

Financial governance and the impact of austerity

A preliminary study of Local Authorities
in the South East

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Content

- Introduction – why, rationale and background
- Research aim and scope
- Research design and method of data collection
- Research findings
- Conclusions
- Recommendations for future research
- Key Questions – your views

Introduction



Introduction – Rationale for the research



Background – 2007/08 global economic crisis



Background – Impact since 2010

Spending Review

- Councils coping with less funding whilst demand for their services rise – leading to significant gaps in their budget.
- Growing budget gaps – since majority of efficiency savings are exhausted and grant funding is depleting.
- Resulting in a monumental task for s.151 officers in setting an annual balanced budget (statutorily required) and consequently pressure on financial governance arrangements has become greater.

Background – Impact since 2010

Spending Review

- Additionally, Councils are becoming more resourceful to close growing budget gaps.
- Councils deploying more innovative, commercial and entrepreneurial approaches to generate additional income to continue to deliver key statutory services.

Background – Impact since 2010

Spending Review

- Therefore, traditional and rigid financial governance arrangements may be a barrier in enabling Councils to generate new income streams; and
- Council's current financial governance arrangements may not be robust or flexible enough to withstand the severe pressure of austerity measures on the sector.

Research aim

- To assess the effectiveness of financial governance arrangements in Local Authorities in the wake of the era of austerity.
- To assess whether governance arrangements have been flexible enough, to cope with Councils undertaking more commercialised activities to generate additional income to fund budget gaps, whilst providing a framework of robust control.

Research design

- Research design based on:
 - Prior NHS study by Prowle and Harradine (2014)
 - Local government financial governance frameworks



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governance**

in Local Government
Framework
2016 Edition



Research design



Survey Questionnaire – split into 2 sections:

1. What level do they agree that the authority conforms with the following key features of good financial governance (SA, A, D, SD, U)
2. What level of priority does the authority place on the following key aspects of sound financial governance arrangements (H/M/L)

Research design



Survey Questionnaire – based on key themes of good financial governance:

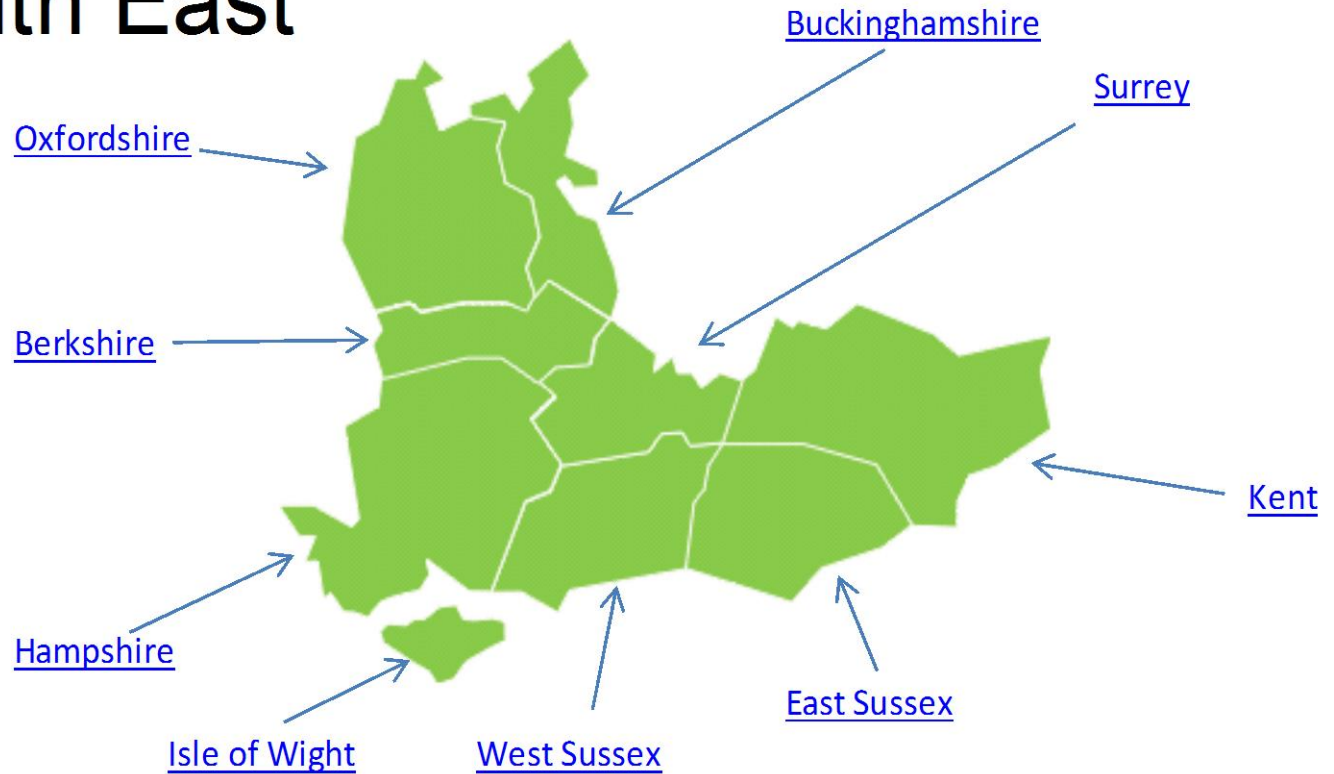
- Medium-term financial planning
- Budget arrangements
- Costing systems
- Risk management arrangements
- Audit
- Financial reporting and decision making
- The impact of Councils becoming innovative, entrepreneurial and commercialised

Research Scope

- This was a preliminary exploratory study based on local authorities located in the South East of England.
- There are 74 local authorities located in the South East from a total of 353 Councils in England, which is 21% of the total population.

Research Scope

South East



County Councils	District Councils	Websites	No. of Councils in South East of England
West Sussex County Council		www.westsussex.gov.uk	1
	Chichester District Council	www.chichester.gov.uk	2
	Horsham District Council	www.horsham.gov.uk	3
	Adur District Council	www.adur-worthing.gov.uk	4
	Arun District Council	www.arun.gov.uk	5
	Worthing Borough Council	www.adur-worthing.gov.uk	6
	Crawley Borough Council	www.crawley.gov.uk	7
	Mid-Sussex District Council	www.midsussex.gov.uk	8
East Sussex County Council		www.eastsussex.gov.uk	9
	Eastbourne Borough Council	www.eastbourne.gov.uk	10
	Hastings Borough Council	www.hastings.gov.uk	11
	Lewes District Council	www.lewes.gov.uk	12
	Rother District Council	www.rother.gov.uk	13
	Wealden District Council	www.wealden.gov.uk	14
Hampshire County Council		www.hants.gov.uk	15
	Gosport Borough Council	www.gosport.gov.uk	16
	Fareham Borough Council	www.fareham.gov.uk	17
	Winchester City Council	www.winchester.gov.uk	18
	Havant Borough Council	www.havant.gov.uk	19
	East Hampshire District Council	www.easthants.gov.uk	20
	Hart District Council	www.hart.gov.uk	21
	Rushmoor Borough Council	www.rushmoor.gov.uk	22
	Basingstoke and Deane Borough Council	www.basingstoke.gov.uk	23
	Test Valley Borough Council	www.testvalley.gov.uk	24
	Eastleigh Borough Council	www.eastleigh.gov.uk	25
	New Forest District Council	www.newforestdc.gov.uk	26
Oxfordshire County Council		www.oxfordshire.gov.uk	27
	Cherwell District Council	www.cherwell-dc.gov.uk	28
	West Oxfordshire District	www.westoxon.gov.uk	29
	Oxford City Council	www.oxford.gov.uk	30
	South Oxfordshire District	www.southoxon.gov.uk	31
	Vale of White Horse District Council	www.whitehorsedc.gov.uk	32

