APPENDIX B

PUBLIC ACCOUNTS AND AUDIT SELECT COMMITTEE

17 January 2012

Title: Response to Call-in on Budget Strategy 2012/13 to 2014/15	
Report of the Leader of the Council and Cabinet Member of Finance and Education	
Open report	**For Decision**
Wards Affected: None	**Key Decision:** No
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Accountable Divisional Director: N/A	
Accountable Director: Stella Manzie, Chief Executive**;** Tracie Evans, Corporate Director Finance and Resources	

Summary:

This report details the response of the Cabinet Members to the reasons given for the call-in of the proposed deletion of the Divisional Director of Assurance and Risk post which formed part of the savings proposal CEX/SAV/01 contained within the 14 December 2011 Cabinet report - Budget Strategy 2012/13 to 2014/15 and focuses on:

1) Acknowledging the concerns of the call-in which relate to:
    - Reduction in senior level resource dedicated to Risk and Assurance and Compliance issues.
    - Limited assurance audit reports and policy and procedural breaches.
    - Red-rating of the Compliance (CR6) risk identified on the risk register.
2) Explaining the approach to making the recommendation to delete the post of Divisional Director Assurance and Risk against the background of the financial pressures facing the Council.
3) Explaining the corporate frameworks on risk in the Council.
4) Making a commitment to work with PAASC on the compliance review which will seek to reinforce management processes relating to policy and procedural compliance where needed.

Recommendation(s)

PAASC is recommended to dismiss the Call-in and let the Cabinet decision stand in the light of the assurances provided in the report.

Reason(s)

The recommendations are in line with the Council's objective of being a well – run organisation, when considered against the balance of risks and challenges being faced against a diminishing financial position.

1. Introduction and Background

1.1 The Call-in, which this report seeks to address, relates to:

"Budget Strategy 2012/13 to 2014/15, and in that respect the proposed budget savings outlined in item CEX/SAV/01 relating to the CE's organisational review, specifically the proposed deletion of the post of Divisional Director of Assurance and Risk and the decision to approve the above proposal with effect from 1 April 2012."

The reasons for Call-in are as follows:

"Over the past 18 months a number of compliance issues have been brought to the attention of PAASC. There have been a number of examples relating to both actual and perceived policy and procedural lapses.

This culminated in a recent report to the committee where members expressed a wish to do a general review of compliance within the organisation – partly triggered by the number of "limited assurance" internal audit reports there have been.

The dilution of this function within officer employee roles will cause a regression of the overall risk and assurance levels currently achieved. Even though we have improved in this area over the last three years we have only managed to achieve a 56% total on substantial assurance.

In these times of severe cuts, savings and organisational change it is important to consider and protect our staff, members, customers and clients by having, and more importantly, implementing a clear risk mitigation strategy across the organisation."

1.2 The decision to recommend the deletion of the post of Divisional Director Risk and Assurance came forward during October 2011 as part of a second phase of Chief Executive's Organisational Review, designed to respond to the extent of the Council's budget challenge which has been to find savings of £8.8m in order to set a budget for 2012/13. A first phase review was taken to Cabinet on 23 August 2011. The proposed deletion of seven Divisional Director posts was presented in budget saving pro forma CEX/SAV/01 published on the Council's website, along with other saving pro formas, on 25 October 2011 and presented to the Public Accounts and Audit Select Committee on 2 November 2011 - the pro forma CEX/SAV/01 is attached at Appendix 1. The Cabinet report of 14 December 2011 on Budget Strategy 2012/13 to 2014/15 included for decision all the savings options being put forward to ensure that the Council can present a balanced budget at its Budget Setting Assembly on 22 February 2012 - the schedule of savings options is attached at Appendix B.

1.3 In summary the concerns of the call-in focus on whether the removal of this senior post with a clear focus on assurance of risk will be a major impediment to delivering the Council's responsibilities for managing risk and ensuring that the whole organisation complies with legal, financial and corporate policies.

2. Proposal and Issues

2.1 The management of the Council's risk takes place in two ways. The first is through the day to day operations and decision-making of Council business and its normal management processes and the second is through its corporate risk governance mechanisms. Both of these are important but it is the normal day to day decision-making and operations which have the biggest impact on the risks we have to manage.

2.2 The call-in is quite correct in its reference to some procedural breaches and to the concerns about the number of audit reports with limited assurance. The issue is how best to ensure these breaches do not happen and that audit reports find higher levels of procedural compliance in the future. The Chartered Institute of Public Finance and Accountancy (CIPFA) Self Assessment Checklist describes the "key features of effective arrangements for Risk Governance" as:

- A high level mandate and commitment to risk management from senior managers and those charged with governance
- Integration with the governance framework with a clear golden thread.
- Accountability at all levels
- Transparency of activities and key information
- A clear strategy for the management of risks when working in partnership and integration with wider governance arrangements.

