

| | |
|---|--------------------------|
| EXTRAORDINARY COUNCIL | AGENDA ITEM No. 4 |
| THURSDAY 16TH DECEMBER 2020 | PUBLIC REPORT |

| | | |
|--------------------------------|--|-------------|
| Report of: | Gillian Beasley, Chief Executive and Corporate Management Team | |
| Cabinet Member(s) responsible: | Councillor Wayne Fitzgerald, Leader of the Council | |
| Contact Officer(s): | Gillian Beasley, Chief Executive | Tel. 452302 |

FINANCIAL IMPROVEMENT PLANNING

| RECOMMENDATIONS | |
|--|---------------------------|
| FROM: Chief Executive | Deadline date: N/A |
| <p>It is recommended that Council:</p> <ol style="list-style-type: none"> 1. Approve the Terms of Reference of the Peterborough City Council Independent Improvement and Assurance Panel as set out at Appendix 2 of this report and, in doing so make the following appointments to the Panel as follows: <ol style="list-style-type: none"> (a) Eleanor Kelly – Independent Chair (b) Chris Buss – Internal External Member (Finance) (c) Andrew Flockhart – Independent External Member (Governance) (d) Chris Naylor – Independent External Member (Services) (e) Clive Heaphy – Independent External Member (Assets, Contracts & Companies) (f) Rachel Litherland – Independent External Member (LGA) 2. Approve the remuneration to the Panel as set out in paragraph 3.3 of this report. 3. Approve the Improvement Plan as set out in Appendix 3 to this report. 4. Approve the draft Corporate Strategy set out at Appendix 4 of this report for public consultation in accordance with paragraph 5.3 of this report. 5. Approve: <ol style="list-style-type: none"> i. The delegation of authority to the Chief Executive, Director of Law and Governance & Monitoring Officer and the Corporate Director of Resources & S151 Officer, to take all necessary actions in conjunction with CIPFA to carry out a recruitment and selection process for three external independent members of the Audit Committee, subject to ratification of the appointments for a fixed term of 4 years by Full Council on 26th January 2022; and ii. The honorarium payment for the two independent members to be set at £1500 per annum and the honorarium payment for the independent chair at £3000, plus travelling and subsistence expenses. 6. Approve the delegation of authority to the Director of Law and Governance and Monitoring Officer to make all necessary changes to the Council's Constitution to: <ol style="list-style-type: none"> i. Incorporate the terms of reference for the Improvement and Assurance Panel; | |

- ii. Outline the route for recommendations from the Improvement and Assurance Panel through Cabinet, Growth, Environment and Resources Scrutiny and Full Council; and
 - iii. Incorporate the roles and responsibilities of the independent members of Audit Committee, including the role of chairing the committee.
7. Note the work set out at 7.4 that has commenced alongside CIPFA on assessing and delivering member training on financial scrutiny for Audit and Scrutiny Committees.
 8. Note the proposal at 8.2 for Full Council to consider a report before the end of July 2022 on commencing an evaluation on moving to “all out” elections every four years.

1. PURPOSE AND REASON FOR REPORT

- 1.1 The purpose of this report is to secure Council’s agreement to a series of actions which respond to recommendations made in two independent reports on the Council’s finances and governance from Andrew Flockhart, Chartered Institute of Public Finance and Accountancy (CIPFA), commissioned by the Department of Levelling Up, Housing and Communities. Those reports are attached at Appendix 1 of this report and the Ministerial Response to the Review. The Minister of State for Equalities and Levelling Up, Housing and Communities wrote to Council Leader Councillor Wayne Fitzgerald following publication of these reports, setting out their expectations of the Council and a copy of the letter is also attached at Appendix 1.

2. BACKGROUND

- 2.1 Peterborough City Council is one of the councils that requested Exceptional Financial Support (EFS) from Government during 2020. A condition of this support was that the Department for Levelling Up, Housing and Communities (DLUHC) and the Chartered Institute of Public Finance and Accountancy (CIPFA) would undertake reviews of the Council’s governance and finances during the summer of 2021. The DLUHC commissioned reports on finance and governance matters were published in early November 2021.
- 2.2 The Council has acted swiftly to respond to the findings and recommendations of these reports and this report sets out, in the paragraphs below, these actions and what is now required to be put in place to ensure a comprehensive and effective response to both reports. The actions are as follows:
 - (a) Appointing an Independent Improvement and Assurance Panel.
 - (b) Approving an Improvement Plan
 - (c) Approving a new draft Corporate Strategy for public consultation
 - (d) Commencing the process for appointing an Independent Chair, Independent Members to the Audit Committee.