Surrey County Council		www.surrey.gov.uk	33
	Elmbridge	www.elmbridge.gov.uk	34
	Epsom and Ewell	www.epsom-ewell.gov.uk	35
	Guildford	www.guildford.gov.uk	36
	Mole Valley	www.molevalley.gov.uk	37
	Reigate and Banstead	www.reigate-bansted.gov.uk	38
	Runnymede	www.runnymede.gov.uk	39
	Spelthorne	www.spelthorne.gov.uk	40
	Surrey Heath	www.surreyheath.gov.uk	41
	Tandridge	www.tandridge.gov.uk	42
	Waverley Borough Council	www.waverley.gov.uk	43
	Woking	www.woking.gov.uk	44
Kent County Council		www.kent.gov.uk	45
	Ashford Borough Council	www.ashford.gov.uk	46
	Canterbury City Council	www.canterbury.gov.uk	47
	Dartford Borough Council	www.dartford.gov.uk	48
	Dover District Council	www.dover.gov.uk	49
	Gravesham Borough Council	www.gravesham.gov.uk	50
	Maidstone Borough Council	www.maidstone.gov.uk	51
	Medway Council	www.medway.gov.uk	52
	Sevenoaks District Council	www.sevenoaks.gov.uk	53
	Shepway District Council	www.shepway.gov.uk	54
	Swale Borough Council	www.swale.gov.uk	55
	Thanet District Council	www.thanet.gov.uk	56
	Tonbridge and Malling Borough Council	www.tmbsc.gov.uk	57
	Tunbridge Wells Borough Council	www.tunbridgewells.gov.uk	58
Buckinghamshire County Council		www.buckscc.gov.uk	59
	South Buckinghamshire District Council	www.southbucks.gov.uk	60
	Chiltern District Council	www.chiltern.gov.uk	61
	Wycombe District Council	www.wycombe.gov.uk	62
	Aylesbury Vale	www.aylesburyvaledc.gov.uk	63

Unitary Councils		
Portsmouth City Council	www.portsmouth.gov.uk	64
Southampton City Council	www.southampton.gov.uk	65
Brighton and Hove City Council	www.brighton-hove.gov.uk	66
Isle of Wight Council	www.iwight.com	67
Milton Keynes	www.milton-keynes.gov.uk	68
West Berkshire	www.westberks.gov.uk	69
Royal Borough of Windsor and Maidenhead	www.rbwm.gov.uk	70
Wokingham	www.wokingham.gov.uk	71
Bracknell Forest	www.bracknell-forest.gov.uk	72
Reading	www.reading.gov.uk	73
Slough	www.slough.gov.uk	74

Data collection



- 30% return rate
- 46 responses from 153 invitations to 74 Councils
- c.48% were the designated s.151 officer
- Return rate was much higher than prior NHS study in 2014 (c.12%)

Research findings



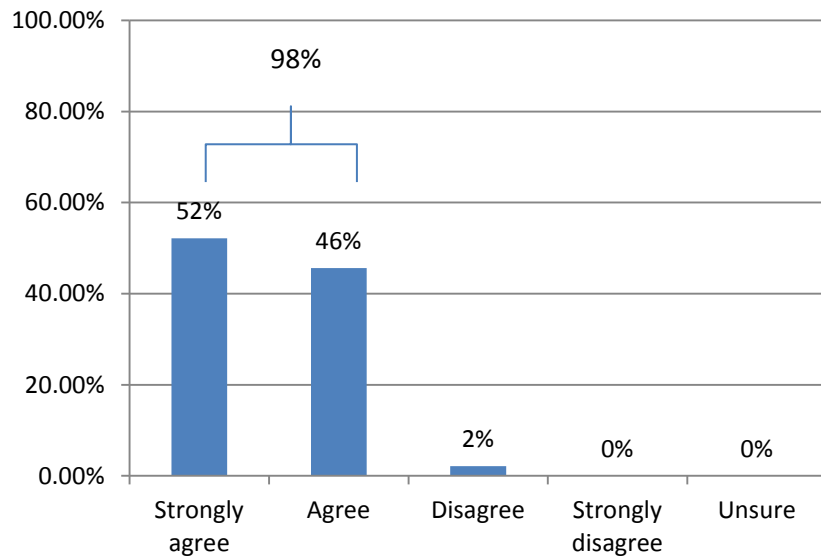
Overall findings:

- Councils are committed to having effective financial governance arrangements in place – similar to the prior NHS study. This was reflected in both the high priority and level of conformance given to most of the key features of good financial governance
- Notably, local authorities responses were stronger in nearly all the key features of good financial governance, compared to the NHS study.

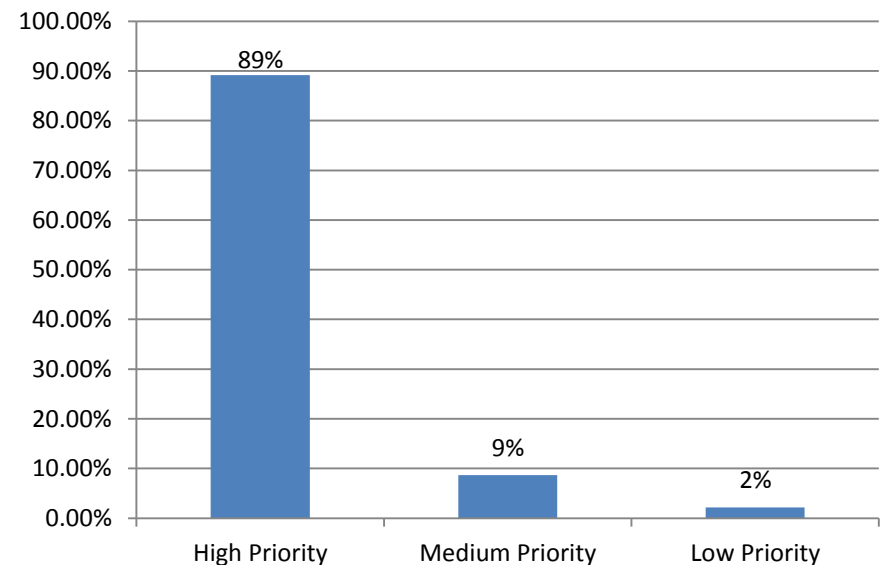
Medium-term financial planning

- Ranked as the highest priority and level of conformance of all the key features:

Q8. The authority's strategic objectives are underpinned by a robust medium-term financial plan.



Q38. A medium-term financial plan which underpins the authority's strategic objectives.