The Self Assessment Framework also makes reference to the CIPFA/Society of Local Authority Chief Executives good governance framework for local government.

2.3 All Members are aware of the financial challenges facing the Council. There has been clear political guidance that in making the reductions being forced on the Council by the Coalition Government's policies, reductions in posts need to take place, not just at middle and front-line staff level, but also at the senior level. This is for the following reasons:

- The relative costs of individual senior manager posts.
- The need to avoid too much cost being concentrated in top level management.
- The importance of all staff understanding that post reductions are fairly distributed up and down the organisation.

2.4 Having been asked to look at the distribution and number of senior management posts, the factors which we took into consideration in making our recommendations were:

- Impact on the operation of front line services
- Impact on the corporate operation of the Council to include support to Members, reputation, governance etc
- Relative levels of risk created by different options
- Comparisons with other local authority models based on current structures in London and elsewhere, and previous experience
- Timing and stage of development of different services

- Where else in the Council could or should the functions currently carried out by that, be placed?

It should be appreciated that in all cases these were structural and managerial considerations which were nothing to do with the quality of the individual occupying those posts.

2.5 Based on the above factors our conclusions in relation to the proposed deletion of the Divisional Director Assurance and Risk were as follows:

(a) There are three senior officers who have statutory responsibilities which relate to the management of risk. They are the Chief Executive (Head of Paid Service), Corporate Director Finance and Resource (S151 Officer) and Divisional Director Legal and Democratic Services (Monitoring Officer). This is where the key responsibilities for the corporate governance of risk are.

(b) Every manager and team leader has responsibilities for the management of risks and compliance both in relation to corporate procedures and those specifically relevant to their service.

(c) It is unusual to have a post at Divisional Director level (i.e. second tier beneath the Chief Executive/Director level) with only this breadth of responsibilities. The norm would be for Internal Audit to be headed at Group Manager level and report either to the Divisional Director Finance (or equivalent) or to the Director of Finance. (That is not to say there will not be other models of course). The reasons for Barking and Dagenham having a Divisional Director post at this level in recent times are well understood and look well-judged and appropriate for their time, given a pressing need to put in place risk based structures over the last three years. The post-holder has done a terrific job in working with PAASC to raise that profile. However, given both the standing requirement for all managers to be accountable for their service including risk management and the pressure on staffing resources, there is a strong argument that a post at this senior level, is no longer essential.

(d) In making choices about which Divisional Director posts to delete there are significant risk factors to take into consideration in relation to all the other posts at that level e.g. in Adults and Community Services or Children's Services. Clearly our first risk priorities are children and vulnerable adults and the operation of those services. The Divisional Director post reductions proposed have therefore inevitably impacted disproportionately on the more corporate posts (not just Risk and Assurance, but also Assets and Commercial Services, Customer Services and ICT and Policy and Public Affairs) in order to guard the management structures which have been designed to safeguard more serious operational risks.

(e) While the deletion of the Divisional Director post for Risk and Assurance does mean that there is no dedicated post at that level looking at risk, there are no obstacles to the redistribution of the functions managed by the post. As indicated above:
    - It is the norm for Internal Audit to report either to the Divisional Director or Director of Finance and it is proposed to be located with the Divisional Director for Finance.
    - Insurance and Risk Services are being relocated to be managed by the GM Treasury and Pensions in Finance

- Whistleblowing and Fraud issues will be reported directly to the Director of Finance and Resources
- A decision had already been taken to move corporate complaints to the Policy and Public Affairs function.

f) In terms of the extremely important role of servicing the Public Accounts and Audit Select Committee, the lead role for this is already allocated corporately to the Corporate Director Finance and Resources. This will continue, with further support from the Chief Executive and the Divisional Director Legal and Democratic Services, along with the usual Scrutiny support. Work on specific projects will come from different parts of the Council depending on the subject. This is a departure from the previous arrangements where support to service reviews was almost exclusively provided directly from the scrutiny officers based in Democratic Services. Making use of Directorate officer expertise and resources within the wider Council will increase the capacity and support that PAASC and other Select Committees can reasonably expect. So for example work on the review of compliance could come from a contribution of Internal Audit, Corporate Policy and Human Resources depending on the direction it takes. It will be the responsibility of the statutory officers to make sure this happens effectively. These changes will also enable the Monitoring Officer and the Scrutiny Team to provide enhanced support to PAASC generally and specifically on Constitutional and compliance matters.

