

Performance and Finance Scrutiny Sub-Committee SUPPLEMENTAL AGENDA

DATE: Monday 21 March 2016

AGENDA - PART I

8. REVENUE CHALLENGE PANEL - SIX MONTH REVIEW (Pages 3 - 14)

Report of the Director of Finance.

9. CAPITAL CHALLENGE PANEL - SIX MONTH REVIEW (Pages 15 - 22)

Report of the Director of Finance.

Note: In accordance with the Local Government (Access to Information) Act 1985, the following agenda items have been admitted late to the agenda by virtue of the special circumstances and urgency detailed below:-

Agenda item

8. Revenue Challenge Panel – Six Month Review.

Special Circumstances/Grounds for Urgency

This report was not available at the time the agenda was printed and circulated as the Finance Team have been involved in the setting of the 2016/17 budget and the finance team has not been fully staffed due to a reorganisation. Members are requested to consider this item, as a matter of urgency to enable consideration of the review.

9. Capital Challenge Panel
– Six Month Review

This report was not available at the time the agenda was printed and circulated as the Finance Team have been involved in the setting of the 2016/17 budget and the finance team has not been fully staffed due to a reorganisation. Members are requested to consider this item, as a matter of urgency to enable consideration of the review.

AGENDA - PART II - NIL

**REPORT FOR: PERFORMANCE AND
FINANCE SCRUTINY
SUB COMMITTEE**

Date of Meeting:	21 st March 2016
Subject:	Revenue Challenge session – six month review
Responsible Officer:	Dawn Calvert, Director of Finance
Scrutiny Lead Member area:	Performance Lead Member – Councillor Primesh Patel Policy Lead Member – Councillor Stephen Wright
Exempt:	No
Wards affected:	All
Enclosures:	Appendix 1 - Update on implementation of the recommendations from the Revenue Challenge session

Section 1 – Summary and Recommendations

This report is a review of progress of those recommendations agreed for implementation from the Revenue Budget Scrutiny Challenge Panel, which were reported to Cabinet on 23 April 2015.

Recommendations:

Councillors are recommended to:

1. Consider the progress on implementation of the recommendations.

Section 2 – Report

Introductory paragraph

The Scrutiny Leadership Group undertook a review of Harrow's budget setting and associated processes on 14th January 2015. The review drew upon evidence and experience from other Boroughs that have adopted outcomes based budgeting. The recommendations from the review were responded to in a report to Cabinet on 23rd April 2015 from the Director of Finance.

Financial Implications

There are no financial implications associated with this report.

Performance Issues

There are no specific performance issues associated with this report.

Environmental Impact

There are no environmental impact issues associated with this report,

Risk Management Implications

Risk Management is considered as part of the Council's budget setting process but there are no risk management issues associated with this report.

Equalities implications

An EQIA is not required for this report as the report includes no proposals for service change.

Council Priorities

Budget setting is carried out with reference to the Corporate priorities of:

- Making a difference for the vulnerable
- Making a difference for communities
- Making a difference for local businesses

- Making a difference for families

Section 3 - Statutory Officer Clearance

Name: Dawn Calvert

Chief Financial Officer

Date: 16.3.16

Ward Councillors notified:

NO

Section 4 - Contact Details and Background Papers

Contact: Dawn Calvert, Director of Finance, 020 8420 9269

Background Papers: [Response to Scrutiny Challenge panel report -The Funding Challenge - Cabinet 23 April 2015](#)

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Update on Progress to Implementation of Original Recommendations

Ref	Original Recommendation	Response – as reported to Cabinet 23 April 2015	Update as at January 2016
1.0	<p>Harrow Council to set a budget covering at least three years from 2016/17, to provide a greater degree of certainty and ensure that all budget decisions are aligned to a medium-to-long term strategic vision. Changes will need to be made on an annual basis, but these should be amendments to a complete three year plan, rather than a significant development upon loosely defined or partial plans.</p>	<p>Response Agreed. This will be the basis of the budget process that culminates in Council Tax setting in February 2016.</p>	<p>In February 2016, the Council approved a three year budget for 2016/17 to 2018/19. There will be a budget refresh process if further innovations are developed or alternative savings are proposed.</p>
2.0	<p>Harrow Council to establish clear criteria or principles for budget decision making for future budget-setting processes and communicate these clearly and widely within the Council and to the public.</p>	<p>Response Agreed. The budget is intended to deliver the Council's Corporate plan within the resources available. A set of principles for how the budget is constructed to achieve this will be issued to officers during the budget setting process. This will form the basis of any "Take Part" style consultation that takes place.</p>	<p>The three year approved budget for 2016/17 to 2018/19 was based on the priorities and outcome based view set by the Administration and detailed within the Corporate Plan. This now forms the foundation on which to move forward and will be refreshed annually to account for further innovations and alternative saving proposals.</p>
3.0	<p>Harrow Council to give much greater emphasis to understanding and improving how Council money is spent, rather than dedicating most of the available time and energy to deciding what the</p>	<p>Response Agreed. More time should be spent on what the council spends rather than savings</p>	<p>The budget report approved by Cabinet in February 2016 detailed a clear plan on how the Council will spend its £141m of controllable budget to support agreed priorities (table 1 in</p>