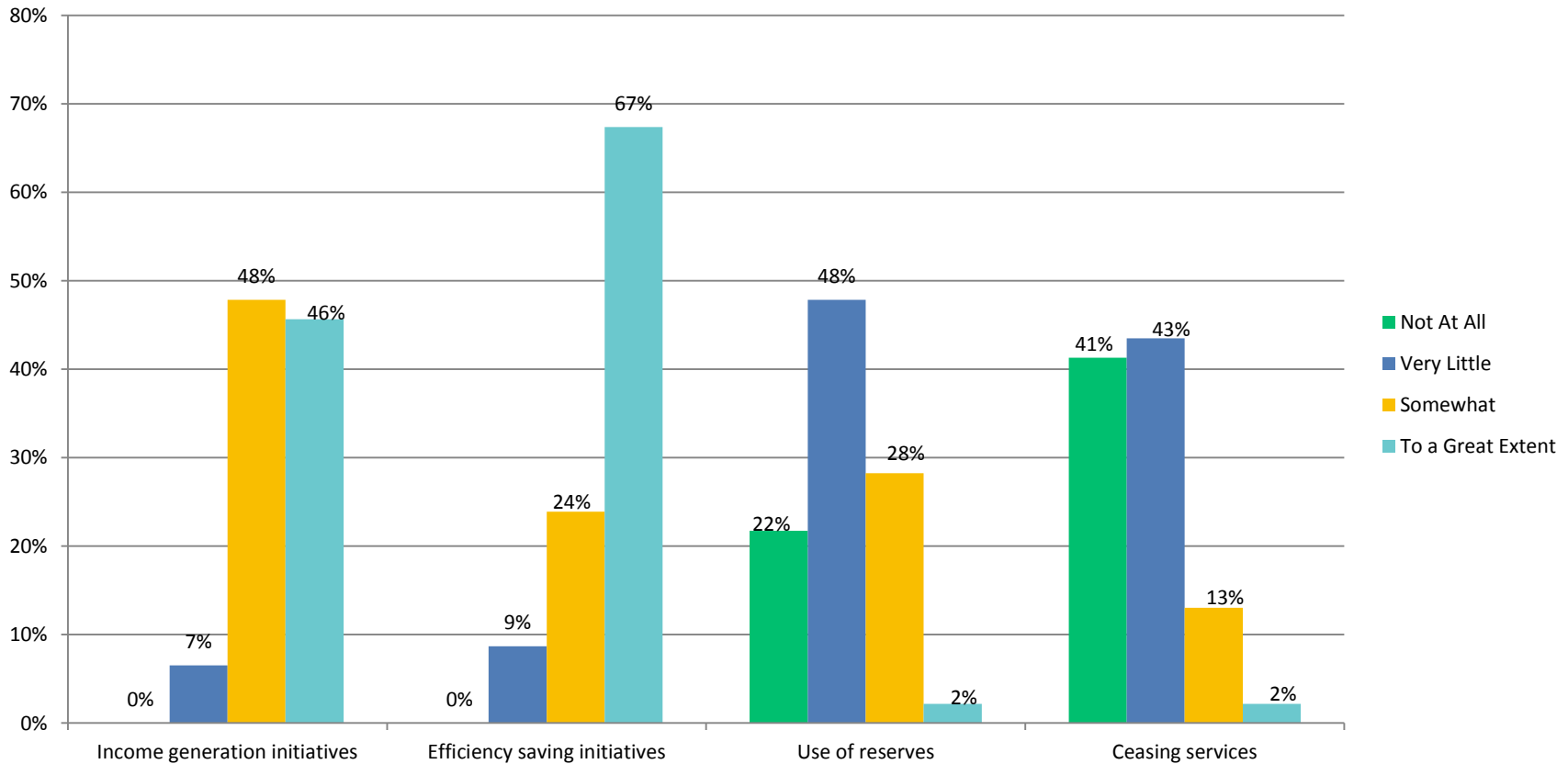
Medium-term financial planning

Impact of austerity measures (if any) on MTFP?

- ‘Tremendous impact’
- ‘Continued savings requirements year on year since 2010. Becoming more difficult each year’
- Highlighted the need to find alternative funding sources – since most of the efficiency savings are now exhausted and reductions in grant funding continues.

Medium-term financial planning

Q17. To what extent has your authority used the following measures in setting the most recent budget and medium-term financial plan:

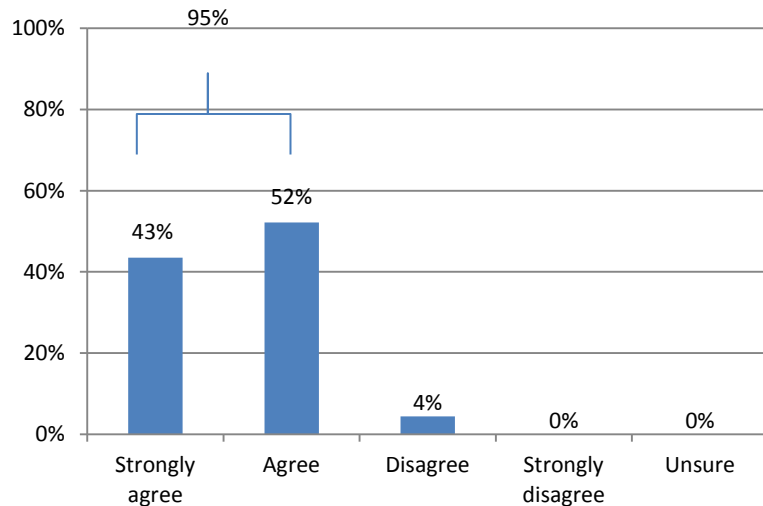


Medium-term financial planning

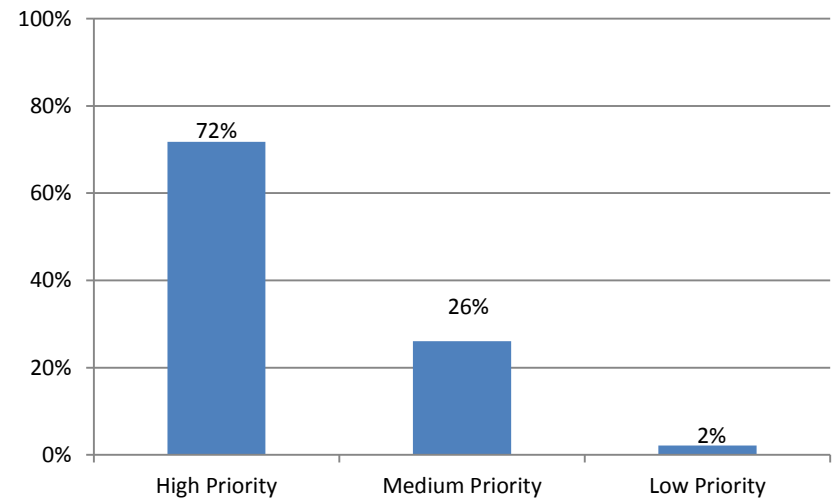
- ‘We are now having to explore income generation in ways that people who came into this sector more than 5 years ago never dreamed of...’
- ‘£8m of...grant lost in the last 6 years. Needing to find money from other sources to keep services going.’
- ‘No reliance on government funding has meant more commercialism.’

Budget arrangements – Budget alignment to strategic objectives

Q11. The authority's budget setting process is aligned to ensure it supports the delivery of its strategic objectives.

