

North Yorkshire County Council

Audit Committee

27 June 2022

Review of Assurance over Value for Money

Report of the Corporate Director – Strategic Resources

1.0 Purpose of report

- 1.1 To consider the ongoing arrangements made within the County Council in respect of achieving Value for Money (VfM).
- 1.2 To consider how overall assurance is obtained about the effectiveness of these arrangements.

2.0 Background

- 2.1 The Audit Committee's role is "to have oversight of the arrangements across the County Council in securing Value for Money". This has been the case for some time now and once upon a time there was a clearly set out VFM framework including sets of nationally prescribed indicators and inspection regimes so reaching a view appeared much simpler (although still running the risk of being bound by the restrictions of such a framework).
- 2.2 The current position is much more nuanced and there are fewer "go-to" places to reach a very definitive view about VFM within the Council. This report therefore seeks to draw together a range of information about approaches within the Council that seeks to ensure VFM and lines of enquiry as the Council moves forward into its unitary phase.

3.0 National Context

- 2.1 Under the Local Audit and Accountability Act 2014 (the Act) Section 20(1) requires that: 'In auditing the accounts of a relevant authority other than a health service body, a local auditor must, by examination of the accounts and otherwise, be satisfied that the authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'
- 2.2 The Local Audit and Accountability Act 2014 (the Act) makes the National Audit Office's (NAO) Comptroller and Auditor General responsible for the preparation, publication and maintenance of a Code of Audit Practice (the Code). The Code sets out what auditors are required to do to fulfil their statutory responsibilities under the Act. The Code is reviewed every five years, so the Code that applies will depend on the financial year being audited
- 2.3 A new Code came into force on 1 April 2020, after being approved by Parliament. It was developed following a consultation process during 2019. The revised Code will therefore apply to the audit of the Council accounts from 2020/21 and replace the 2015 Code which preceded it. Under these arrangements accounts from 2020/21 will be audited under the 2020 code.

- 2.4 Auditor responsibilities under the new Code of Audit Practice Under the 2020 Code of Audit Practice there is still a requirement to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness, (the 3E's) on its use of resources.
- 2.5 However, there is no longer an overall evaluation criterion which needs to be concluded on. Now where auditors identify a significant weakness in proper arrangements, they are required to report by exception within the audit report on the statement of accounts.
- 2.6 The 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period. The specified reporting criteria are:
- **Financial sustainability** - How the Council plans and manages its resources to ensure it can continue to deliver its services;
 - **Governance** - How the Council ensures that it makes informed decisions and properly manages its risks; and
 - **Improving economy, efficiency and effectiveness** - How the Council uses information about its costs and performance to improve the way it manages and delivers its services

2.7 Under the 2020 Code of Audit Practice the Councils Auditors, Deloitte LLP are required to report against a specified reporting criteria for Value for Money as detailed above. If any significant risks to VfM are identified, then these must be reported by exception as part of the audit opinion.

2.8 In their final report to the Audit Committee, Dec 21 on the 2020/21 audit, Deloitte issued an unmodified audit opinion, with no reference to any matters in respect of the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources.

"A key element of this report is our commentary on the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources. Our work considering these arrangements is based on our assessment of the adequacy of the arrangements the Council has put in place, based on our risk assessment. The commentary does not consider the adequacy of every arrangement the Council has in place, nor does it provide positive assurance that the Council is delivering or represents value for money.

We have not identified any significant weaknesses in the Council's VfM arrangements, and so have not reported any recommendations in respect of significant weaknesses."

- 2.9 In the Auditors Annual Report 2020/21 issued on the 10 March 2022, in response to the three reporting criteria for VfM Deloitte's concluded:
- **Financial Sustainability** – "the Council has sufficient arrangements to provide financial sustainability in place for the size and function of the Council."
 - **Governance** – "the Council has a number of policies in place to ensure it makes properly informed decisions."

- **Improving economy, efficiency and effectiveness** – “we are satisfied the Council has sufficient arrangements to improve economy, efficiency and effectiveness in place for the size and function of the Council.”