	Council will not spend money on in the future.	that need to be delivered. However it is important to reflect on the Council's statutory requirement to set a balanced budget.	the budget report). The Harrow Ambition Plan, approved by Cabinet in February 2016, and the three year budget set out the direction of travel over the medium term as to how the funding envelope will be used to support priorities and the Harrow Ambition.
4.0	Harrow Council to move away from a directorate-based budgeting process to an outcomes-based one that: a. Is meaningful to residents, rather than based on the Council's internal structure. b. Is based on residents' needs. a. 100% outcomes-based by 2019/20 or earlier. b. Draws on 'zero-based budgeting' elements: where new ideas are developed from the ground up, rather than incrementally developing upon past ideas.	Agreed. However this will take time to implement and will be fully implemented, as suggested, by 2019/2020	This agreed three year budget (2016/17 to 2018/19) is the foundation on which to move forward in terms of identifying alternative budget processes.
5.0	Harrow Council to draft a proposal for a gradual transition to an Outcomes-Based Budgeting approach, for consideration by Overview and Scrutiny prior to finalisation and implementation.	Response Agreed. As per 4	Work is now being undertaken on considering the most appropriate options as the next budget rounds starts, in preparation for the 2017/18 draft budget being presented to December Cabinet.
6.0	Harrow Council to give careful consideration to getting the following right when planning and implementing an outcomes-based budget approach: a. Communication, culture change and change	Response Agreed	The agreed three year budget and Harrow Ambition Plan is an achievement in light of the challenges faced and provide a solid platform with which to move forward and achieve

	<p>management: Avoid confusion and uncertainty by planning in advance and dedicating sufficient resource to programme management; recognise that some members of staff may feel threatened and behave defensively and plan a response to this.</p> <p>b. Leadership: Ensure that Members and everyone at Senior Management level have a common vision and are fully engaged in the design and delivery of an approach. Choose individual outcome leads on their leadership ability not their service knowledge.</p> <p>c. Contingency Plan: In recognition that a changing approach is experimental and involves some risk. This may include setting key milestones and review points at which contingencies trigger.</p>		<p>the savings, ambitions, innovations laid out over the next 3 years.</p> <p>The points raised are integral to success over the next three years and are part of the considerations as the Council moves forward.</p>
<p>7.0</p>	<p>Harrow Council to give consideration to whether additional resourcing is needed to support the budgeting process in light of the above recommendations and any other considerations.</p>	<p>Response Agreed.</p>	<p>Consideration has been given to this point. However in light of the financial challenges faced, back office functions that support the budget process have had to take their share of budgets reductions and are reduced in size. The best use of the remaining resources will be made to support the agreed budget process, but it will have to be contained within the funding envelope available.</p>
<p>8.0</p>	<p>In determining how best to deliver priority outcomes, Harrow Council</p>	<p>Response Partially agreed. While we recognise the</p>	<p>Consideration will be given to using appropriate tools.</p>

	<p>should consider the totality of public spend in Harrow and work collaboratively with public sector partners to deliver shared objectives as effectively as possible. Use of the Greater Manchester Cost Benefit Analysis Tool (see below) should be investigated with partners, to see if this can be used as a Common Approach.</p>	<p>importance of looking at the total public sector spend in Harrow, any final decisions about the budget must be in the financial interests of the council.</p>	<p>There is an increased move towards collaborative working. The Council is perusing shared services with other local authorities to achieve efficiencies and generate income. There remains a collaborative working relationship with the CCG in terms of the Better Care Fund negotiations and consideration of the best use of property assets across the CCG and Council. There is Pan London collaboration in terms of a joint Sexual Health transformation project to improve service provision and achieve efficiencies.</p>
<p>9.0</p>	<p>Harrow Council to equip all Members with the skills and knowledge needed to improve Harrow's journey towards outcome based budgeting. For instance by increasing awareness of which services are statutory, what this means and how much scope there is for altering the nature and scale of these services. The reason for this is because simply labelling something "statutory" doesn't inform about what it means for services in terms of outcomes, quantity or quality, or other features of a service.</p>	<p>Response Agreed. Training can be delivered in this area.</p>	<p>Appropriate training will be provided once the budget process moving forwards has been decided.</p>
<p>10.0</p>	<p>Harrow Council to write to the Government, welcoming the 2014 Autumn Statement commitment to giving local authorities indicative multiyear</p>	<p>Response Partially agreed – a letter will be sent to the current Government and as part of the Fairer Grant for Harrow campaign, once a</p>	<p>The Administration are engaged in the '159 Campaign' to achieve a better funding settlement for Harrow.</p>