3. INDEPENDENT IMPROVEMENT AND ASSURANCE PANEL

- 3.1 In Andrew Flockhart’s report it was recommended that such a Panel be set up to support the Council’s improvement work. This recommendation has been acted on and attached at Appendix 2 are the draft Terms of Reference for the Panel and its proposed membership. As well as the biographies of each proposed Panel Member.
- 3.2 The purpose of the Panel is to
 - Provide external advice, challenge and expertise to Peterborough City Council in driving forward the development and delivery of their Improvement Plan;
 - Provide assurance to the Secretary of State of Peterborough City Council’s progress on delivery of their Improvement Plan;
 - Provide four monthly reports to the Council on the progress of the delivery of the Improvement Plan.

3.3 The Council will be responsible for the remuneration of the Panel. The Secretary of State for Levelling Up, Housing and Communities has recently reviewed the rates that the Department sets for Chairs of Improvement and Assurance Panels and Panel Members which are as follows:-

- Chair of Panel - £900 per day
- Panel Member - £800 per day

As a result, it is proposed to pay the Chair and Panel Members £900 and £800 per day respectively.

3.4 A Shadow Meeting of the Panel was held on 3rd December and a discussion took place as to the number of days per month each panel member would need to devote to the respective roles so that an indicative budget can be produced. On the basis of those discussions proposed budget for the operation of the Panel is £333,200 for the first year.

4. IMPROVEMENT PLAN

4.1 The Improvement Plan at Appendix 3 of this report is a critical document, and it has been formulated with significant input from:

- Cabinet Policy Forum
- Financial Sustainability Working Group
- Colleagues from CIPFA
- An authorship group of key officers from the Council

It has also had input from the proposed members of the council's Independent Improvement and Assurance Panel at a shadow meeting of the Panel on 3rd December 2021. The Plan sets out the challenges ahead to work effectively and at pace. It is a living document with the two-year plan split into six-month planning windows with the immediate six-months being set out in detail, whilst maintaining a view of the longer-term planning horizon. Through this approach, it drives the Council to take urgent and decisive action on its current financial and improvement challenges and, at the same time, allows the Council to look at the medium and longer term to develop new target operating models for its services, moving it away from the initial silo-based approach.

4.2 The Plan has three Improvement Themes as follows: -

- **Theme 1: Financial Sustainability.** The recovery and improvement of Peterborough relies on us setting a balanced budget in 2022/23, delivering on our savings and transformation plans, delivering sharper focus on collective and individual fiscal responsibility and accountability ensuring that we deliver on our priorities. This will mean taking bold decisions to turn off the things that are no longer "core/can't afford" as we constantly challenge ourselves on how we spend every penny of the Council's money.
- **Theme 2: Service Reviews.** The Council needs to urgently review our key services including our contracts and our assets. The Council has initiated a series of service deep dives starting in Adult's and Children's Services and will continue this programme of review into mid-2023. The reviews will generate options and recommendations for doing things differently. We will manage these reviews using an agile approach so that we can agree and deliver changes as new opportunities and alternative ways of working present themselves. The Council has to have the ability to make change happen more rapidly.
- **Theme 3: Governance and Culture:** This section describes how we will manage the Improvement Plan with the support of the Improvement Panel and associated partners. We will refresh our Corporate Strategy and key policies. We will adopt stronger fiscal

delivery disciplines where personal accountability will be at the heart of our new ethos. We will change the organisation if we are clear on what has to change, by when and to what standard.

5. CORPORATE STRATEGY

- 5.1 The Council needs to refresh its Corporate Strategy for the period 2022-25. This work is being developed in two parts. Part one is a two-year Improvement Plan, starting immediately, with a focus on reaching financial sustainability. Part two will be developed during the first half of 2022 and will set the longer-term ambition and vision for the Council and City. A copy of Part one of the Plan is attached as Appendix 4.
- 5.2 Part one of the plan will focus on the objective to create financial sustainability by the financial year 2023/24 and the delivery of core/statutory services to meet the needs of our citizens.
- 5.3 Council is asked to approve the draft strategy for public consultation and for subsequent approval through the Council's constitutional framework with final approval at the Council meeting on 2nd March 2022.

6. AUDIT COMMITTEE APPOINTMENTS

- 6.1 The Council needs to strengthen the membership and leadership of the Audit Committee in order to properly respond to the recommendation of the DHLUC Local Government Finance Review that consideration be given to appointing a Chair and external independent members:

“The membership of the Council’s Audit Committee should be strengthened by the appointment of external independent members to improve its expertise and independence”.