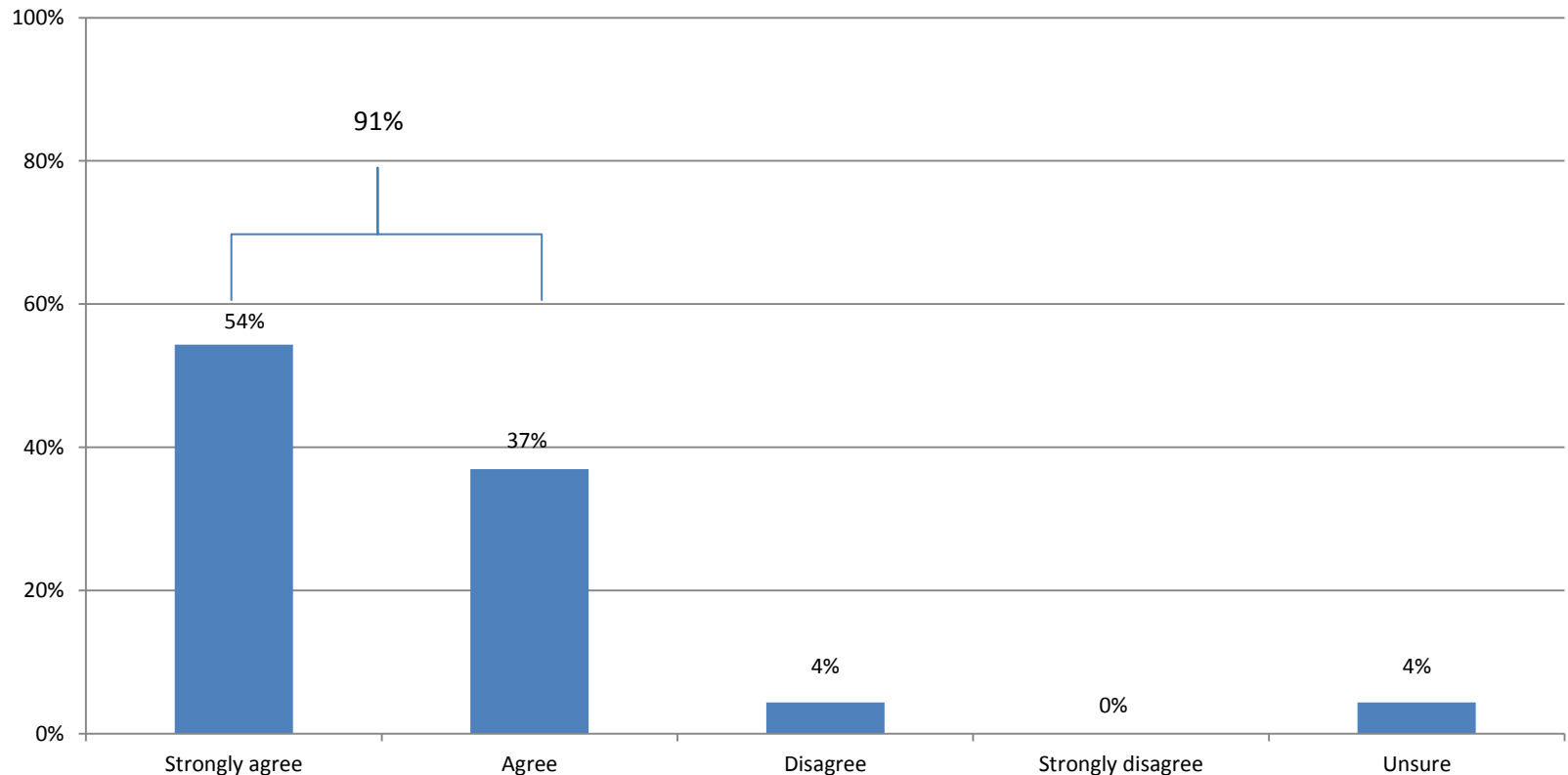


Q40. A budget setting process which supports the achievement of the strategic objectives.



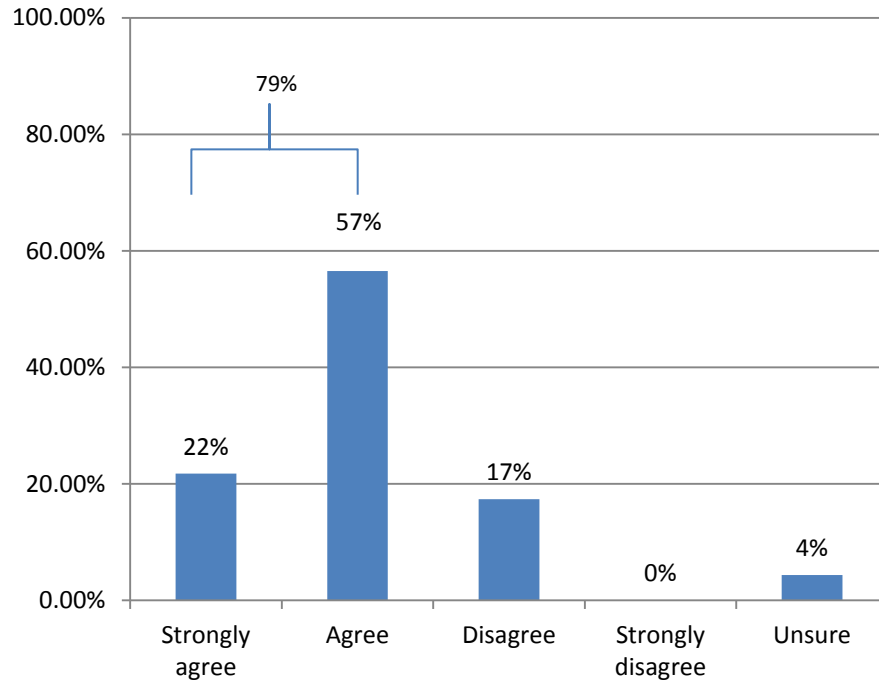
Budget arrangements – Budget alignment to management/organisational structure

Q12. The budget has been constructed in line with the authority's management/organisational structure.

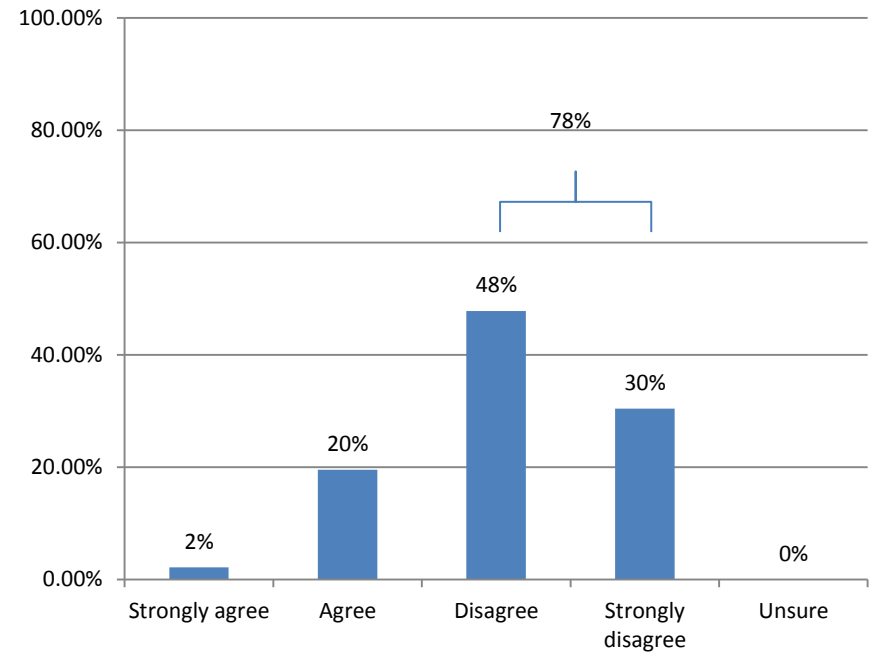


Budget arrangements – Budget alignment to service delivery, quality and accountability

Q15. For budget holders in the authority, there is a clear link between their allocated budget and expectations of service delivery and service quality.

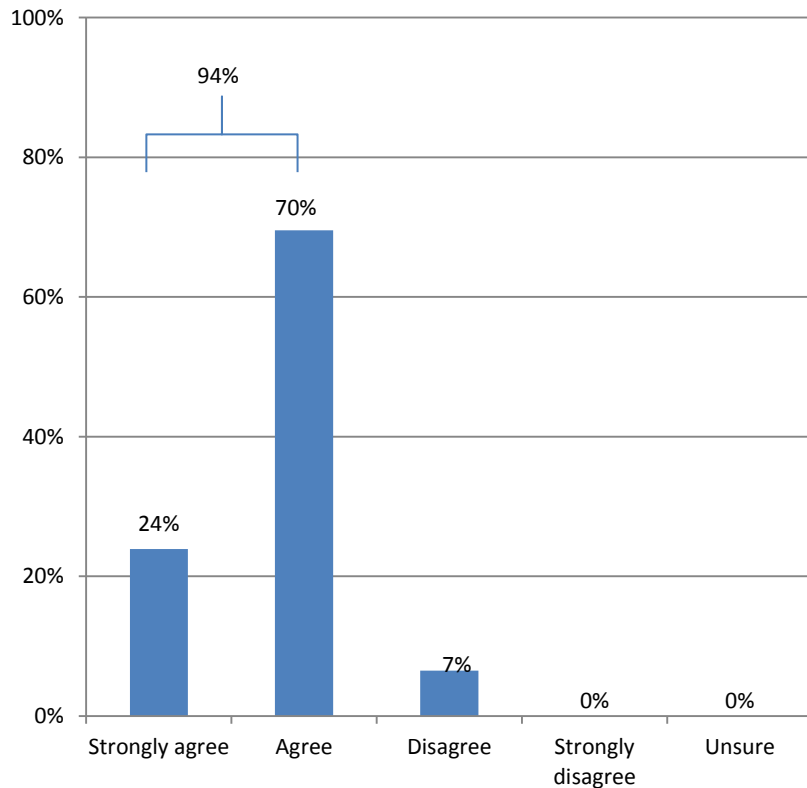


Q13. Within the authority, there are some remaining areas where financial responsibility and accountability are not sufficiently clarified through the budget arrangements.