	<p>budgets as soon as possible after the next Spending Review, and lobby all relevant parliamentary political parties to deliver this if they are in Government after the General Election.</p>	<p>new Government is in place following the General Election, a letter will be written to the Government.</p>	<p>The central government grant settlement, announced in December 2015, was not a good settlement for Harrow and not a good settlement for Outer London as whole. There was successful Member / Officer lobbying to Ministers which achieved a positive result in additional transition Revenue Support Grant for 16/17 and 17/18, however this was adversely mitigated by a late announced significant reduction in the Council's Public Health Grant allocation.</p>
<p>11.0</p>	<p>Harrow Council to consider how resources can be freed up to resource early intervention and prevention services.</p>	<p>Response Agreed. The current budget process already supports "Invest to save" proposals. Any large scale early revenue investment may well increase savings required elsewhere in the early years of the MTFS.</p>	<p>No further update.</p>
<p>12.0</p>	<p>. Harrow Council to further develop evidenced-based decision-making, to make sure that resources are used as effectively as possible to deliver public value. In particular, it is recommended that Harrow Council pilots the use of the Greater Manchester 'Cost Benefit Analysis' Tool as a method to help us understand the costs and benefits of early intervention and prevention, and build evidence for pooling budgets with partners where benefits are derived by more than one public sector body. This could be for</p>	<p>Response Partially agreed. The Council will continue to explore all options for early intervention and budget pooling where they deliver financial benefits to the Council.</p>	<p>Resources have been focused on setting the three year budget. Now this is set and forms the foundation for moving forward, as planning commences for years 2 and 3, appropriate tools will be evaluated.</p>

	<p>any or all of the following:</p> <ul style="list-style-type: none"> a. To evaluate a core service with strong preventative elements. b. To evaluate a service with preventative elements that is at risk of being cut – to help the Council decide whether it should or shouldn't be cut. c. To help us estimate the costs and benefits of a new service delivery model that the Council might invest in, to help the Council decide whether it should do so. 		
13.0	<p>Harrow Council to adopt a consultation approach that focuses on public engagement in determining priority outcomes – linking outcomes to service options to some extent, in order to ensure that it is meaningful to the public.</p>	<p>Agreed. Consultation and resident engagement are an essential part of the process of setting the Council's MTFS</p>	<p>A new set of Consultation Standards was approved by Cabinet in July 2015.</p>
14.0	<p>Harrow Council to investigate and evaluate options for budget-simulation consultation tools, in which respondents select from cuts and spending options to form a balanced budget, such as that developed by the London Borough of Redbridge. These might need to be adapted to align with an outcomes-based budgeting approach, rather than an incremental based budgeting approach.</p>	<p>Agreed. This will be considered</p>	<p>Such consultation tools can often require an enormous resources and this would have to be considered alongside tight financial constraints.</p> <p>The focus of resources to date has been on setting the three year budget. As consideration now been given to the refresh process for year 2 and 3, tools will be investigated for appropriateness.</p>
15.0	<p>Harrow Council should at the very least,</p>	<p>Response</p>	<p>Comment as per 14 above.</p>

	ensure that consultations encourage meaningful choices and encourage people to think about trade offs in their responses. This may or may not be through the mechanism described in recommendation 14.	As per 13 & 14	
16.0	Harrow Council to investigate and feedback on how local businesses should be positively engaged in future budget-setting and consultation processes, including ideas for how they can contribute to the achievement of Harrow's vision and objectives.	Response There is a statutory requirement to consult the business community on the budget already. This does not currently generate any significant response or interest. Officers will work with members to try and devise a new way of discharging this responsibility that gains more traction with the business community.	The Harrow Business Consultative Panel with local businesses was held on 26 January 2016 as part of the budget consultation process. Consideration is currently being given to alternative / additional forms of engagement.
17.0	Harrow Council to investigate the remaining concerns of the Voluntary & Community Sector Reps raised when giving evidence to this Challenge Panel (see appendix 2), report its conclusions to Overview & Scrutiny Committee and outline what it intends to do differently in the future as a result.	Response Agreed.	Update pending – verbal update will be provided at the meeting.
18.0	Scrutiny to increase its 'pre-decision' Scrutiny (on topics to be decided by Overview and Scrutiny Members). Council officers to notify Scrutiny of forthcoming 'key decisions' at least 6 months in advance to facilitate this, allowing Scrutiny to input at an early stage of	Response Agreed: Pre-decision scrutiny can be an extremely valuable tool that leads to better quality outcomes for residents. Members and officers would need to explore how the "six month" rule would work in practice and	This recommendation has yet to be actioned. The recommendation will be explored and the results reported back to the next meeting of this group. Currently the Key Decision Schedule is published quarterly and provides details of key decisions that will be