3.0 Local Context

3.1 As set out above, the Audit Committee’s terms of reference in respect of Value for Money are:

“To have oversight of the arrangements across the County Council in securing Value for Money”

3.2 Alongside the Chief Executive, Section 151 Officer and Monitoring Officer, the Audit Committee, representing the Council, are also responsible for ensuring proper stewardship and governance, reviewing regularly the adequacy and effectiveness of these arrangements.

3.3 This is to be achieved through the on-going evaluation of a range of activity within the Council, however it is felt that an annual report is to be considered by the Audit Committee in order to give due focus to value for money.

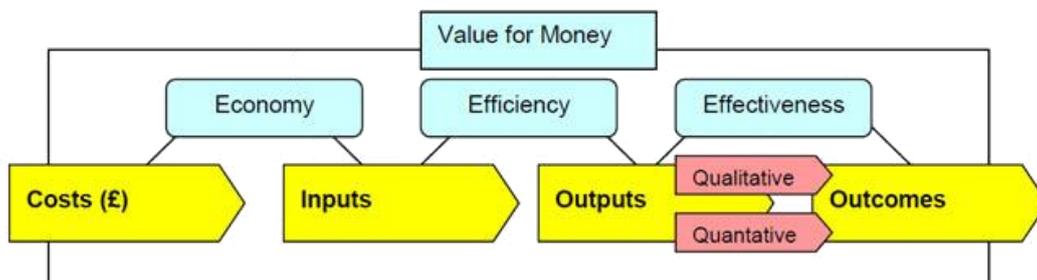
4.0 Proper Arrangements

4.1 Under the 2020 code there is still a requirement to maintain proper arrangements with regard to the 3Es.

4.2 The National Audit Office (NAO) uses three broad criteria to assess the value for money, for authorities spending.

These are:

- **Economy:** minimising the cost of resources used or required (inputs) – spending less;
- **Efficiency:** the relationship between the output from goods or services and the resources to produce them – spending well; and
- **Effectiveness:** the relationship between the intended and actual results of public spending (outcomes) – spending wisely.



4.3 Overall, this can be summarised as: **“The assessment of the cost of a product or service against the quality of output received”**. It is therefore not simply about buying at the cheapest price eg. the consultation on Transforming Public Procurement from Government suggests that commercial teams do not have to select the cheapest bid and that they can design evaluation criteria to include wider economic, social or environmental benefits.

4.4 In light of these assumptions, some simple questions may now be asked of ourselves:

- What level of quality is Council looking for?

- Is the level of spend commensurate with the quality being achieved?
- Is the service being delivered / procured delivering sufficient return to meet the objectives of the Council as outlined in the council plan?
- What is a fair price to pay for the goods or services?
- Are other influences to be considered, such as rurality or market forces such as the international cost of Gas, Oil and Wheat?

4.5 As the country started to recover from the impact of the pandemic the Council and our suppliers moved into the recovery phase. The United Kingdom economy has subsequently been impacted by the war in the Ukraine. This has compounded the issues which had already been faced. Increasing inflationary pressures and the impact on the cost of living are factors which will impact the council as we move through 2022 and into 2023. Ensuring continuity of suppliers essential to the councils operations is a priority. All of this severely distorts traditional price and market benchmarking.

5.0 Existing assurances for 2020/21 and beyond.

5.1 Within North Yorkshire County Council, there are a number of activities that individually may not guarantee good VfM by themselves, but by considering each of these against the principals of VfM and in conjunction with the “proper arrangements” help ensure increased confidence that widespread VfM is being achieved.

5.2 The following is not an exhaustive list of the range of actions that occur but do stand to illustrate the broad approach that takes place to secure good VfM with in the council.

6.0 The Council Plan

6.1 The Council Plan continues to be the strategic framework that is used to help the council focus efforts, ensuring they are aligned with our objectives. This is one of the key principles behind delivering good VfM: alignment of goals to promote effective utilisation of resources. The Council Plan for 2022/23 was recently approved by full council reaffirming the five ambitions of the council.

6.2 The five ambitions are:
Leading for North Yorkshire – this ambition sets out our place shaping outcomes and priorities, including: Climate Change, Stronger Communities and volunteering, Health and Wellbeing, Broadband, Equalities and Devolution. Importantly providing strong leadership for the people of North Yorkshire.