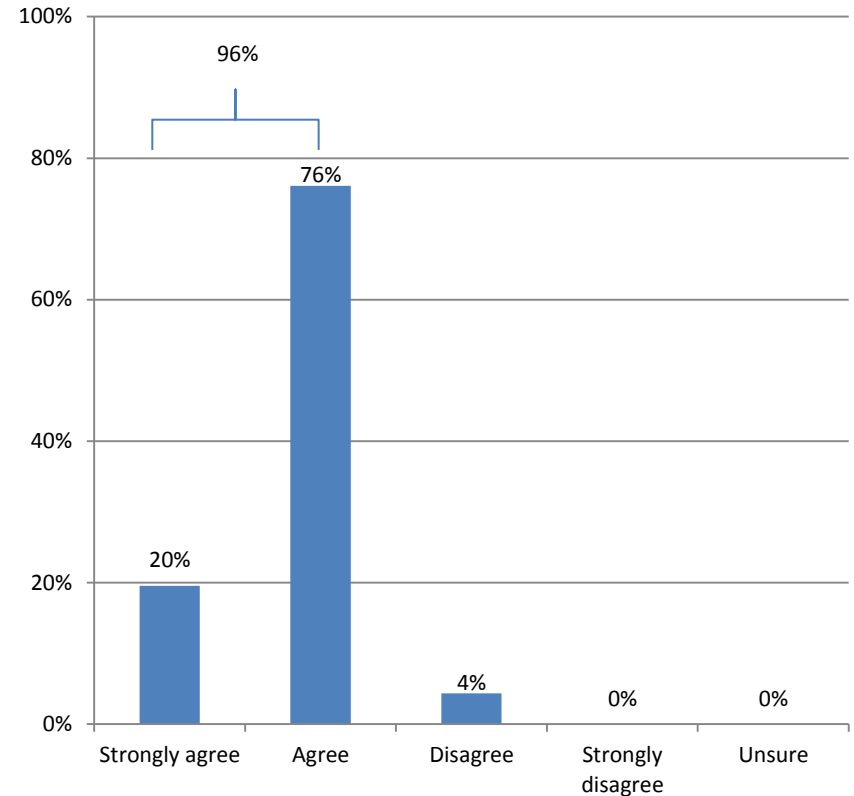


Risk management arrangements

Q21. The authority's approach to risk assessment (including financial risk) is appropriate and adequate.

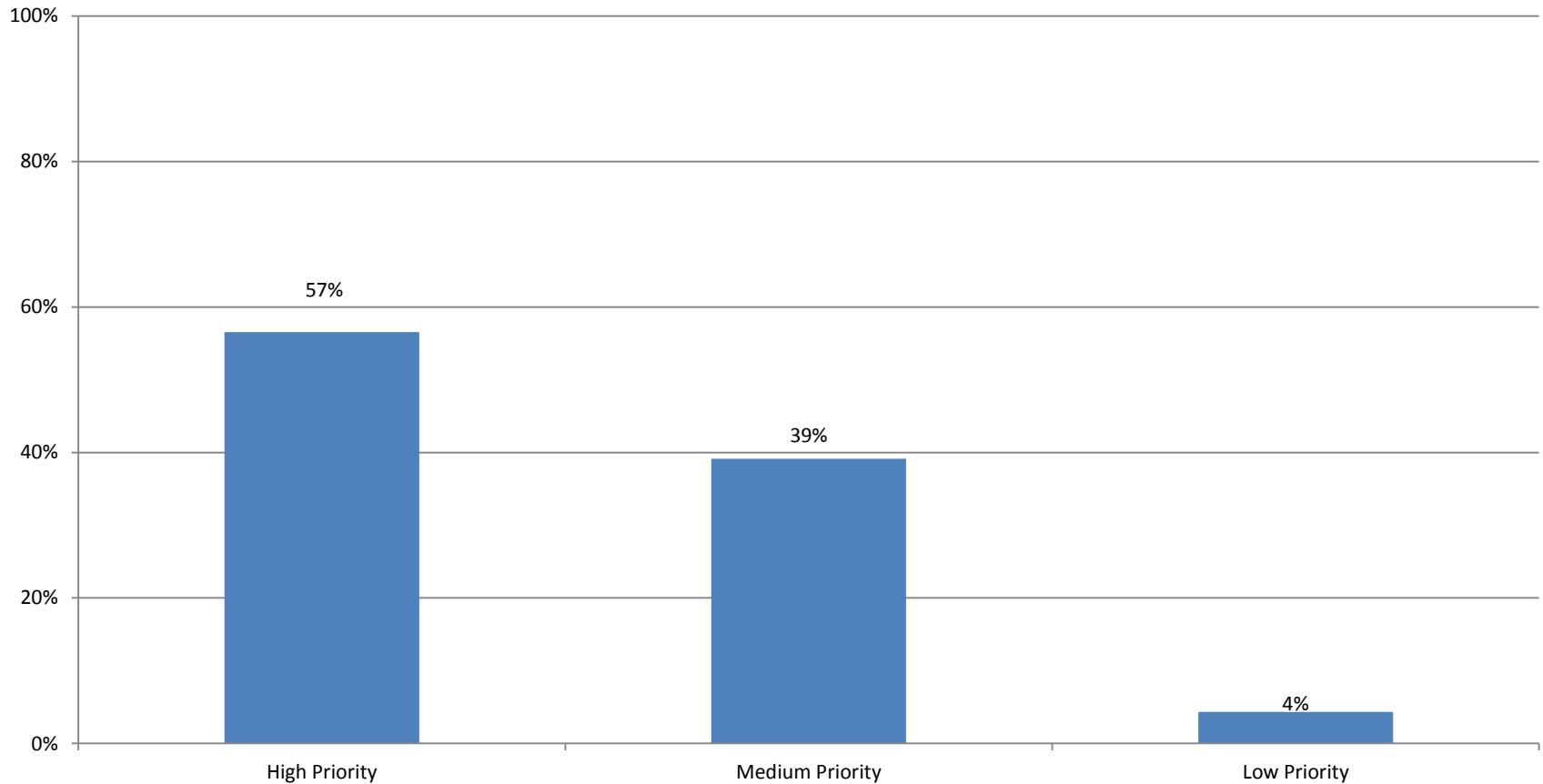


Q23. The authority has effective arrangements in place to manage the risks it identifies.

