

North Yorkshire Council

Audit Committee

26 June 2023

Review of Assurance over Value for Money

Report of the Corporate Director –Resources

1.0 Purpose of report

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| 1.1 | To consider the ongoing arrangements made within the 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 National Context

- 2.1 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 and this revised Code will therefore apply to the audit of the council’s accounts from 2020/21 onwards and replace the 2015 Code which preceded it. Under these arrangements accounts from 2021/22 will be audited under the 2020 code.
- 2.4 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.

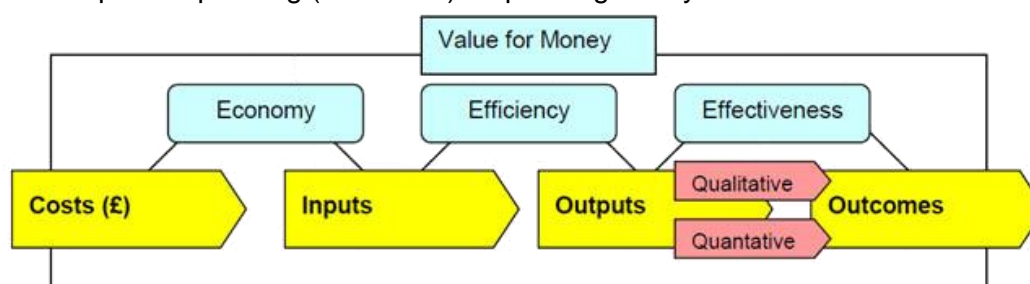
- **Governance** - How the council ensures that it makes informed decisions and properly manages its risks; and
- **Improving economy, efficiency, and effectiveness** - How the council uses information about its costs and performance to improve the way it manages and delivers its services.

3.0 Local Context

- 3.1 The Audit Committee's terms of reference in respect of Value for Money are: ***"To have oversight of the arrangements across the Council in securing Value for Money"***.
- 3.2 Alongside the Chief Executive (in their role as the council's Accounting Officer) the Audit Committee, representing the council, is also responsible for ensuring proper stewardship and governance, regularly reviewing 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 should be considered by the Audit Committee 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 regarding 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 never simply about buying at the **cheapest price**. The consultation on Transforming Public Procurement reinforced this and as part of the new regulatory framework the Government wants to send a clear message 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? Ongoing, can the council still afford this level of quality?
 - Is expenditure required? If so, can we be sure it will help achieve 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?
- This last point is significant in the past year when the price of energy, fuel and food has increased. This is especially relevant for services to the young, old and disadvantaged. By answering relevant questions at each step, confidence can be gained that the decision will have a positive VfM outcome in this inflationary climate.

5.0 Audit Opinion 2021/22 Outstanding

- 5.1 Under the 2020 Code of Audit Practice the council's 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.
- 5.2 Unfortunately the councils' auditors Deloitte LLP have not yet issued their final audit report to this committee. However, there have been no indications that an adverse opinion will be issued. The report will be presented to this committee at a future date.

6.0 Existing assurances for 2021/22 accounts and beyond

- 6.1 Within North Yorkshire Council, there are several activities that individually may not guarantee good VfM by themselves, but by considering each of these against the principles of VfM and in conjunction with the "proper arrangements" help ensure increased confidence that widespread VfM is being achieved.
- 6.2 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 within the council.

7.0 North Yorkshire Council - Council Plan 2023/2027

- 7.1 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 main principles behind delivering good VfM: alignment of goals to promote effective utilisation of resources. The new Council Plan for North Yorkshire, encompassing all eight former councils, covering the period 2023/27 was recently approved by full council.
- 7.2 Contained within the plan are five reimagined ambitions to improve local services. These are:
- Place and Environment
 - Economy
 - Health and wellbeing
 - People
 - Organisation

7.3 In addition there are “four pillars of locality working”:

- Local services and access
- Local accountability
- Local action
- Local empowerment

One of these pillars being local accountability – with six area committees to oversee and champion local issues, ensuring good VfM is delivered at a local area

8.0 Local Government Reorganisation

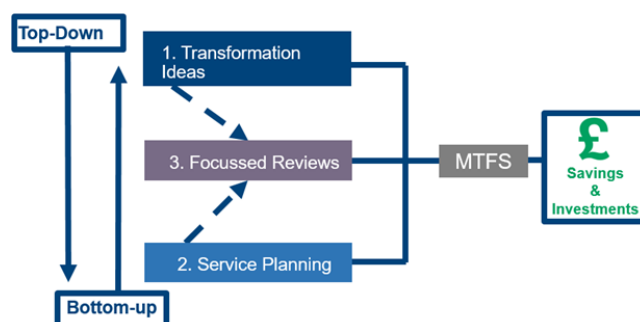
8.1 Following a period of joint working on various workstreams by all eight councils, the new North Yorkshire council came into being on the 1st April 2023. Offering “safe and legal” services to all North Yorkshire residents.

8.2 The new council is the ideal vehicle to deliver enhanced VfM measures for North Yorkshire across a range of services. Some examples of which could include: a uniform waste collection and disposal service, harmonisation and optimisation of fees and charges, development of other integrated services that will take advantage of the new enhanced North Yorkshire footprint. Finally, there will be significant economies of scale covering both staffing and procurement across the new council.

8.3 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.

9.0 Medium-Term Financial Strategy (MTFS)

9.1 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 would 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.



9.2 The MTFS identifies a cumulative shortfall of £45.3m by the end of the year 2025/26. The budget for 2023/24 includes the drawdown of £30m from reserves to achieve a balanced budget whilst plans for transformational savings are developed and implemented following local government reorganisation.