	policy, strategy and proposal development.	only apply it where appropriate.	made at Cabinet for the three months ahead.
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**REPORT FOR: PERFORMANCE AND
FINANCE SCRUTINY
SUB COMMITTEE**

Date of Meeting:	21 st March 2016
Subject:	Capital Challenge session – six month review
Responsible Officer:	Dawn Calvert, Director of Finance
Scrutiny Lead Member area:	Performance Lead Member – Councillor Primesh Patel Policy Lead Member – Councillor Stephen Wright
Exempt:	No
Wards affected:	All
Enclosures:	Appendix 1 – Update on implementation of the recommendations from the Capital Challenge session

Section 1 – Summary and Recommendations

This report is a review of progress of those recommendations agreed for implementation from the Scrutiny Challenge Panel on Capital Expenditure, which were reported to Cabinet on 23 April 2015.

Recommendations:

Councillors are recommended to:

1. Consider the progress on implementation of the recommendations as set out in Appendix 1.

Section 2 – Report

Introductory paragraph

The “Capital Expenditure” Challenge Panel met on 21st January 2015. The Panel identified measures to improve the financial management, project management and governance of the capital programme. The recommendations from the review were responded to in a report to Cabinet on 23rd April 2015 from the Director of Finance.

Financial Implications

There are no financial implications associated with this report.

Performance Issues

There are no specific performance issues associated with this report.

Environmental Impact

There are no environmental impact issues associated with this report,

Risk Management Implications

There are no risk management issues associated with this report.

Equalities implications

An EQIA is not required for this report as the report includes no proposals for service change.

Council Priorities

The Capital Programme is approved with reference to the Corporate priorities of:

- Making a difference for the vulnerable
- Making a difference for communities
- Making a difference for local businesses
- Making a difference for families

Section 3 - Statutory Officer Clearance

Name: Sharon Daniels.

Chief Financial Officer

Date: 16.3.16.

Ward Councillors notified:

NO

Section 4 - Contact Details and Background Papers

Contact: Sharon Daniels, Interim Head of Strategic Finance and Business,
020 8424 1332

Background Papers:

[Response to Scrutiny Challenge Panel Report 'Capital Expenditure' - Cabinet 23 April 2015](#)

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Update on implementation of the recommendations from the Capital Challenge session

Ref	Original Recommendation	Response – as reported to Cabinet 23 April 2015	Update as at March 2016
1.0	To establish an overarching Corporate Board with responsibility for monitoring all individual projects across the Council in order to give a better overview of the capital programme and to ensure that the project management system is applied across all schemes and departments.	Partially agreed. Corporate Board already review capital expenditure via the monthly Finance Monitor document. This document is the aggregation of directorate capital review discussions.	No Further update.
2.0	To develop the role of the capital forum into a senior officers' forum where its existing role is maintained but extended to take on capital monitoring/programme management. Each directorate will send a senior representative who presents a directorate report based on the RAG system.	Agreed. Capital forum will monitor the progress of capital programme expenditure Representatives from all directorates and the Project Management Office will continue attend.	The role of the capital forum is as follows: <ul style="list-style-type: none"> To ensure capital expenditure is incurred in accordance with the approved Capital Programme, especially the timing of projects to prevent excessive slippage. To ensure approved schemes are ready to commence and have appropriate governance arrangements in place (PID) before funding is released. To ensure capital expenditure is incurred in accordance with the Harrow Capitalisation Policy, Financial Regulations and the capital programme step by step guide.
3.0	That the VERTO system be reviewed in terms of its staff training processes, to establish its purposefulness and to maximise its effectiveness .	Agreed A review of how Verto is used in the capital management process has recently been undertaken and the resultant changes have been incorporated into a training	The training was delivered in April 2015.