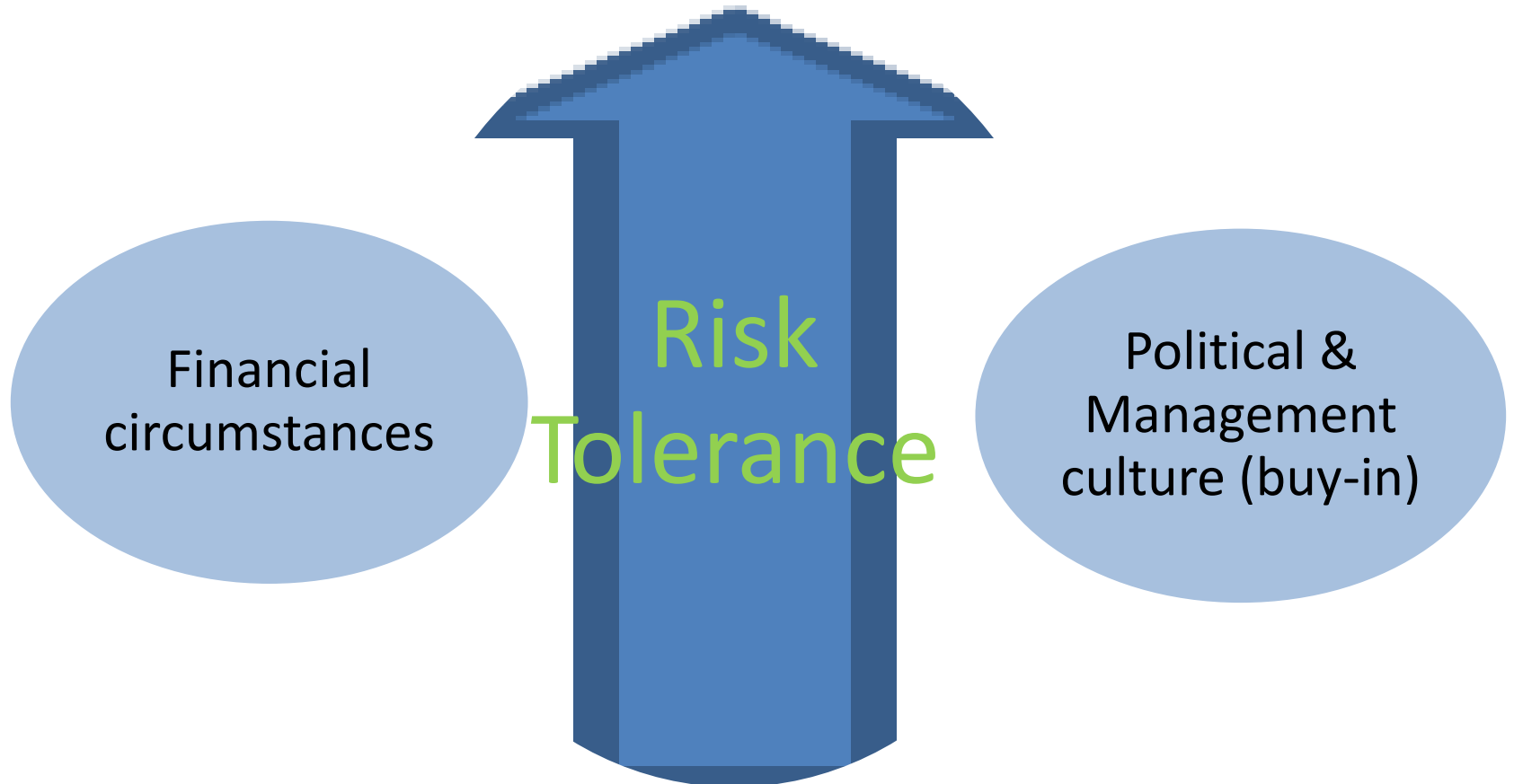


Risk management arrangements

Q43. Strategically focused and effective risk assessment and risk management arrangements.



Risk management arrangements



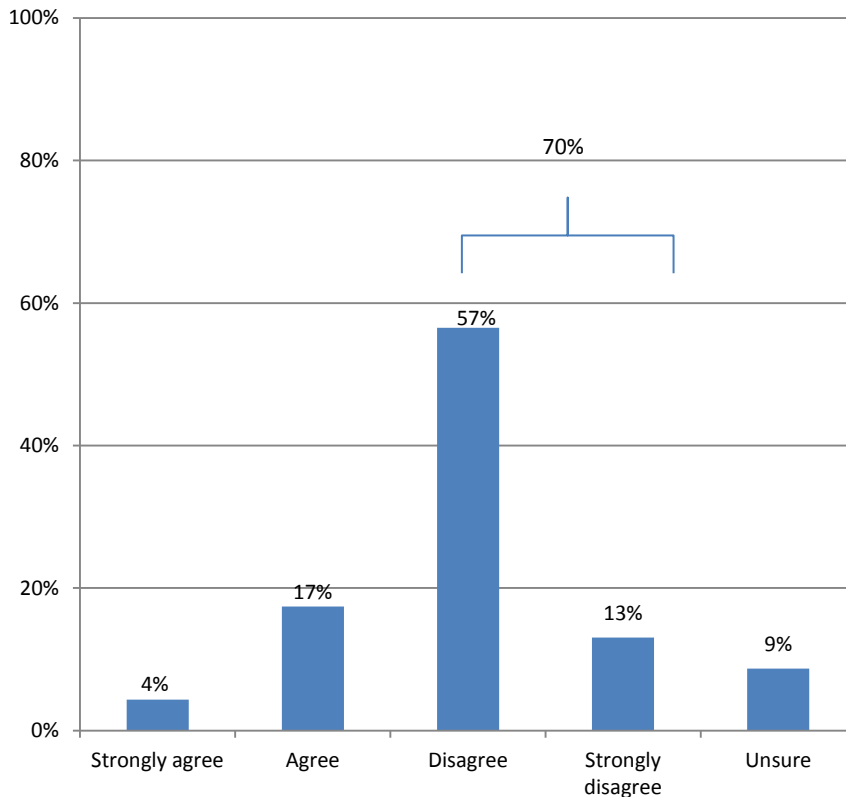
Risk management arrangements



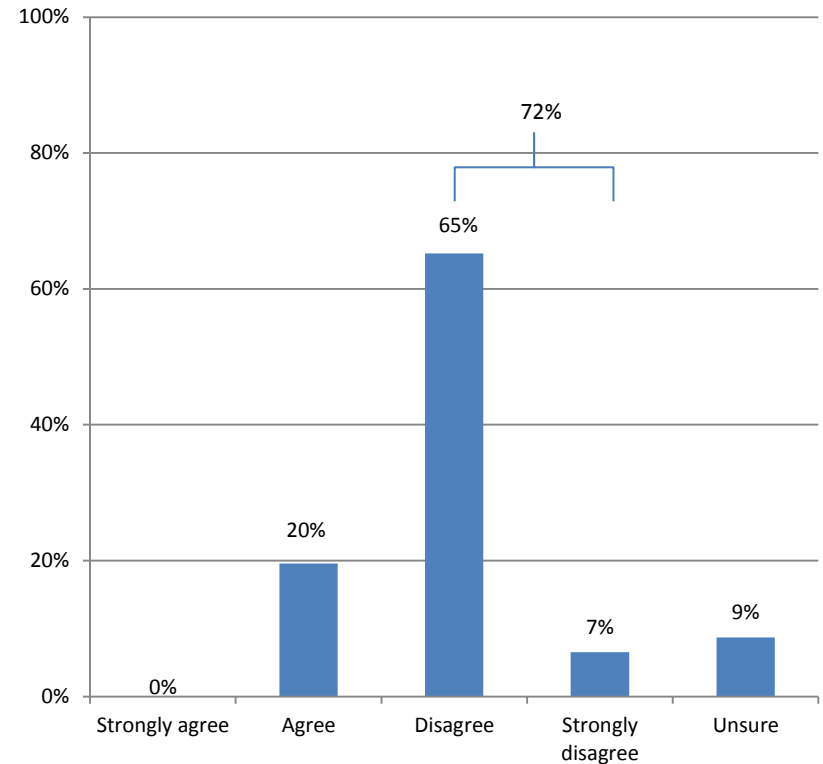
'Risk management has become much more sophisticated since 2010.'

Impact of Councils becoming innovative, entrepreneurial and commercialised

Q34. Financial governance arrangements in local government have been a barrier, in allowing the authority to generate additional income streams since the 2010 Spending Review.