2.6 The call in raises the perceived contradiction of there being a red risk on the corporate risk register (ref CR6) in relation to compliance while making the proposal of deleting the Divisional Director Assurance and Risk. However, each corporate risk has a rolling action plan behind it and each risk is allocated to a Divisional Director depending on their expertise and service areas. Mitigation steps in relation to compliance which have already been put in place include management sign off of the Annual Governance Statement, a risk-based Internal Audit programme, an unqualified opinion on the Accounts, results of various inspections and reviews. There are other issues which need to be implemented including a compliance strategy, risk and compliance training for appropriate officers and members, reference to risk and compliance in appraisals and general process improvements. All these will be under review as part of PAASC's review of compliance and the CR6 Compliance risk action plan itself needs review. In terms of implementing that revised plan these responsibilities will be taken forward by CMT led by the statutory officers. While of course there will be an impact with the loss of the Divisional Director Assurance and Risk post as there will be with every removal of senior management capacity at this level, it will be possible, given the recent improvements implemented as a result of the work of this Divisional Director, and the higher profile of risk within the organisation, to improve compliance without that post. Therefore we do not see it as contradictory.

Conclusions

2.7 As mentioned earlier, the approach to risk management has partly to be through operational services and partly through corporate governance structures. In terms of ensuring day to day compliance with policies and procedures this is already part of managerial responsibilities and given the concerns about compliance with some procedures and in some parts of the organisation, this will be the object of discussion in the PAASC review. In relation to the corporate governance frameworks, these have been the subject of considerable discussion by PAASC but are outlined below. These frameworks will continue to be, as they are now, the responsibility of the three corporate statutory officers.

2.8 Thanks to the good work of the Corporate Director of Finance and Resources and the Divisional Director Risk and Assurance the Council has a solid Risk Management Framework (currently undergoing some rolling revisions). The Chief Executive is the Risk Champion at an officer level. It is proposed that the Cabinet Member Finance and Education is the Risk Champion within the Cabinet. PAASC clearly carries the role of monitoring and scrutiny of risk within its responsibilities.

2.9 Within the Risk Management Framework there is a corporate risk register and there are risk registers in every Directorate. These are reviewed on a monitored cycle in each Directorate and at the Corporate Management Team. PAASC most recently received quarterly updates in November 2011. Each Cabinet Member has political responsibility for risks in their portfolio and this is being made more explicit in the Risk Management Framework.

2.10 The Divisional Directors within the Council focus quarterly on risk, most recently in December 2011 when they looked collectively, with the Chief Executive, at the risks relating to the Council's goal of being a well-run organisation and its three key objectives of Raising Household Incomes, School and Post 16 Education and Housing and Estate Renewal. This was facilitated by the Divisional Director of Risk and Assurance and the Group Manager Internal Audit.

3. Options Appraisal

As mentioned in the body of the report a full options appraisal in relation to losses of posts and their implications was carried out as part of the organisational review.

4. Consultation

Select Committees considered savings proposals for 2012/15 including those relating to the Chief Executive's organisation review into senior management structures during October and November 2011 which provided an opportunity for both non cabinet members as well as the public to contribute their comments. In addition during the period two Leader's Question Time sessions were held to afford the public opportunities to have their say about the proposals. There was also general publicity and further opportunity to make comments via the News and on the Council's website. These comments will be taken into consideration as final proposals are prepared for consideration by Cabinet in February 2012.

5. Financial Implications

5.1 The financial implications of deleting the post of Divisional Director Risk and Assurance are that savings will be made of £118,500 per year. Costs of redundancy will be covered corporately.

6 Legal Implications

This report is prepared in response to a call-in. In accordance with the terms of the

Constitution in relation to the Call-in procedure the Select Committee, having considered the contents of the report and the representations made, have two options available seeing that the issue at hand does not involve Council policy. These are:

(i) Dismiss the Call-in and let the Cabinet decision stand, or
(ii) Refer the matter back to the Cabinet with proposals for an alternative course of action.

In event of (ii) above, and on the basis that Cabinet rejects any alternative proposals, then the matter will be referred to the Assembly as part of the final budget strategy.

7. Other Implications

Contractual, Staffing, Customer Impact, Safeguarding Children, Health, Crime and Disorder and Property/Asset Issues

The report addresses issues about choices in relation to post reduction and management of risk in relation to contractual, customer impact and safeguarding children issues. Skills issues including the redistribution of functions and staffing issues are also covered in the report. There are only minor property and asset issues related to release of space or moving office locations.

Background Papers Used in the Preparation of the Report:

- Budget Pro formas published on the Council's public website on 25 October 2011
- "Budget Strategy 2012/13 to 2014/15" Cabinet Report and Minute 14th December 2011

List of appendices:

Annex 1 - Savings pro forma CEX/SAV/01
Annex 2 - Full Schedule of Savings Options 2012/13 - 2014/15 presented to Cabinet on 14 December 2011 (**Note**: Not included for the purposes of this Call-in referral).