reports are now going to Theme Committees each quarter, to ensure there is a focus on the performance of services as well as strategy and policy. The new Financial Performance and Contracts Committee is now in place to enable sufficient scrutiny on financial management and contract management.

### **Family Services Governance – Involvement of Children and Young People in Decision Making**

- 1.40 A wide range of activities have been undertaken in relation to Family Services Governance to increase the involvement and representation of Children and Young People in decision making. The changes being made seek to ensure that our Council Committees have direct access for young people to propose initiatives, and also that as a matter of course, our youth parliament, Children in Care Council, and other key forums are consulted on decisions affecting young people going to Committees.
- 1.41 The Code of Conduct Undertaking for new and returning Members has been revised to include a specific Member commitment to Corporate Parenting and

Safeguarding and a more structured and comprehensive programme for Member Development and Induction has been agreed by Chief Officers and Members for the new council. To ensure that Members can fully discharge their responsibilities in relation to Corporate Parenting and Safeguarding, the Member Development Programme includes specific mandatory sessions on Corporate Parenting and Children's Safeguarding, with some sessions already delivered. In line with the Corporate Parenting Principles set out in the Children and Social Work Act 2017, which became a duty from the 1st April 2018, officers are currently revising the Committee report templates and guidance documents to ensure that our decision making considers these principles across the Council.

### **Partnership Governance Arrangements**

1.42 As part of the broader review of governance, it is right to ensure that partnership governance arrangements are effective. There are key pieces of work which will be initiated to review Partnership Governance Arrangements. To take this forward, the Chief Executive will undertake a review of the council's partnership governance arrangements which will include:

- Barnet Partnership Board (Local Strategic Partnership)
- Partnership SCB
- Health and Well-being Board
- Safer Communities Partnership Board
- Barnet Children's Partnership Board.

1.43 These governance arrangements need to drive effective partnership working, develop new policies and strategies and improve outcomes for local people.

***OUTCOME: Governance arrangements are effective to support service delivery and effective internal controls across the organisation.***

## **2. REASONS FOR RECOMMENDATIONS**

2.1 These matters are a high priority for the Council and the Committee is recommended to note the report.

## **3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED**

4.1 This report is to note the response to matters identified in the Annual Governance Statement and Head of Internal Audit Opinion and no other options are set out at this point.

#### **4. POST DECISION IMPLEMENTATION**

- 4.1 Chief Officers will prioritise these actions and ensure that the outcomes are achieved within the timescales set out.

#### **5. IMPLICATIONS OF DECISION**

##### **5.1 Corporate Priorities and Performance**

- 5.1.1 The effective response to the Annual Governance Statement and Head of Internal Audit Opinion is fundamental to ensuring that the Council can continue to deliver services to residents and businesses in Barnet and that the Council's statutory duties can continue to be met.

##### **5.2 Resources (Finance & Value for Money, Procurement, Staffing, IT, Property, Sustainability)**

- 5.2.1 In respect In respect of the response to the fraud, there is a cost associated with the work being undertaken by the CFO and by GT, these are being met by corporate budgets.

5.2.2

##### **5.3 Social Value**

- 5.3.1 There are no specific social value impacts of this report.

##### **5.4 Legal and Constitutional References**

- 5.4.1 Article 7 sets out the Audit Committee's terms of reference, which include independent assurance of the risk management framework and the associated control environment, independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process. In addition, the Committee should review any issue referred to it by the Chief Executive or Chief Finance Officer.

##### **5.5 Risk Management**

- 5.5.1 This report details several significant risks and issues for the Council. Each risk or issue identified sets out mitigating steps and the intended outcome.

##### **5.6 Equalities and Diversity**

- 5.6.1 The 2010 Equality Act outlines the provisions of the Public Sector Equalities Duty which requires Public Bodies to have due regard to the need to:
- eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Equality Act 2010,
  - advance equality of opportunity between people from different groups,
  - foster good relations between people from different group

5.6.2 The broad purpose of this duty is to integrate considerations of equality into day to day business and keep them under review in decision making, the design of policies and the delivery of services. Equalities and Diversity considerations will be taken into account during any review of services and specifically in relation to any review of the CSG and Re contracts.

## 5.7 **Corporate Parenting**

5.7.1 The report sets out new governance arrangements and Member Development activity to support the Council's corporate parenting duties.

## 5.8 **Consultation and Engagement**

5.8.1 Not applicable in the context of this report.

## 5.9 **Insight**

5.9.1 N/A

## 6. **BACKGROUND PAPERS**

6.1 None