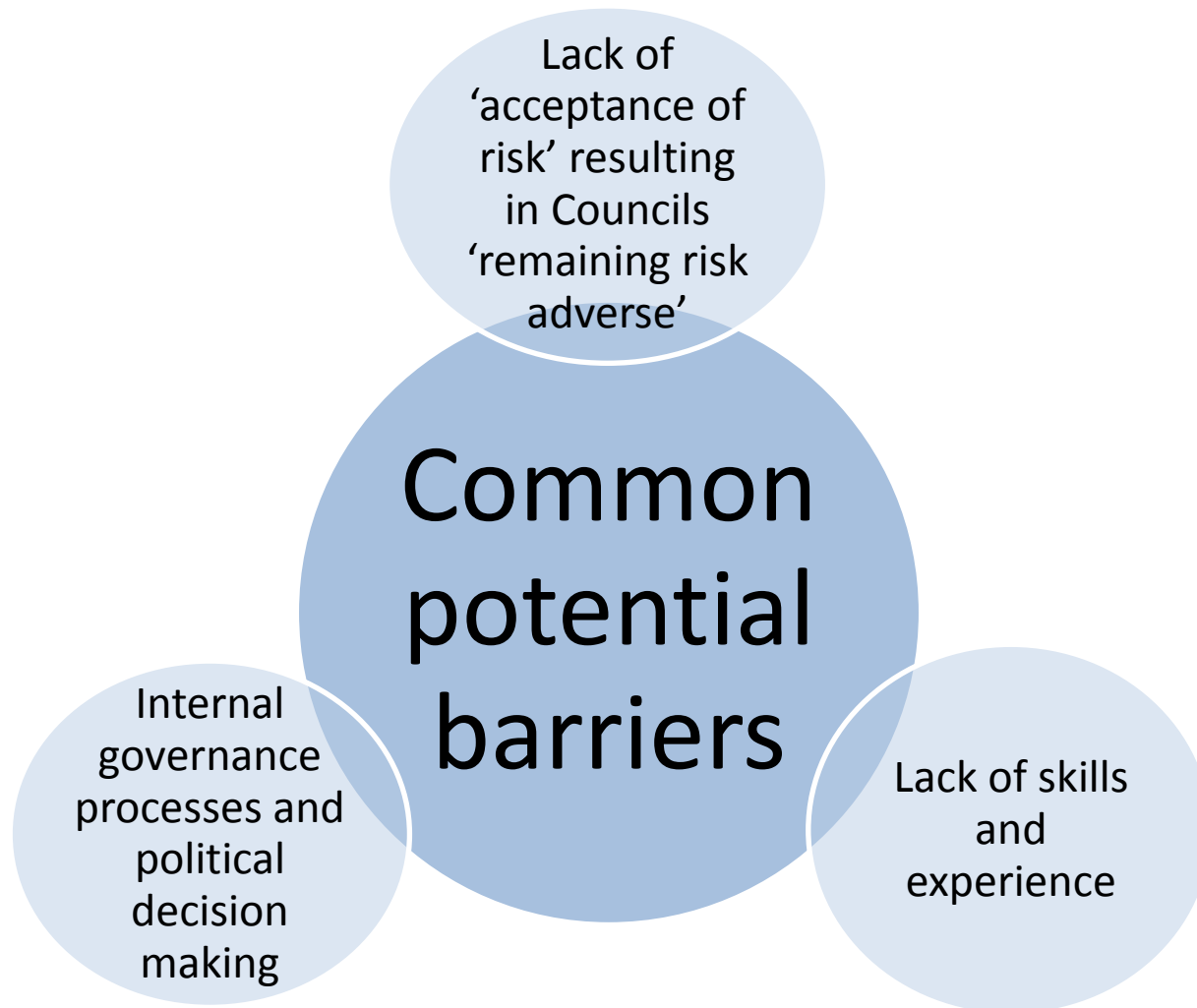
Q36. Financial governance arrangements in local government have been a barrier, in allowing the authority to become more innovative, entrepreneurial and commercialised since the 2010 Spending Review.



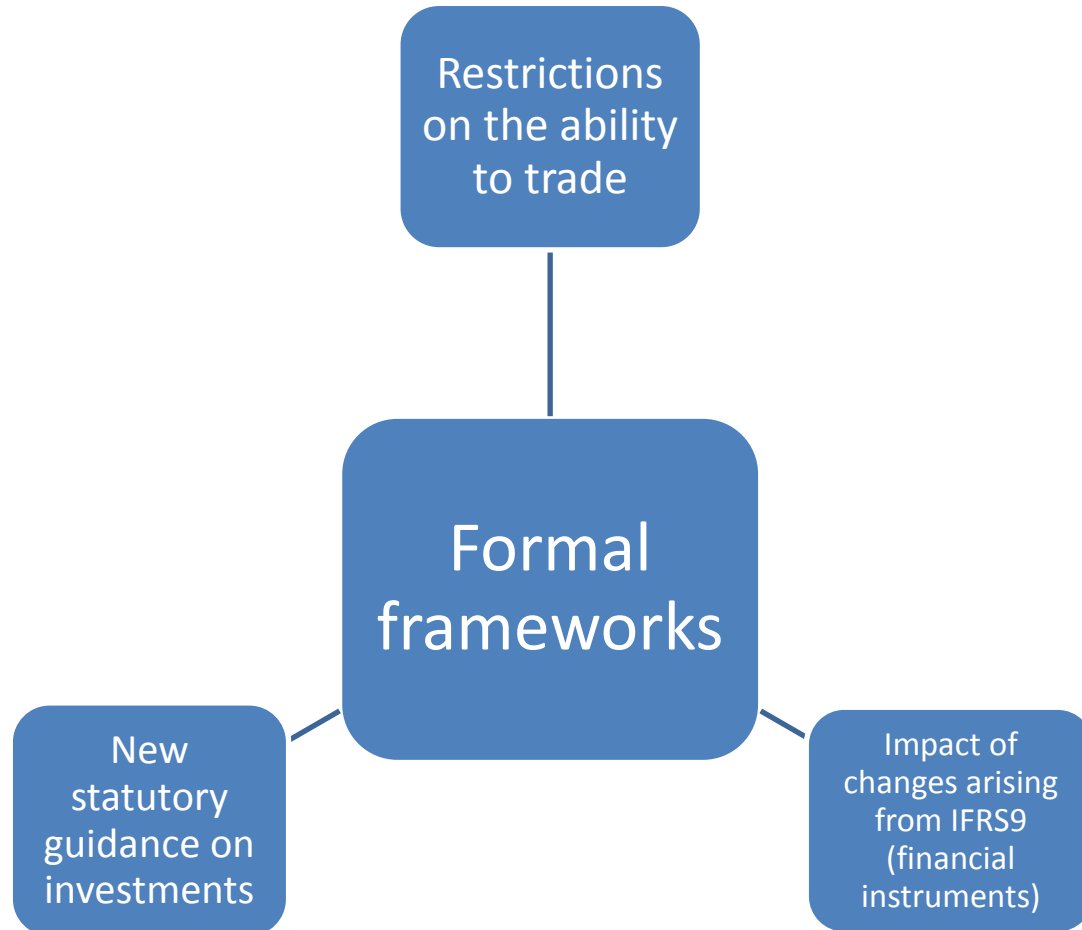
Impact of Councils becoming innovative, entrepreneurial and commercialised

- 'Financial governance arrangements don't stop local government doing things but assist... in making informed decisions and understanding the risks.'
- 'In times of austerity, strong financial governance is essential to ensure that potential ideas are sustainable and in line with financial regulations.'