10.0 Service Planning for 2023/24

10.1 Service planning for 2023/24 being the first year of the new council, has moved away from the model used by the county council for the past few years to an approach which focuses on transformation. This approach will identify key schemes with the maximum impact for harmonisation of services and delivery of savings. Projects will be viewed against a matrix, comparing the ease of delivery / resources needed to deliver, verses potential savings.

10.2 Those projects coming out with the most potential and impact, will be the first to be undertaken. It is hoped that this initial round of service planning will identify a transformational programme that will span several years.

- 10.3 While the Service Planning methodology is a different this year, it still contains elements of benchmarking, performance to budget and previous years saving requirements linked to the MTFs. This final point applies to continuing county council services such as HAS and CYPs.

11.0 Focussed Reviews

- 11.1 Focussed reviews provide a data led approach to reviewing processes across the organisation. Reviews are constructed around research on how the class leading peers deliver services, detailed analysis of North Yorkshire data and process mapping.
- 11.2 Reviews are delivered by a central team who work with services to provide an unbiased view of improvement opportunities.
- 11.3 During 2022/23 the focused review methodology was used to inform and guide the LGR workstreams in developing “safe and legal methods of working for 1st April 2023. Following on from the 2023 service planning round and subsequent transformation programme, it is anticipated that the number of focussed reviews will increase during the coming year.

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.
- 12.2 Local Government Re-organisation has provided the opportunity to bring together the procurement functions from across the 8 local authorities and streamline our ways of working, reviewing governance arrangements for the new Authority. The council has good visibility on where money will be spent in the upcoming months / years through the Forward Procurement Plans (FPPs). FPPs allow Directorates (and their corresponding Senior Category Manager) to have an oversight of approaching procurements. As a result, resources and specialist support is deployed appropriately to deliver good procurement and value for money across the council’s external expenditure.
- 12.3 The council’s Procurement and Contract Management Service is ultimately responsible to the Corporate Procurement Board (CPB) within the council’s management structure. CPB owns the council’s corporate procurement strategy and supporting strategy action plan and key performance indicators, all of which were reviewed and refreshed in readiness for the commencement of the new council on 1 April 2023. The strategy sets out how the council will achieve its procurement and contract management ambitions, aims and objectives up to 2029. Across the six-year life of this strategy, the Procurement and Contract Management Service will manage spend of around £3.6 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.
- 12.4 An annual refresh of the strategy will be undertaken during 2023/24, there is a requirement to understand the organisations ambitions around social value and the further role procurement can play in this area. We have secured funding and are developing support for suppliers in relation to their social value offer in order to understanding what further action can be implemented to support the council around this area.
- 12.5 Our supply chains which were trying to recover from the pandemic have and continue to be impacted by inflationary pressures including escalating fuel costs, increased raw

material costs, pressure in relation to wages and access to labour. 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.

- 12.6 The launch of the new authority to cover the whole of North Yorkshire will bring in millions of pounds of savings by having contracts for a single organisation, helping counter the challenging inflationary pressures amid the cost-of-living crisis. By joining up services and maximising spending power in its first few years, North Yorkshire council is set to recoup between £30 million and £70 million, which will become annual savings. However, the high rate of inflation and growing demand for services such as adult social care will mean difficult decisions and creative solutions will be needed to realise the multi-million-pound savings.
- 12.7 Despite some of the challenges in the markets the council has seen some key success in managing these risks. Our decision to move electricity contracts, previously 8 separate contracts, for April 2023 - March 2024 has resulted in a cost mitigation of 15%, which equates to £3.7m based on estimated consumption levels. This has been achieved at a time when we have seen unprecedented cost increases within the energy market. Alongside this we have achieved a net carbon zero tariff. The consolidation of 8 separate insurance premium contracts has seen a cost saving of just over £1m.
- 12.8 The new council will continue to support and encourage SMEs to bid for contracts and support the delivery of its commitments. The former North Yorkshire County Council alone spent £549 million on procurement during the last financial year, including £269 million with SMEs – the equivalent of 55 per cent of the total figure. Of the 5,021 suppliers which the county council worked with during 2022/23, a total of 2,765 were SMEs and the ambition is to increase this number even further with the launch of the new council.
- 12.9 The new Procurement Bill, which is due to be introduced by the Government by spring 2024, will provide more opportunities of making procurement quicker, simpler and more transparent while still delivering value for money and including specific criteria in deciding the award of contracts. It is hoped that this will level the playing field for SMEs and drive economic growth across the UK by reducing costs and making it easier for businesses which are bidding for contracts.

13.0 The quarterly performance reports - Q reports

- 13.1 The quarterly performance reports during 2022 & 2023 have continued to develop, based on comments from Management Board, Overview and Scrutiny Board Executive and the Executive Member with portfolio responsibility for Performance
- 13.2 The reports now have a stronger emphasis on challenging the directorates over their performance highlighting strengths and challenges. 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 the council's ambitions.
- 13.3 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.

- 13.4 Quarter 4 of the 2022/23 reporting cycle started the move to understanding performance in the new council by providing a benchmark of performance across the whole of North Yorkshire by drawing together all the quarter 4 or yearend reports.
- 13.5 Starting with Quarter 1 2023/24, the Quarterly performance reports will focus on the refresh of the council plan and the development of a wider set of ambitions there in. The report will cover all the functions of the council, both former district and county

14.0 Recommendations

- 14.1 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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