This is in line with recommended best practice for Audit Committees. CIPFA’s guidance on Audit Committees: “Audit Committees: Practical Guidance for Local Authorities and Police (2018)” states:

“Good practice shows that co-option of independent members is beneficial to the audit committee” as “The injection of an external view can often bring a new approach to committee discussions”.

The guidance also states:

“CIPFA endorses the approach of mandating the inclusion of a lay or independent member and recommends that those authorities, for whom it is not a requirement, actively explore the appointment of an independent member to the committee.”

- 6.2 Authorities that have chosen to recruit independent members have done so for a number of reasons:

- to bring additional knowledge and expertise to the committee
- to reinforce the political neutrality and independence of the committee
- to maintain continuity of committee membership where membership is affected by the electoral cycle.

There are some potential risks to the use of independent members which should also be borne in mind:

- over-reliance on the independent members by other committee members can lead to a lack of engagement across the full committee
- lack of organisational knowledge or ‘context’ among the independent members when considering risk registers or audit reports

- effort is required from both independent members and officers/staff to establish an effective working relationship and establish appropriate protocols for briefings and access to information.

An appropriate level of support and induction will need to be provided to independent audit committee members along with identification of appropriate meetings, briefings or other opportunities that independent members could attend to help develop better understanding of the Council and its processes.

- 6.3 The current membership of Audit Committee is seven, politically proportionate and agreed at Annual Council each year, and is presently chaired by a member of the majority party. Section 13 of the Local Government and Housing Act 1989 relates to the voting rights of non-elected committee members and provides that independent co-opted members will not be able to vote on matters for decision. Drawing on best practice, the Council is recommended to appoint an Independent Chair of this committee and two further independent members of the committee for an initial fixed term of four years through the procedure below ending May 2026, with provision for extension.
- 6.4 The draft person specification & job description of the independent members is attached as Appendix 5 setting out the requirement for relevant knowledge and expertise. The vacancies will be publicly advertised seeking candidates who have had previous experience or knowledge of audit functions. Candidates will need to be able to demonstrate their political independence and suitability in order to provide robust challenge to the Council's financial management. Appropriate enquiries will be made as part of the recruitment process to ensure that any applicants satisfy the requirements, and continuation of compliance will be monitored during the term of appointment. While operating as a member of the audit committee, the independent members will follow the same code of conduct as elected members and a register of interests will be maintained. The primary considerations when considering applications will be maximising the committee's knowledge base and skills, being able to demonstrate objectivity and independence, and having a membership that will work together.
- 6.5 Subject to Council's approval, the roles will be advertised immediately after the 16th December with a view to interviewing in the second/third week of January 2022. The induction process will then commence immediately, subject to ratification of the appointment at Full Council on the 26th January 2022. CIPFA will be supporting the Council on the recruitment process.
- 6.6 The constitutional requirements for membership of the Audit Committee will need to be altered to allow for independent members to sit on the Committee and for the Committee to be chaired by an Independent person. It is therefore proposed that the new Committee make-up will be:
- 1 x Independent co-opted Chair
 - 2 x Independent co-opted members
 - 3 x Conservative Members
 - 3 x Labour Members
 - 1 x Liberal Democrat Member

This allows for the membership of the committee to continue to reflect the current political proportionality of committees of the Council.

- 6.7 It is proposed to offer the independent members an annual honorarium of £1500 for the two ordinary members and £3000 for the chair. This is considered to be in line with similar positions elsewhere and in recognition of the level of work anticipated.
- 6.8 A report recommending the appointment of the new independent members of the Audit Committee, along with revised terms of reference for the Committee incorporating their role, will go to Full Council on 26th January 2022.