Impact of Councils becoming innovative, entrepreneurial and commercialised

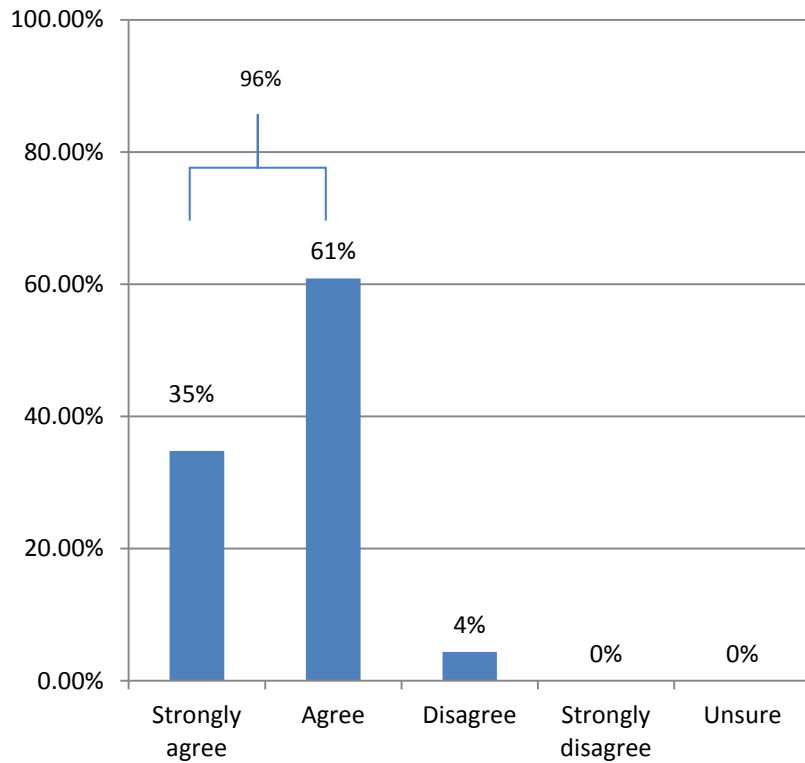


Impact of Councils becoming innovative, entrepreneurial and commercialised

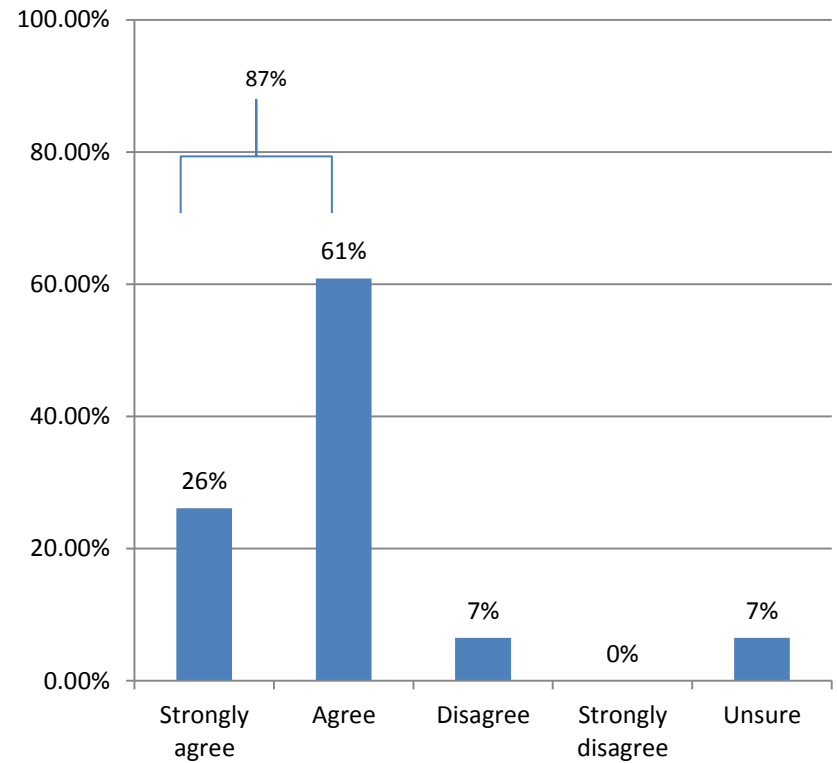


Audit

Q24. An effective internal audit service is in place in the authority.

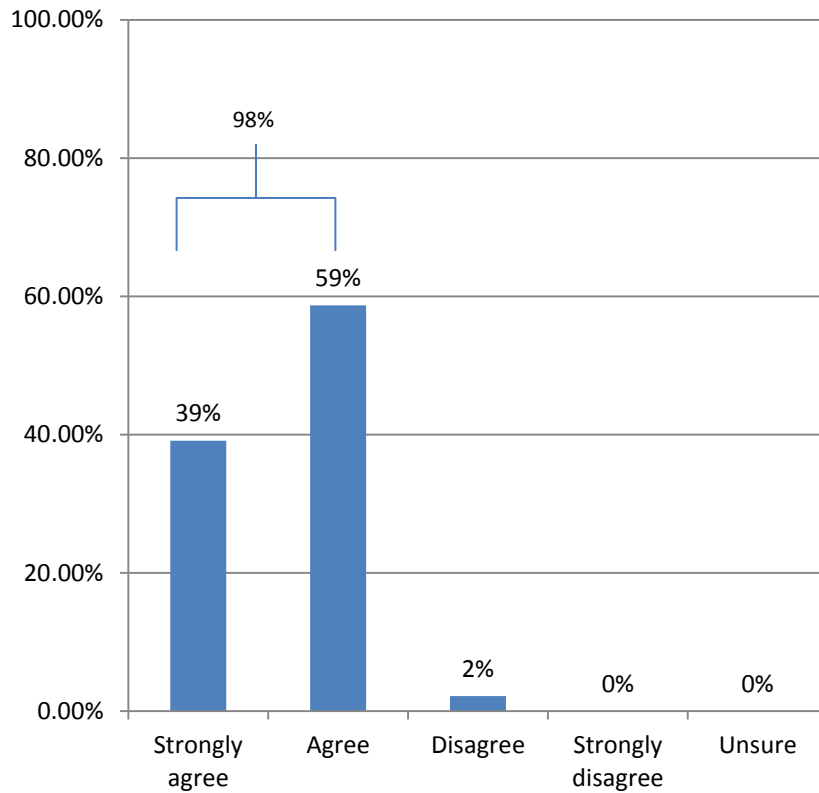


Q27. An effective external audit service is in place in the authority.

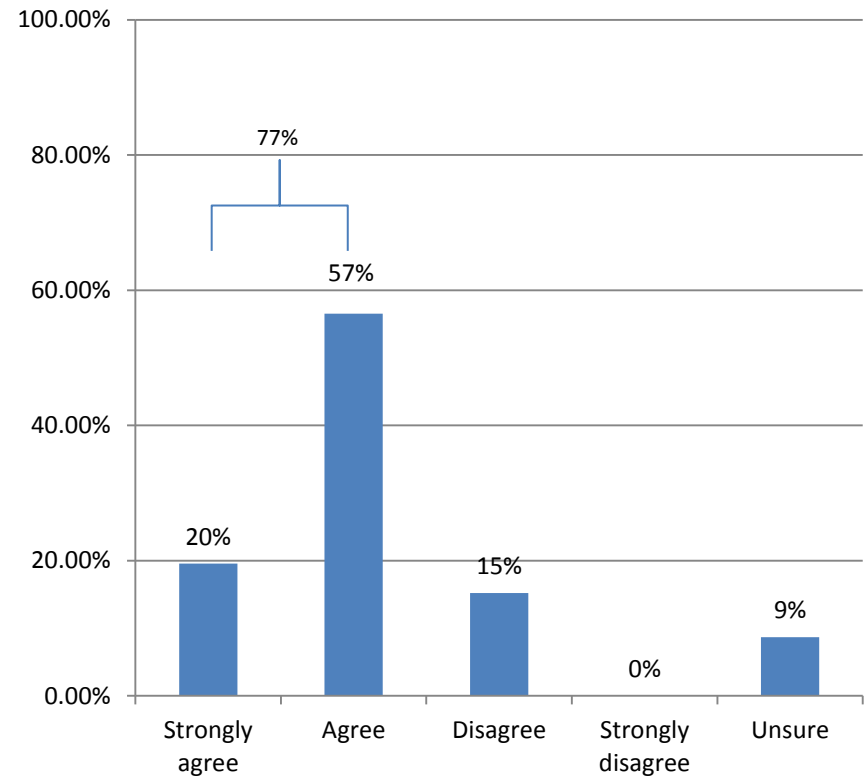


Audit

Q25. Internal audit services are targeted at the high risk areas in the authority.



Q28. External audit services are targeted at the high risk areas in the authority.



Conclusions

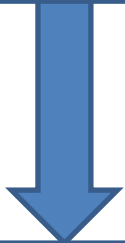
Effective Financial Governance



70% Conformance

Recommendations for future research

Identified a strong need to generate additional income to balance their budgets



Why?

What is the reason for this?

Is this being experienced more widely in D&Bs across the UK?

District & Borough's

Identified weaknesses regarding the alignment of budgets to clear expectations of service performance and financial responsibility.



Why?

Is it the result of more organisational change than other Councils?

Recommendations for future research



63%

Effective
arrangements for

RISK
MANAGEMENT

96%



Recommendations for future research



Finally...



Key Questions – Your Views?

1. What do you think some of the reasons are for the key findings?

- | | |
|----|--|
| a) | Why are D&Bs feeling a greater need to generate additional income to balance their budget compared to other types of Councils? |
| b) | Why are D&Bs identifying more weaknesses regarding the alignment of budgets to clear expectations of service performance and financial responsibility compared to other types of Councils? |
| c) | What do you think the reason is for the sector divide in responses to having effective risk management arrangements? (i.e. 63% NHS vs. 96% LG) |



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