		programme.		
4.0	To change the Council's constitution so that elected members are part of the decision making process to vary the capital programme.	Not agreed. This is already the case. All significant additions and variations to the programmes need member approval.	No Further update	
5.0	That the Director of Finance & Assurance and the Head of Internal Audit, explore whether the centralised scanning of invoices has a deleterious impact on project timetables and contractor payments and to assess the risk of fraud.	Agreed. A review will take place.	This review will be undertaken by the Director of Finance and Head of Internal Audit during 2016/17.	
6.0	That all projects be realistically scoped and planned before being put into the capital programme.	Agreed This would always be the aspiration.	No Further update	
7.0	That the Capital Forum has the power to vire money from under spending projects/budgets to other projects to ensure that slippage is minimised.	Not agreed. This would remove responsibility from democratically elected Councillors.	No Further update	
8.0	That all budgeted allocations should be split in monthly budgets and monitored monthly to ascertain underspend/overspend.	Agreed. This would be good practice and officers will work towards this.	Verto would allow this, however the current implementation within SAP does not support monthly profiling. As SAP is our primary system, this would require significant changes to the capital system within SAP. This would entail a substantial cost and there would also be significant ongoing staff resources in maintaining this. It is felt the costs would not be justified by the benefits.	
9.0	That slippage/underspend should be monitored in terms of efficiency saving and other underspend.	It would be possible to classify all capital spend as either generating an efficiency saving of not. Therefore it would be possible	No Further update as slippage and underspends are already separately identified in monitoring reports.	

			to classify any underspend accordingly. The vast majority of the Council's capital programme does not pertain to efficiency savings but to Statutory service delivery - For example the Schools expansion programme. Slippage and underspend is identified separately in monitoring reports. A reason for the underspend/slippage is already given. Where there is a revenue impact this is identified.	
10.0	That all members should have monthly updates on the capital programme within their wards with a RAG report explaining what action is to be taken to resolve the Red/Amber projects. The Finance Portfolio Holder should see the minutes of the Capital Forum and he/she should advise Portfolio Holders of underperformance on capital projects.	Partially accepted The finance systems do not hold data in this way. This would require additional reporting requirement which would require more resources. Ward based reporting might be something for project managers to consider where appropriate The Finance Portfolio holder receiving the minutes of the Capital Forum is a very sensible idea.	The port-folio holder for Finance and Major Contracts receives verbal updates from the Director of Finance where it is felt that the necessary and in particular when any action from the Capital Forum leads to a recommendation for a virement which needs approval. Going forward, the portfolio holder will receive the minutes from the capital forum.	
11.0	That the Capital Programme/Budget agreed in the February of each financial year should be over-programmed by a factor of 25%. This will enable slippage to be moved to different projects in year without reference back to Full Council. The decision to vire should be either a Cabinet or Portfolio Holder decision depending on the urgency.	Response Not agreed. In this scenario members would not know what capital schemes they are actually approving at Full Council and as such may not be legal.	No Further update	
12.0	That once slippage/under-spending is reduced to levels below 15% then the over-programming is reduced to 10%.	As per 11	No Further update	
13.0	To ensure that a summary of the Lessons Learned Log be distributed periodically to all project managers. This should include	Agreed. This would be a sensible idea, there is functionality within Verto that can facilitate this.	There have been no significant projects completed since this has been agreed. It is proposed that as	

	problems and solutions and good practices and success that could be applied to future works.		projects do complete that those where it is felt there would be a benefit to a review will have a lessons learned review. In addition any ongoing projects where it is felt this is appropriate will also be reviewed, e.g. where there has been significant slippage.
14.0	To appoint a nominated officer to ensure that there is adequate resident engagement in the capital programme process.	Agreed. The capital programme could feature more strongly in the existing resident engagement around the budget. It is worth noting that the schools expansion Programme engaged dedicated resource to help them with Comms and engagement throughout 2014.	The Capital programme forms part of the overall budget consultation that takes place between December and January each year. In addition, where there are major capital schemes, such as new schools etc, there would be public consultation.
15.0	To produce more stringent corporate documentation requiring officers to provide detailed information on reasons for project slippage.	Agreed. Additional guidance can be produced.	This will be reviewed as part of the year end Capital outturn report where variances on the total spend against budget are reported on.
16.0	That the capital programme, while based on the financial year should be structured around when the project is best suited to start.	Agreed. Greater work will be done to ensure that the capital programmes are appropriately phased	This is part of an ongoing continued effort to improve the reporting on slippage and update budgets on a regular basis for variations.
17.0	To ensure that contracts are negotiated and signed before the commencement of any works.	Agreed. This is in line with the existing Contract Procedure Rule, breaches of which are monitored at the Strategic Procurement Board.	No Further update.