6.3 The three outward, service facing ambitions remain largely unchanged from previous plans:

- **Every Child and young person has the best possible start in life.**
- **Every adult has a longer, healthier, independent life.**
- **North Yorkshire is a place with a strong economy & commitment to sustainable growth**

6.4 **Innovative and forward thinking Council** - has an emphasis on the delivery of our internal support services and ways of working across the council.

6.5 This will be the last Council Plan for the County Council. As from the 1 April 2023 a new unitary Council for North Yorkshire comes into being which will have its own Council Plan covering the services and ambitions of the new council

7.0 Local Government Reorganisation

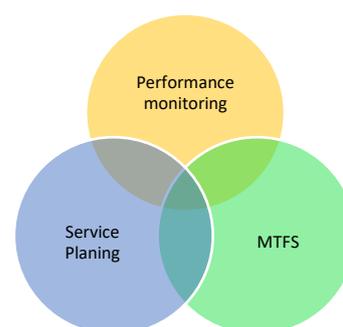
- 7.1 The new council is ideally placed to deliver enhanced VFM measures for North Yorkshire across a range of services. The Case for Change identified a net saving of £252m over a 5 year period for local government in North Yorkshire and this was all identified as being through efficiency as opposed to service reductions. Some examples of which could include: a uniform waste collection and disposal service, harmonization and optimisation of back office services, reduced management and leadership costs, and development of other integrated services that will take advantage of the new enhanced North Yorkshire footprint. Finally, there will be economies of scale covering both staffing and procurement across the new council.
- 7.3 Strengthened public services delivered at local level and in a way that local residents, feel is effective and represent value for money will be a clear focus for the new council.

8.0 MTFS

- 8.1 In addition to the annual budget setting process, the Council also completes a Medium Term Financial Strategy (MTFS). Given the new unitary council for North Yorkshire will come into effect from 1 April 2023, it was agreed across all eight authorities to produce an MTFS up to 2024/25, with the aggregate position being used as a starting point for the new authority.
- 8.2 The NYCC MTFS identifies a recurring shortfall of £18.0m over the period to 2024/25 and the provisional estimate is that the 7 district councils have a further £9m of structural deficit totalling £27m. This is then compounded by the exceptional inflationary pressures which are now biting and are being collated as part of the shadow Budget for the new North Yorkshire Council. The Council will undoubtedly need to call upon reserves in the short term but this should provide a strong platform to find time to deliver the transformational savings that will be achieved through local government reorganisation resulting in improved VFM.

11.0 Service Planning

- 11.1 Service planning is integrated with MTFS and performance monitoring into one global exercise. This approach was further utilised for the 2021/22 round of service planning. The Grant Thornton CFO Insights tool, has again been used to give up to date benchmarking, financial and community data across the council's and others services.



- 11.2 The starting point for the exercise is the benchmarking North Yorkshires performance, spend and unit cost data against that of the class leaders, whether that be Counties, Unitary or Met Districts. The aim is to understand why they are performing as well as they are and what can North Yorkshire learn from them? This is then considered alongside the MTFS with any pre-agreed saving targets factored in, the expenditure profile over the next three years and an additional savings requirement which continues to be set at 2.5% and 5%.
- 11.3 In producing service plans, greater emphasis has been put on having accurate, relevant indicators in the plan that can track the progress and identify that savings

that are being made. The Quarterly Finance and Performance reports to Management Board and Executive ensures that these indicators are monitored and reported on in a timely fashion in-conjunction with the quarterly financial reporting.

- 11.4 In addition, Focussed Reviews are carried out in areas of particular interest. These Reviews are carried out in specific service areas in a short timescale accessing key data and processes with a view to identifying quick and longer term wins. LGR has meant that this resource has mostly been deployed into LGR transitioning work but the approach is entirely consistent with improving VFM.