7. TRAINING AND DEVELOPMENT OF MEMBERS

- 7.1 The Governance external assurance review report asked the Council to commission and support a development/support programme for councillors, particularly the new Leader and Cabinet, the Chairs of the Scrutiny Committees, and the Audit Committee and for the leaders of all the political groups of the Council.
- 7.2 The governance assurance report found that the Council's Audit Committee was not currently scrutinising the council's financial challenges with sufficient urgency or focus and not paying sufficient attention to the strategic risks and issues facing the Council or the Council's MTFS processes. CIPFA have been provided with details of the training that was provided in-house by the S151 officer and his team and the Internal Auditor for the Audit Committee after the May elections in 2021. The Committee have also all received the CIPFA handbook "Audit committees - Practical Guidance for Local Authorities and Police (2018 Edition)".
- 7.3 The report also found that the checks and balances that should be offered by the Council's Scrutiny role were not strong enough and did not focus enough on the strategic dimensions of our challenges, in particular the MTFS and annual budget plans. There needed to be a stronger willingness to challenge the assumptions and information presented to them. Scrutiny members did receive induction training on Scrutiny Essentials and Questioning Skills delivered remotely by the Centre for Governance and Public Scrutiny on 2nd June. As an immediate measure in advance of the Joint Scrutiny of the Budget Committee meeting on the 17 November 2021 all scrutiny members were asked to complete online Finance Scrutiny training from the Centre for Governance and Scrutiny before attending the meeting. They were also sent two CIPFA and LGA guidance documents on finance scrutiny to read.
- 7.4 The Council is committed to ensuring all members have the knowledge and skills needed to effectively scrutinise and challenge the Council's financial decisions, governance and procedures. Work has commenced with CIPFA to conduct a skills analysis assessment of both the Audit and Scrutiny Committees in order to deliver a targeted and appropriate two-year training and development programme, focusing on financial scrutiny and governance, where the weaknesses have been identified. CIPFA has been asked to consider how best to strengthen the skills and approaches of members and are considering this against the training that has already been delivered. All members, not just those on Audit and Scrutiny committees, will be invited to attend training and development events to increase their knowledge and skills.
- 7.5 There are also some changes necessary to the Council's Constitution, shown at Appendix 6, which incorporate the role of the Improvement and Assurance Panel in the Council's governance structures, including the requirement to report to Full Council every six months and the need for Cabinet to formally respond to any recommendations from the panel. The Growth, Environment and Resources Scrutiny Committee will review the Cabinet's actions in this regard and must report on progress directly to Full Council every six months. The recommendations also highlighted the need for the Council to ensure that Audit Committee's annual report to Full Council is properly considered with discussion on any concerns raised and a robust response given.

8. ELECTIONS

- 8.1 The Governance Assurance report recommended that the Council formally consider a report on moving to all out elections every four years instead of electing by thirds by March 2023, via an evaluation process. The Council is also required to discuss the outcome of the evaluation with DLUHC. The report recommended this change in order to bring stability to our decision-making and encourage the development of more strategic long-term solutions. The timetable set out the Governance Assurance report states that the formal evaluation of the option of a four-year electoral cycle should be initiated by July 2022 and Full Council should consider a report outlining the results of the evaluation process by March 2023. Any such decision would require a two-thirds majority of members voting in favour.
- 8.2 A separate report is therefore due to come back to Full Council in 2022 asking it to consider the recommendation to commence an evaluation process on the proposal to change from elections by thirds to all-out elections every four years.

9. COMMUNICATIONS AND ENGAGEMENT

9.1 Through this report and its recommendations, the Council is approving significant key documents. These documents are partly, by their very nature, technical in detail but it is vital that the Council's staff, partners and residents in particular understand the challenges ahead for the Council and therefore are able to actively engage with the improvement work. The Council also wants active feedback and challenge on this work and therefore is developing a communication and engagement plan with the following characteristics: -

- Key plans which are distilled into plain English and presented as 'plan on a page' documents
- Regular updates on the progress of plans – in particular where these have been affected by staff or residents' own actions or support.
- Development of innovative ways to seek feedback and challenge on these plans and which demonstrate how it has and will continue to respond to the feedback.
- Specific dedicated channels for involvement and engagement with key groups of Peterborough residents or staff who may have different information and engagement needs.
- Focused primarily on achieving outcomes – not on service or council structures.

9.2 The Plan will be presented to the Independent Improvement Panel for its input and will be agreed at the meeting of Council on 27th January 2022.

10. CONSULTATION

10.1 The Corporate Strategy is identified as requiring consultation under the Council's Constitution. In addition, the report identified the consultation that has taken place in relation to the development of the Improvement Plan.

11. FINANCIAL IMPLICATIONS

11.1 The estimated financial implications of the recommendations made in this report are outlined within the following table:

| Activity | £000 |
|---|-------------|
| Audit Committee Panel Independent Chair and Members (4 years) | 24 |
| Independent Improvement and Assurance Panel (1 year) | 333 |
| CIPFA Forensic Service Review (improvement plan) | 180 |
| CIPFA Improvement Plan support and member training | 230 |
| Total | 767 |

These will be finalised and incorporated within the Phase Two 2022/23 Medium Term Financial Plan, which will be presented to Cabinet on 31 January 2022, for approval at Council on 2 March 2022.

12. BACKGROUND DOCUMENTS

None

13. APPENDICIES

Appendix 1 – Independent Reports

Appendix 2 – PCC Independent Improvement and Assurance Panel Terms of Reference

Appendix 3 – Improvement Plan

Appendix 4 – Corporate Strategy Part One

Appendix 5 – Independent Members of Audit Committee – Job Description and Person Specification

Appendix 6 – Independent Improvement and Assurance Panel Report Flowchart