

TITLE	Learning from Council's with serve financial challenges
FOR CONSIDERATION BY	Audit Committee on 1 February 2023
WARD	None Specific
LEAD OFFICER	Deputy Chief Executive & Director of Resources and Assets - Graham Ebers

OUTCOME / BENEFITS TO THE COMMUNITY

Wokingham Borough Council is committed to ensuring its financial wellbeing. The Audit Committee can ensure the learn lessons from other Local Authorities are applied to WBC and avoid the negative impact on residents in their areas.

RECOMMENDATION

To consider the report CIPFA report.

To consider the suggested actions for Audit Committee.

SUMMARY OF REPORT

Wokingham Borough Council is committed to good governance and as part of this process is continuously reviewing its arrangements. This includes learning from those local authorities that have failed to achieve high standards of governance. The Council believes that it is in a robust financial position and is keen to support the Audit Committee to provide assurance on the Council's financial wellbeing.

The Chartered Institute of Public Finance (CIPFA) has published a report into the lessons learnt from three local authorities that have issued Section 114 notices in recent years. Section 114 notices are the last resort for local authorities in financial trouble. It is likely that warning signs have been missed prior to the decision of the Chief Financial Officer to issue a Section 114 notice.

The report identifies six themes that occurred across the three authorities:

- Over-ambitious savings targets
- Lack of a medium-term financial plan
- Leadership weaknesses
- Inadequate governance
- Weak financial management
- Lack of reserves.

Officers have identified some self-reflection questions that the Audit Committee can use to consolidate the learning from the report.

Appendix A provides some high-level narrative around each of the key questions to support the Audit Committee in identifying the assurances that it has around the financial health of the Council.

The Audit Committee should be assured that they are sighted on the issues that the report identifies as causing the other local authorities' severe financial difficulties and can base their conclusions on the financial health of the Council on a robust evidence base.

Background

The term 'Section 114' refers to this section of the Local Government Finance Act 1988, part (3) of which sets out the duty of the Chief Finance Officer (CFO) to "make a report under this section if it appears to him that the expenditure of the authority incurred (including expenses it proposes to occur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure."

Issuing the notice under Section 114(3) immediately suspends all financial activity apart from that which is necessary to maintain statutory duties; it also initiates a 21-day period for full council to consider the report and agree urgent action to start to remedy the situation. The authority's external auditors and the Department for Levelling Up, Housing and Communities (DLUHC) will also be notified and can step in to provide advice and support.

There has been a recent increase in the number of section 114 notices across local authorities. The review considers the Section 114 notices issued at Northamptonshire, Croydon, and Slough.

Analysis of Issues

The conclusion of the report identifies four areas themes, which can be drawn on as ways to avoid reaching the point where a Section 114 notice becomes a possibility:

1. Facing up to uncomfortable reality,
2. Leadership,
3. Governance
4. Financial Management

To support the Committee in each of these areas we have created some questions for the Audit Committee to reflect on under each theme:

1. Facing up to uncomfortable reality

- What are the warning signs?
 - How would we know when there is a concern? (Auditor reports, S151 report, Peer reviews, Partners warnings)
- Are forecast savings realistic?
- Is there a robust financial risk management framework?

2. Leadership

- Is there adequate scrutiny and challenge of budgets, financial reports, and capital/investment strategies?
- Is there urgency to tackle problems confronting the authority?
- What support can the Committee offer to Statutory Officers in fulfilling their duties?

3. Governance

- Is the Audit Committee effective?

- Does the Audit Committee have sufficient oversight of Council owned companies?
- Do senior officers and Members have the skills to govern and oversee Council owned companies?

4. Financial Management

- Does the Council comply with the CIPFA financial management code?
- Is Medium Term Financial planning robust?
- What assurance does the Committee have over accuracy of financial planning, both short and long term?
- Are the Council's reserves adequate?
- Are levels of borrowing adequately monitored, scrutinised, and controlled?
- What assurance does the Committee have over return on investment for major projects?

FINANCIAL IMPLICATIONS OF THE RECOMMENDATION

The Council faces unprecedented financial pressures as a result of; the longer-term impact of the COVID-19 crisis, Brexit, the war in Ukraine and the general economic climate of rising prices and the increasing cost of debt. It is therefore imperative that Council resources are optimised and are focused on the vulnerable and on its highest priorities.

	How much will it Cost/ (Save)	Is there sufficient funding – if not quantify the Shortfall	Revenue or Capital?
Current Financial Year (Year 1)	£0	Yes	Revenue
Next Financial Year (Year 2)	£0	Yes	Revenue
Following Financial Year (Year 3)	£0	Yes	Revenue

Other financial information relevant to the Recommendation/Decision
N/A

Cross-Council Implications (how does this decision impact on other Council services, including properties and priorities?)
The report supports the Committee in fulfilling its governance role in overseeing the Council's financial resilience.

Public Sector Equality Duty
The report takes account of the Public Sector Equality Duty has been taken. There is no need to undertake an equalities assessment as the report is not making a decision and is for information only.

Climate Emergency – This Council has declared a climate emergency and is committed to playing as full a role as possible – leading by example as well as by exhortation – in achieving a carbon neutral Wokingham Borough by 2030
The report has no direct impact on the climate emergency.

Reasons for considering the report in Part 2
None

List of Background Papers
CIPFA: Learning lessons: what Section 114 can teach us

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