12.0 Procurement and Contract Management

- 12.1 The Procurement and Contract Management Service has overall responsibility for all aspects of the procurement cycle, including policy, procedure and process. The Service is managed by the Head of Procurement & Contract Management who leads on procurement and contract policy. The structure includes a specific team for Contract Management. This role has oversight for Contract Management across the Authority, and continues to share best practice and training to Officers. Effective contract management is key to successfully delivering a contract following the completion of a procurement. To support this contract support is being implemented specifically for HAS and CYPS. The team continue to manage a number of corporate contracts and are working alongside Property Services.
- 12.2 Contract management will continue to happen within Directorates, with support and guidance from the Procurement and Contract Management Service.
- 12.3 The Council has a corporate procurement strategy and a supporting strategy action plan. The Audit Committee frequently reviews the Procurement function as part of its annual programme. The existing strategy sets out how the Council will achieve its procurement and contract management ambitions, aims and objectives up to 2022. Across the four-year life of this strategy the Procurement and Contract Management Service will manage spend of around £1.6 billion. This strategy sets out the plans to achieve best value, efficient use of resources, technology, innovation and procedures to ensure we make the best use of that spend for North Yorkshire residents. As part of the LGR procurement and contract workstream the strategy is being reviewed and a new strategy will be approved in readiness for the new council in April 2023.
- 12.4 Work continues in relation to supply chain resilience and managing our “at risk” suppliers/ markets. As our markets started to recover from the impact of COVID we are now seeing the impact of the situation in the Ukraine. Ensuring the continuity of suppliers essential to the council’s ability to function, and mitigating inflationary effects brought about by uncertainty and supply shortages is a priority. As a service, procurement has already completed and is continually reviewing market assessments to brief senior managers, the council has the governance in place to respond to our suppliers through our Supply Chain Resilience Board.
- 12.6 In readiness for the new council the Procurement and Contract Management Service is working alongside colleagues within the districts and boroughs to ensure visibility of our collective procurement pipelines and contract portfolio. This will support and enable effective decision making and support the council in how it manages resources moving forward. Work has already commenced collaboratively on some key contracting areas including, energy; fleet and insurances. Further to this work is underway to review the Procurement and Contract Procedure Rules which support the council in decision making and management of risk. Procurement and contracting

is a key enabler of the cashable and non-cashable savings linked to the local government reorganisation.

13.0 Qualitative Measures

- 13.1 In reviewing VFM, both the Qualitative and Quantitative aspects should be viewed and balanced to get best VFM results.
- 13.2 Below is an example of a qualitative view from the OFSTED visit in June 2021
- 13.3 The formal letter from OFSTED regarding the June 2021 Focused Visit has now been published, quoting “Highly confident senior leaders and managers have ensured that children’s services have continued to develop positively since the last inspection.
- 13.4 Despite COVID and the resultant increase in the number of children being referred to children’s services, partnership work has flourished, the practice model is now fully embedded, and vulnerable children receive effective services from skilled and compassionate professionals who protect, help and support them”.
- 13.5 It is key, of course, that lessons are also learned from critical reviews and complaints. That is why there is a corporate complaints team and regular updates are reported to Management Board and to the Executive as part of the quarterly monitoring reporting regime – see next section.

14.0 The quarterly performance reports - Q reports

- 14.1 The quarterly performance reports (Q reports) have continued to develop, based on comments from Management Board, Executive and the Executive Member with portfolio responsibility for Performance
- 14.2 The reports now have a stronger emphasis on challenging the directorates over their performance highlighting strengths and challenges. The reports are themed around the five key ambitions of the Council. With each ambition taking the lead for greater scrutiny once in the annual reporting cycle.
- 14.3 A major part of the performance framework and thus the quarterly performance reports is the corporate Key Performance Indicator (KPI) suite. Drawing them together and framing them in this way provides Management Board & Executive a broader overview of performance across the Council, as well as progress against the council ambitions and service plan objectives. The suite is reviewed to ensure it remains relevant to Councils ambitions.
- 14.4 Overview and Scrutiny Board continue to provide an additional level of challenge. Quarterly performance briefings are provided to Chairs of Scrutiny Committee’s (Scrutiny Board) and plans are in train to align elements of performance with individual Scrutiny Committee’s future work programme and forward plans.

15.0 Recommendations

- 15.1 That the Audit Committee:
 - a) Review the arrangements currently in place for assuring value for money;
 - b) Identify any areas for further development in the assurance arrangements;
 - c) Confirm if they are satisfied that this report adequately contributes to the requirements of fulfilling the terms of reference noted in section 2.1.

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